

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF EDUCATION
JULY 1, 2003 THROUGH JUNE 30, 2004**

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Issued on January 5, 2005

NEBRASKA DEPARTMENT OF EDUCATION

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NEBRASKA DEPARTMENT OF EDUCATION

BACKGROUND

The Nebraska Department of Education (Department) is a constitutional agency that operates under the authority of an elected Board of Education. The Department is organized into teams that interact to operate the Department and carry out the duties assigned by State and Federal statutes and the policy directions of the State Board of Education. The teams are organized around distinct functions and responsibilities that encompass leadership and support for Nebraska's system of early childhood, primary, secondary and postsecondary education; direct services to clients; and internal support to the Department.

The Department carries out its duties on behalf of Nebraska students in public, private, and nonpublic school systems. The staff of the Department interacts with schools and institutions of higher education to develop, coordinate, and improve educational programs.

NEBRASKA DEPARTMENT OF EDUCATION

VISION STATEMENT

Partnering for the best education for all . . . for life.

The well being of Nebraska is best served by providing a quality education for all students. Through the policy and program leadership of the State Board of Education and the Department of Education, we must enable all Nebraska schools to demonstrate: Rigorous curriculum guided by standards and expectations for all student learning; Accountability for what is taught and what students learn; Safe, orderly, and drug free environments for learning; and Competent and caring educators in every classroom.

MISSION STATEMENT

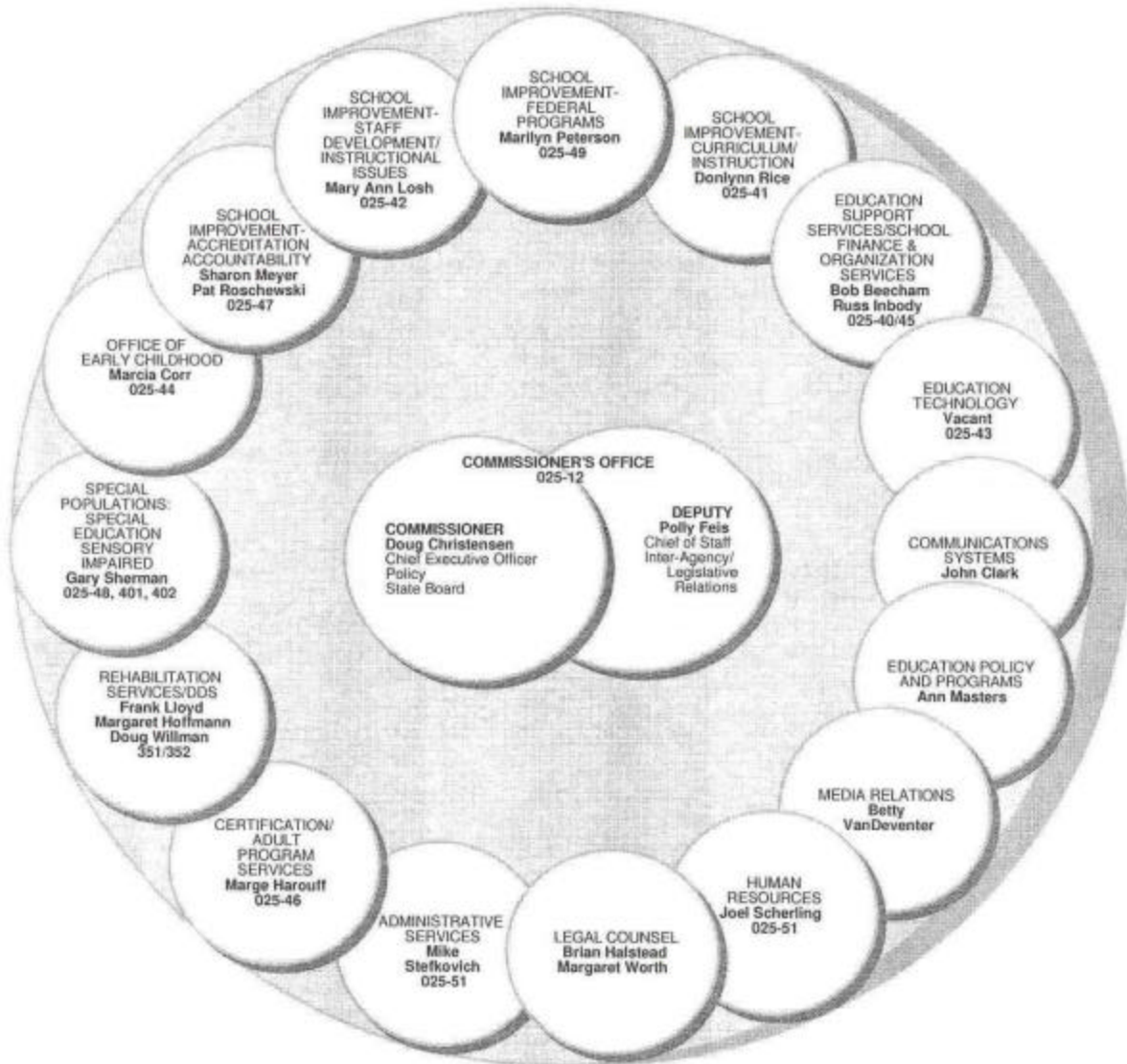
To Lead and Support the Preparation of all Nebraskans for Learning, Earning, and Living. Also, according to Neb. Rev. Stat. Section 79-701 R.R.S. 2003, the mission of the State of Nebraska through its public school system is:

“The Legislature hereby finds and declares that the mission of the State of Nebraska, through its public school system, is to:

- (1) Offer each individual the opportunity to develop competence in the basic skills of communications, computations, and knowledge of basic facts concerning the environment, history, and society;
- (2) Offer each individual the opportunity to develop higher order thinking and problem-solving skills by means of adequate preparation in mathematics, science, the social sciences, and foreign languages and by means of appropriate and progressive use of technology;
- (3) Instill in each individual the ability and desire to continue learning throughout his or her life;
- (4) Encourage knowledge and understanding of political society and democracy in order to foster active participation;
- (5) Encourage the creative potential of each individual through exposure to the fine arts and humanities;
- (6) Encourage a basic understanding of and aid the development of good health habits; and
- (7) Offer each individual the opportunity for career exploration and awareness.”

NEBRASKA DEPARTMENT OF EDUCATION

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF EDUCATION

EXIT CONFERENCE

An exit conference was held November 17, 2004 with the Nebraska Department of Education to discuss the results of our examination. Those in attendance for the Department were:

NAME	TITLE
Mike Stefkovich	Administrator, Administrative Services
Paul Haas	Accounting Operations Supervisor
Bob Range	Accounting Systems Coordinator
Joel Scherling	Director, Human Resources
Scott Summers	Legal Counsel
Tracey Lee Hillman	Administrative Specialist
Mike Weber	Office Services Supervisor

NEBRASKA DEPARTMENT OF EDUCATION

SUMMARY OF COMMENTS

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

1. ***Nebraska Information System and Accounting Procedures:*** Significant areas of concern where improvements to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operational efficiency were identified.
2. ***Federal Payroll Documentation:*** Six employees tested, who were paid from Federal funds, did not record their hours worked on timesheets as required by Federal regulations.
3. ***Personnel and Payroll:*** Nine employees tested did not record hours worked on their timesheets as required by State statutes. Employee service dates were not adjusted for leave without pay, adjusted service dates were not documented, payroll deductions were not documented, and negative leave balances were not adequately approved.
4. ***Termination Payments:*** Four terminated employees final net pay did not agree to the amount due according to the accounting records. Terminated employees were identified as inactive and not terminated, terminated employee leave balances were not zeroed out, employees were not removed promptly from the accounting records, and NIS access for the employee was not removed.
5. ***Legislative Restrictions on Appropriations:*** Four programs did not meet the restrictions placed by the Legislature on the amount of appropriations required to be used for State aid.
6. ***Travel Expense Reimbursements:*** Travel expenses were reimbursed for expenses not allowable under State and Federal requirements or the expense was not adequately documented.
7. ***Contract Expenditures:*** Department contracts included travel expense reimbursements that were excessive or were not adequately documented.
8. ***Expenditure Incorrectly Identified as Payable:*** One document was incorrectly identified as a prior year expenditure.

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 DEPARTMENT OF EDUCATION

SUMMARY OF COMMENTS

(Continued)

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

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

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System and Accounting Procedures

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). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004 the Procurement and Employee Self-Service components were partially implemented. 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 obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported. However, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), 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 DAS Accounting Division performed some reconciliation procedures. As of July 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.

During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004 have been performed and indicate fluctuations in the variance amounts. The latest monthly reconciliation performed, February 2004, indicates an

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

unknown variance between the bank records and the accounting records of \$5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.
- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this problem. The "work around" solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately for salaried employees who incur hours that are distributed across multiple business units.
- d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of user training conducted by the DAS Accounting Division during the fiscal year ended June 30, 2004, but does acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

- e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State (Secretary of State). The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the administrator, (administrator means the State Records Administrator) schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

- f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.
- g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, "All critical function access rights have been secured down to the appropriate high level matrix codes." We could not verify the accuracy of this statement as requested information and documentation has not been provided to us.
- h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, "The NIS CNC's and the NIS Security team have developed a comprehensive security policy." We could not verify the accuracy of this statement as requested information and documentation has not been provided to us.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

- i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, “We have now contracted with an outside vendor for business continuity planning.” Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.
- j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:
 - 1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.
 - 2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.
 - 3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

- k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Concluded)

DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

The issues identified above are the responsibility of the DAS 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 DAS, 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.

Department's Response: We understand that this is a finding included in each agency's audit report and is not specifically directed at the agency except to provide information about perceived weaknesses in NIS. However, with regard to comment (1.c.), which addresses NIS Labor Distribution, the Department of Education has implemented an elegant time and leave reporting spreadsheet for all employees except those in the Vocational Rehabilitation team. The spreadsheet supports work time distribution across multiple business units and allocates leave to the appropriate business unit based on the calculated time distribution. We believe the spreadsheet time and leave reporting system adopted is less work for employees than will be required in NIS Employee Self Service, when available. The spreadsheet system provides detail imported directly into NIS, has been approved by the State Auditor's office, and has been adopted and adapted by a number of other State agencies.

Vocational Rehabilitation uses the QUEST system to capture employee time and leave reporting for the Program 351 employees, which also provides detail imported directly into NIS.

2. Federal Payroll Documentation

The United States Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" establishes cost principles and standards for determining costs for Federal awards. OMB A-87, Attachment B, Section 11.h.(3), states "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official . . ." Section (4) goes on to say, "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation . . ." Section (5) states, "Personnel activity reports or equivalent documentation must meet the following standards: (a) They must

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. Federal Payroll Documentation (Concluded)

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.”

We noted, 6 of 17 employees tested who were paid with Federal funds and who did not record the hours worked on their timesheet, nor did the timesheet identify they worked solely on a single Federal program. The Department was also unable to provide periodic certifications showing the employees worked solely on a single Federal program.

As a result, there was no support on file to verify employees paid from Federal funds worked on a single Federal program.

We recommend all Department employees record hours worked on timesheets. In addition, for those employees paid with Federal funds the timesheet should identify the Federal program being worked on. If the timesheet does not identify the employee worked solely on a single Federal program, then the Department should prepare periodic certifications. The certification should be prepared at least semi-annually and signed by the employee or the employee’s supervisor. The certifications should be kept on file for future review.

Department’s Response: For employees whose work is paid by one source of funding, the Department has added the following statement to the supervisor’s certification portion of the Leave/Time Certification spreadsheet and the VR QUEST system: “I further certify that the employee worked 100% of the time in the program associated with the business unit identified below.” It is our understanding that such additional certification addresses this issue. The time and leave reporting spreadsheet and VR QUEST system information is maintained on file for three years per Schedule 124 (124-1-227).

Under the Federal Fair Labor Standards Act, exempt employees are permitted to report labor on an exception basis. The Department will continue to report on an exception basis for exempt employees. However, the Department has added the following statement to the employee’s portion of the Leave/Time Certification spreadsheet and the VR QUEST system: “It is a further certification that the employee has worked or been on leave for at least 40 hours each week of this pay period.”

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Personnel and Payroll

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 . . . shall render not less than forty hours of labor each week . . .” Nebraska Department of Education Personnel Rules, effective date August 25, 2003, Chapter 4 Employee Selection, 002.01 states, “Full-time employees are required to work, as a minimum, forty (40) hours per week on a permanent ongoing basis.” The agreement between the Department and the Nebraska Association of Public Employees (NAPE)/American Federation of State, County, and Municipal Employees (AFSCME), Local 61, July 1, 2003 – June 30, 2005, Article 13 Scheduled Work Week and Hours, 13.3 states, “Except as otherwise provided, each permanent full-time employee shall be scheduled to work at least eight (8) hours per work day and forty (40) hours per work week.” The agreement between the Department and the NAPE/AFSCME Article 24 Leave, Section 24.14I Service Date Adjustments states, “The employee’s Service Date shall be adjusted when an unpaid absence due to Family and Medical Leave exceeds fourteen (14) consecutive calendar days.” Sound accounting procedures require documentation to support all service date adjustments. Good internal controls require supporting documentation for all payroll deductions. The supporting documentation should be signed by the employee authorizing the deduction. The agreement between the Department and the NAPE/AFSCME Article 24 Leave, Section 24.2E states, “Sick leave may, at the discretion of the Commissioner or his/her designated representative, be advanced to employees with six (6) months of service with the Agency who are suffering from an illness, in an amount not to exceed that which the employee would earn in the following twelve (12) month period.” Article 24 Leave, Section 24.5C states, “The Commissioner or designated representative may at his/her discretion advance vacation leave to employees with six (6) months of service with the Agency in an amount not to exceed that which the employee would earn in the succeeding twelve (12) month period.” Good internal controls require documentation to support negative leave granted.

We noted the following related to personnel and payroll:

- Nine of twenty-five employees tested did not record hours worked on their timesheet. These nine employees were exempt from overtime compensation and only recorded leave used on their timesheets.
- One employee tested used 21 days of leave without pay and the employee’s service date was not adjusted.
- For one of two employees tested whose original hire date was different from their adjusted service date, the Department did not have documentation on file for the adjustment. This employee transferred from another State agency and the service date adjustment appears to have been made by the other State agency.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Personnel and Payroll (Continued)

- Two of twenty-five employee's payroll deductions could not be traced to an authorization in their personnel file.
- Two of three employees tested with negative leave balances, had no approval on file.

As a result of not recording hours worked, there is no documentation all employees worked the required 40 hours each week. Also, an incorrect adjusted service date could result in leave earnings and usage being more than they should have been.

We recommend the Department record hours worked for all employees. The timesheet should include an accurate account of hours worked per day as well as leave used per day. The timesheet should be approved by the employee, approved by their supervisor, and kept on file for future review. For exempt employees the Department may choose to include a note on the employee's timesheet that indicates the timesheet is evidence that the employee worked or was on approved leave at least 40 hours each week. We recommend the Department comply with their employee contract and make the necessary changes to the adjusted service date when required. We also recommend the Department maintain documentation on any changes to the adjusted service date on all their employees. If an employee transfers from another State agency, we recommend the Department request documentation from that agency to support any changes they may have made to the employee's adjusted service date. The Department should verify the information they are receiving from the other agency is correct. We recommend the Department retain supporting documentation on all payroll deductions. The supporting documentation should be authorized by the employee and kept in their personnel file. We recommend the Department document approval of negative leave. This documentation should indicate the number of hours requested and approved by the Commissioner or his/her designated representative. The approval should be kept in the employee's personnel file for future review.

Department's Response:

- *Nine of twenty-five employees tested did not record hours worked on their timesheet. . . .*

Specific Response: Refer to the last paragraph under response 2 above.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Personnel and Payroll** (Continued)

Department's Response, Continued:

- *One employee tested used 21 days of leave . . .*

Specific Response: It is the Department's policy to adjust service dates of employees on leave without pay for more than 80 consecutive hours. In this case, the lack of the adjustment was an oversight. NDE Human Resources (HR) will revise the process to monitor for employees who use more than 80 consecutive hours of leave without pay providing additional insurance that qualifying situations are identified.

- *For one of two employees tested whose original hire date was different from their adjusted service date . . .*

Specific Response: For employees who transfer from another agency, we do not believe that it is the responsibility of the receiving agency to verify that appropriate adjustments in service date were made during an individual's tenure with another agency(ies).

Auditors' Response: When an employees' original service date is adjusted the reason for the adjustment should be documented in the employees' personnel file.

Department's Response, Continued:

- *Two of twenty-five employee's payroll deductions could not be traced to an authorization in their personnel file.*

Specific Response: It is the Department's policy to make changes in employee payroll deductions only on the basis of employee signed or otherwise approved appropriate documentation. In the case of the first employee, a written request to make changes to deferred compensation deductions was initially received by NDE HR, but was evidently forwarded to Retirement without a copy for the personnel file being retained. Subsequently, HR requested, received, and filed a copy of the first employee's request.

The second employee, when originally employed by the Department, elected Accidental Death and Dismemberment (AD&D) insurance. Later, she resigned and subsequently returned to the Department. Her benefit selections were not inactivated at the time of termination. Upon her return, she made benefit selections, which did not include AD&D. However, because her previous selections had been retained in NIS, the AD&D deduction continued to be withdrawn. This was an oversight on NDE HR's part. In order to avoid inappropriate benefit deductions, the following procedures have been implemented.

- When an employee transfers to another state agency without a break in service. If there is no break in service, HR will not inactivate the benefits due to the transfer.*

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Personnel and Payroll** (Concluded)

Department's Response, Concluded:

- b. *When an employee transfers to another state agency with a break in service. If there is a break in service, HR will inactivate the benefits within one week of the employee's last day of work at the Department.*
- c. *When an employee leaves state employment. HR will inactivate the benefits within one week of the employee's last day of work at the Department.*
- *Two of three employees tested with negative leave balances, had no approval on file.*

Specific Response: Currently, the Department does not have policies or procedures that govern approval of negative leave as contrasted with approving leave in advance of accrual. At this time, the Manager Self-Service (MSS) function in NIS is not operable and there are no NIS exception reports to assist supervisors in monitoring the leave balances of employees. Once the MSS function of NIS is operable, the Department will develop and implement policies and procedures with regard to negative leave. In the interim, the payroll register will be reviewed for negative leave balances prior to the certification of payroll.

4. **Termination Payments**

Good internal control requires proper documentation and verification to ensure the amount owed an employee upon termination is calculated correctly. Good internal controls require identifying employees in the pay status field with the proper NIS code. NIS was established by the Legislature as the official personnel data and payroll processing system for the State of Nebraska. Good internal control requires all vacation and sick leave earned and used should be recorded in NIS. When preparing a final payment to a terminated employee the balance used to payoff vacation and sick leave should agree with the leave balances in NIS. Good internal controls require verifying vacation and sick leave balances are zero after paying employees their vacation and sick balances upon termination. Good internal control requires all terminated employees be removed promptly from payroll. If an employee had NIS access, this access should also be removed.

We noted the following related to termination payments:

- For four of eight terminated employees tested, the amount owed the employee did not agree with the net amount paid the employee. One of these employees was paid for the incorrect number of sick leave hours at retirement and the other three employees had the incorrect amount of taxes or retirement withheld.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Termination Payments (Continued)

- Seven of eight terminated employees tested were identified in NIS as inactive in the pay status field rather than as terminated.
- For three of eight terminated employees tested, their vacation and sick leave payoff balance used in their final pay calculation could not be traced into NIS.
- Four of eight terminated employees tested did not have their vacation leave balances zeroed out after they received their vacation leave payoff. Two of eight terminated employees tested did not have their sick leave balances zeroed out after receiving one fourth of their sick leave upon retirement. Fourteen additional terminated employees were noted with vacation leave balances in NIS.
- One of eight terminated employees tested was not removed from NIS until four pay periods after termination.
- One of eight terminated employees tested did not have their NIS access removed.

When an individual is listed in NIS as inactive instead of terminated or without accurate records of leave balances, there is an increased risk of improper or incorrect vacation and sick leave balance payments to the individual.

We recommend the Department review their procedures to ensure payments to terminated employees are correctly paid. These procedures should ensure the correct work and leave hours are paid and the correct deductions are made. We recommend the Department use the proper coding in NIS to reflect the correct pay status of their employees. The pay status of all employees should be reviewed to ensure the correct coding has been used. We recommend the Department use NIS to record all earnings and usage of vacation and sick leave. The leave balances in NIS should accurately reflect the earnings and usage of vacation and sick leave for each employee. If the leave balance is not correct in NIS, we recommend the Department take the necessary steps in order to correct the leave balance. When calculating final pay, the vacation and sick leave balances used should agree to those in NIS. We recommend the Department verify vacation and sick leave balances after an employee terminates. If the employee received a vacation leave payoff their leave balance should reflect this and should show a zero balance. If the employee received one fourth

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Termination Payments** (Continued)

of their sick leave balance upon retirement, then their leave balance should also reflect this and should show a zero balance. We recommend the Department promptly identify all terminated employees in NIS and maintain documentation to support they contacted DAS to remove the employees' NIS access.

Department's Response:

- *Four of eight terminated employees tested, the amount owed the employee did not agree with the net amount paid the employee.*

Specific Response: Employee #1 - NIS credited employee #1 with incorrect vacation and sick leave earnings for October 2003. She was without pay in October and NIS credited her with her full leave accruals rather than adjusted leave accruals. The amount of vacation earnings in NIS was overstated 2.18 hours. She should have earned 164.52 hours for the entire year and NIS credited her with 166.70 hours. The sick leave earning hours that NIS credited to employee #1 was 1.57 hours too much. The sick leave payoff to employee #1 was incorrectly calculated. She was shorted 7.04 hours (7.04 X \$15.67=\$110.32). Employee #1 is currently employed by another agency and NDE is unable to pay her through NDE Payroll the additional amount or adjust her leave earnings due to limitations in NIS. NDE will pursue having the agency that currently employs her make the correcting payment. NDE will then reimburse that agency.

Employee #2 – We agree the amount withheld for retirement was incorrect. We have recalculated the payoff using the correct retirement percentages. NDE has contacted State Retirement to return the State contribution overpayment.

Employee #3 – The employee was a Vocational Rehabilitation On the Job Evaluation (OJE) employee. As a result, he was not subject to a State income or other tax deductions.

Employee #4 – The Department agrees that retirement in the amount of \$84.57 was not deducted from her vacation payoff. The net pay difference would require employee #4 to return \$66.67. A letter requesting the return of this amount was sent to employee #4.

The revised procedure that the Department utilizes for processing interim payroll payments requires an Accounting Clerk to compute the amount of the interim payment, complete the required spreadsheet, and submit the spreadsheet to the Accounting Operations Supervisor (or Accounting Systems Coordinator in the absence of the Accounting Operations Supervisor). The Accounting Operations Supervisor reviews the spreadsheet for accuracy and submits the spreadsheet to NIS Payroll. A paper copy is signed by the Accounting Operations Supervisor and placed in the employee's personnel file in HR.

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Termination Payments (Continued)

Department's Response, Continued:

- *For seven of eight terminated employees tested were identified in NIS as inactive in the pay status field rather than as terminated.*

Specific Response: When NIS was first implemented, the NIS "Terminated" function did not prevent an employee from being included in payroll. As a temporary fix, we found that the NIS "Inactivating" function prevented them from being paid. Prior to this audit, the Department was not aware that the NIS "Terminated" function was working correctly. Subsequently, we now use the "Terminated" function and have corrected the pay status from "Inactive" to "Terminated" for the employees identified.

- *For the three of eight terminated employees tested, their vacation and sick leave payoff balance used in their final pay calculation could not be traced in NIS.*

Specific Response: The Department is aware of several terminated individuals who have a balance of vacation or sick leave in the NIS system. The majority of the balances were a result of the NIS system incorrectly calculating and crediting employees with full hours earned for vacation and sick leave when a partial month was worked during the month the employee terminated. A few of the balances were a result of the incorrect completion of the interim payroll spreadsheet. Department staff contacted Steve Lortz of DAS concerning this matter. He recommended that the Department submit an Excel spreadsheet with all of the necessary changes to Shelly Reed of DAS and she would make the necessary changes in NIS. That spreadsheet will be submitted to DAS in December 2004. Until NIS is able to correct this issue, NDE will continue to use the interim solution described above.

- *Four of eight terminated employees tested did not have their vacation leave balances zeroed out after they received their vacation leave payoff.*

Specific Response: The Department is not aware of any existing NIS procedures specifying how to zero out sick leave balances for terminated employees who were eligible for retirement and paid for any sick leave due them. The Department supplied data to Steve Lortz of DAS who will attempt to zero out the leave balances of terminated employees in NIS. The Department recommends that this situation be addressed by designating a new pay type, similar to that used for catastrophic leave donations.

- *One of eight terminated employees tested was not removed from NIS until four pay periods after termination.*

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Termination Payments (Concluded)

Department's Response, Concluded:

Specific Response: The Department's policies and procedures do require that a terminated employee's access to NIS be promptly removed. Termination information is sent via e-mail to a user group, which informs the Department's NIS Security Officer that access is to be removed. Once the NDE NIS Security Officer receives the information, he sends a request to NIS via e-mail to terminate access on the last day of work.

- *One of eight terminated employees tested did not have their NIS access removed.*

Specific Response: The Department's policies and procedures do require that a terminated employee's access to NIS be promptly removed. Termination information is sent via e-mail to a user group, which informs the Department's NIS Security Officer that access is to be removed. Once the NDE NIS Security Officer receives the information, he sends a request to NIS via e-mail to terminate access on the last day of work.

5. Legislative Restrictions on Appropriations

An appropriation is defined as an authorization to make expenditures and incur obligations. This authority is granted by the Legislature and each agency is expected to operate within these limits and restrictions. 2004 Neb. Laws LB 1089, Sections 63, 64, 65, and 67 establish appropriation amounts that are for state aid and to be used only for such purpose. This restriction then limits the amount of non-aid expenditures to the remaining appropriation.

The Department did not use the required amount of appropriations in Programs 161, 351, 352, and 614 for government aid as disclosed in the following table.

	Program 161 Cash Funds	Program 351 General Funds	Program 352 Federal Funds	Program 614 Cash Funds
Appropriation	\$ 2,971,771	\$ 3,861,632	\$ 8,299,236	\$ 98,589
Restriction for Aid	2,800,000	1,987,724	2,651,621	1,500
Restriction of Non-Aid	171,771	1,873,908	5,647,615	97,089
Non-Aid Disbursements	183,116	2,514,126	5,697,822	102,949
Amount of Exceeded Restrictions	\$ 11,345	\$ 640,218	\$ 50,207	\$ 5,860

We recommend the Department implement procedures to ensure compliance with appropriation restrictions.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Legislative Restrictions on Appropriations (Continued)

Department's Response:

- *Program 161 – For Program 161, we found that we had miscoded two aid payments in October 2003 to object 542501 that should have been coded to object 599100. If these payments had been coded correctly, we would have spent \$60,323.62 less than our administrative appropriation. The documentation on the miscoded aid payments are on file and available to the auditors upon request.*

	<i>Program 161</i>		
	<i>Total</i>	<i>Operations</i>	<i>Aid</i>
<i>Fiscal Year Appropriation</i>	<i>2,971,771.00</i>	<i>171,771.00</i>	<i>2,800,000.00</i>
<i>Prior FY Carryover Encumbrances</i>	<i>881,099.98</i>	<i>284.43</i>	<i>880,815.55</i>
<i>Carryover Encumbrances Lapsed</i>	<i>(139,463.65)</i>		<i>(139,463.65)</i>
<i>Available</i>	<i>3,713,407.33</i>	<i>172,055.43</i>	<i>3,541,351.90</i>
<i>Total Fiscal Year Expenses</i>	<i>1,785,836.17</i>	<i>183,163.05</i>	<i>1,602,673.12</i>
<i>Aid Expenses Coded to 542501</i>	<i>-</i>	<i>(71,431.24)</i>	<i>71,431.24</i>
<i>Unexpended Balance - 06/30/04</i>	<i>1,927,571.16</i>	<i>60,323.62</i>	<i>1,867,247.54</i>

- *Program 351 – The Department discovered this situation in July 2004 and recommended that journal entries be processed in NIS to reverse this situation charging General funds the exception amount for aid and the Federal funds for operations. DAS Accounting subsequently recommended that Program 351 make additional aid payment(s) over the FY05 Aid earmark by the exception amount during FY05 to balance the earmark amounts expended in the FY04/FY05 biennium. The Department provided the auditors the correspondence between NDE and DAS Accounting on this issue. As in years prior to FY04, earmark provisions for Program 351 appropriations in FY05 and subsequent years will be more closely monitored to avoid exceeding the de facto earmark for operations.*
- *Program 352 – The Disability Determinations Services program is a single function and single source Federal funded program that makes determinations of eligibility for Social Security disability payments for applicants in Nebraska. The last sentence of the first paragraph of Section 263 of LB407, which was passed May 27, 2003 as the original appropriation bill for the FY04/05 biennium, provides clarification for federal fund appropriations. Specifically, it states “Expenditures of Federal Funds appropriated in this act shall not be limited to the [appropriation] amount shown.” We believe this statement is in recognition that State designated Federal Fund appropriations are estimates only because the appropriations are made prior to passage of a corresponding Federal budget. We view the Federal Fund Aid earmarking provision be an appropriation subject to this clarifying provision.*

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Legislative Restrictions on Appropriations** (Concluded)

Department's Response, Concluded:

- *Program 614 – Although we agree with the State Auditor's report that the Professional Practices Commission (PPC) exceeded the amount they were authorized to spend on operations costs, we disagree with the amount. Based on our methodology, the de facto limit was exceeded by \$640.46, as displayed in our computations below.*

	<i>Program 614</i>		
	<i>Total</i>	<i>Operations</i>	<i>Aid</i>
<i>Fiscal Year Appropriation</i>	98,589.00	97,089.00	1,500.00
<i>Prior FY Carryover Encumbrances Available</i>	954.51	954.51	-
	99,543.51	98,043.51	1,500.00
<i>Total Fiscal Year Expenses</i>	98,683.97	98,683.97	-
<i>Unexpended Balance - 06/30/04</i>	859.54	(640.46)	1,500.00

As is the case with most agencies, we are still discovering how to use NIS to help us manage our funds and appropriations. During the fiscal year ending 06/30/2004, we neglected to take steps to insure that we did not exceed funding appropriated for administration for these programs. To insure this does not happen again, we will enter a manual encumbrance in NIS for any unexpended appropriation that was restricted for aid to ensure that the PPC does not exceed the administrative appropriation for the biennium ending June 30, 2005.

This will insure that the PPC under-spends the administrative appropriation by \$640.46 in Program 614 during FY05. They will have therefore expended amounts for administration that are equal to, or less than, the administrative appropriation for the biennium.

6. **Travel Expense Reimbursements**

Meal reimbursement guidelines are specified in DAS and the Department's expense reimbursement policies. Meal allowances should be reasonably allocated between breakfast, lunch, and dinner. Meals should not be reimbursed if they were provided by the conference. State employees must keep actual receipts or a log to support meal costs. Receipts or a log are needed to provide adequate accounting as Internal Revenue Service (IRS) Publication 463 requires employees to substantiate the cost of meals. Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 6 stipulates when meals will be reimbursed (dependent upon departure/arrival times): “. . . when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed . . .” and, “. . . when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.” DAS policy stipulates Federal per diem rates for lodging be used for lodging reimbursement. For an individual to stay overnight in a city, Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Travel Expense Reimbursements (Continued)

4 states, "It is State Accounting policy that a person generally must be more than 60 miles from his or her workplace in order to be eligible for lodging. We realize there may be reasons to pay for lodging for distances less than 60 miles . . . in those instances the reason must be clearly stated on the disbursement document." Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2003 states, "When reimbursement is requested for mileage by automobile, air travel by commercial carrier . . . the points between which such travel occurred, the times of arrival and departure, and the necessity and purpose of such travel shall be shown on such request" and "Each request shall be fully itemized, including when, where, and why the expense was incurred . . ." DAS' Nebraska State Accounting Manual Section AM-005 states, "If the Agency Head wishes to delegate, on a permanent basis, responsibility for any accounting policy that requires the Agency Head approval, the Agency Head shall notify the Accounting Administrator of such delegation in writing and include the name(s) of the designee(s)."

We noted the following during our examination of twenty-five expense reimbursement documents:

- Two documents included meal costs which were not properly allocated between breakfast, lunch, and dinner. We noted, \$51 was reimbursed for one meal, \$44 was reimbursed for two meals, and \$48 was reimbursed for two meals.
- Four documents included \$68 in meals reimbursed even though they were provided by the conference, according to the conference agenda.
- Four documents, which reimbursed \$313 in meal expenses, did not have meal logs or receipts on file.
- Two documents included \$24 in meals which were not allowable according to the travel start and stop times indicated on the document.
- Three documents included copies of credit card receipts to support reimbursement of \$195 in meal expenses. Copies of credit card receipts do not provide adequate detail to determine the allowability of meals.
- One document paid \$47 in meal expenses on the hotel direct billing when these meals were also claimed on the employees' reimbursement.
- Seven documents included lodging costs which exceeded the Federal General Services Administration (GSA) per diem rate per place of travel. GSA rate was exceeded by \$1,317.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Travel Expense Reimbursements (Continued)

- Three documents reimbursed \$382 in lodging expenses for stays in cities located less than sixty miles from the person's headquarter city.
- Two documents did not include travel start and stop times.
- One document did not include destination points.
- One document did not include the reason for the travel.
- Eight documents approving an official function, conference, or hearing were signed by an employee who had not been officially delegated as responsible by the Commissioner of Education.

The above travel expenses were not in compliance with DAS and Department policies. Also, there is an increased cost to the State when meal and lodging guidelines are exceeded. Travel comments have been included in prior audits.

We recommend travel expense reimbursements be made according to the Department's and DAS' policies. We recommend expense reimbursements be filled out properly. The Department should ensure destination points and arrival/departure times for mileage reimbursement, and the purpose of travel are included on all expense reimbursement documents. If upon review of the document, approval of amounts exceeding the policy is warranted, the basis for the decision should be documented at the time of approval. We recommend lodging costs follow the GSA per diem rate per place of travel. Lodging should be allowed only when the person is more than 60 miles from his or her workplace. If upon review of the document, approval of amounts exceeding policy is warranted, the basis for the decision that the amount above policy is reasonable and necessary, should be documented at the time of approval. We recommend the Department notify in writing the DAS Accounting Administrator those individuals that have been delegated the authority to sign approval for an official function, conference, or hearing.

Department's Response:

General Response: Department policy provides that only actual expenses for meals may be claimed for reimbursement. The Department's guidelines for amounts, which may be claimed, determine whether a travel log or receipts are appropriate documentation of actual meal

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Travel Expense Reimbursements (Continued)

Department's Response, Continued:

expenses claimed. The Department's current guidelines for meal reimbursements are only specific to reimbursement if a single meal claimed. If an employee is entitled to claim reimbursement for two or more meals in any single day, the Department's guideline provides that the two meals for which reimbursement is claimed in total may not exceed the sum of the individual guidelines for the meals. However, in those instances in which multiple meals may be claimed for reimbursement in a day, we do not limit an individual meal claim to the per meal guideline. When multiple meals are eligible for reimbursement, holding each meal claimed to the individual meal guideline also puts the Department in the position of dictating how the employee will eat meals.

Prior to April 1, 2004, the Department's Employee Expense Reimbursement Policy (NDE Administrative Memorandum #205) did not include the requirement for submission of a travel log with the Expense Reimbursement Document. The policy at that time was for the employee to maintain that information and make it available upon request. As long as the meal expenditures were within the IRS guidelines for the city for the specific day claimed, the document was approved. Interim guidance was issued supplementing NDE Administrative Memorandum #205, effective April 1, 2004, providing that employees are to include their travel log with the expense document. The current Administrative Memorandum incorporates a requirement for either a travel log or receipts; depending on the amount claimed and meals for which the employee is eligible for reimbursement. In August 2004, the Central Accounting Staff conducted an in-service training on Administrative Memorandum #205 and the completion of the Expense Reimbursement Document for the Department staff.

The Department's pre-auditors have been trained and are aware of the items that are required for a document to be approved. NDE Central Accounting (responsible for pre-audit function) is creating a pre-audit manual as well as a checklist of pre-audit requirements for all types of documents. The manual and checklist will be made available to all NDE staff on the Department's intranet web site "InsideNDE" as another means of keeping them aware of the latest information and documentation required for claims for reimbursement of expenses.

Document #1827402 (batch 221714) was based on a letter contract. The letter contract did not provide restrictions on the meal allowance. The letter contract specified only that the contractor would be paid for mileage, airport parking, airline tickets, taxi/shuttle services, lodging, phone expenses, and meal expenses. We are working with staff and managers to be more specific about contract reimbursement limitations.

- *Two documents included meal costs, which were not properly allocated between breakfast, lunch, and dinner.*

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Travel Expense Reimbursements (Continued)

Department's Response, Continued:

Specific Response: Document 182742 was for a letter contract. The letter contract did not restrict or identify the meal allowance for the contractor. The contractor did provide an explanation and receipt for the meal in question, which does fall within NDE's policy. Document 352262 was an expense document for a NDE employee. It did contain receipts and an explanation. The documentation is available in NDE's Central Accounting.

- *Four documents included \$68 in meals reimbursed even though they were provided by the conference, according to the conference agenda.*

Specific Response: For document 13980693, no agenda or reference document indicated a meal was provided by the conference. Document 3247317 was a letter contract. The letter contract did not contain a reference that the contractor was limited to the conference meal.

Auditors' Response: The agenda for the Administrators' Days conference in Kearney, Nebraska on July 31, lists breakfast, lunch, and dinner provided as part of the conference. Meals were reimbursed in the amount of \$18 on document 13980693 for July 31.

Department's Response, Continued:

Occasionally, employees meet with people who are not attending the conference, requiring them to meet over a non-conference meal. Under most circumstances, employees are encouraged to eat conference provided meals. Employees have been instructed to provide an explanation when they eat at other than a conference provided meal.

- *Four documents, which reimbursed \$313 in meal expenses, did not have meal logs or receipts on file.*

Specific Response: As stated above, the policy in effect at that time required employees to maintain their logs for I.R.S. documentation purposes. Three of four individuals have provided the logs of claims referenced in this point and are available for review in NDE's Central Accounting.

- *Two documents included \$24 in meals, which were not allowable according to the travel start, and stop times indicated on the document.*
- *Two documents did not include travel start and stop times.*

Specific Response: The Department's pre-auditors have received additional training, will receive continuing training, and are aware of the items that are required for a document to be approved. NDE Central Accounting (responsible for pre-audit function) is creating a pre-audit

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Travel Expense Reimbursements** (Continued)

Department's Response, Continued:

manual as well as a checklist for all types of accounting transaction documentation. The manual and checklist sheet will also be made available to all NDE staff on the Department's intranet web side "InsideNDE" as another means of keeping all staff aware of the current information and documentation required for each type of accounting transaction.

- *Three documents included copies of credit card receipts to support reimbursement of \$195 in meal expenses.*

Specific Response: Document 1827402 was for a letter contract and did have actual original receipts attached; not copies of credit card receipts. Document 3312450 did have actual original receipts not a copy of credit card receipts. Document 1390693 was processed in August 2003. At that time the Department's policy did not include the submission of receipts or travel log with the Expense Reimbursement Document. A copy of the employee's travel log has been obtained. All documentation is available for review in NDE's Central Accounting.

Auditors' Response: A portion of the meal reimbursements on these documents were supported by actual restaurant receipts but not all. A portion of the meals were only supported by credit card receipts. Credit card receipts do not provide adequate detail to determine if the expense is allowable.

Department's Response, Continued:

- *One document paid \$47 in meal expenses on the hotel direct billing when these meals were also claimed on the employee's reimbursement.*

Specific Response: The individual has refunded the Department as cross-referenced on document 1757674.

- *Seven documents included lodging costs, which exceeded the Federal General Services Administration (GSA) per diem rate per place of travel.*

Specific Response: All Department of Education employees have been instructed to request the government rate for all lodging. Location of lodging selected is expected to reasonably minimize total cost including travel and employee time. There are occasionally circumstances that will cause a person to stay in lodging that appears to cost more, when lodging is considered by itself. However, staff attending conferences, may find it more convenient and less costly overall to stay in the conference hotel/motel. In a similar conference situation, it doesn't make sense for an employee to stay at a location different from the conference hotel/motel, when all of their colleagues from other organizations are lodged at the location of the conference. It would diminish the opportunities for networking, which are facilitated by proximity to those engaged in

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Travel Expense Reimbursements (Continued)

Department's Response, Continued:

networking or result in increase ground transportation cost. Also, it is not unheard of that rooms available at government rates are fully booked and an employee may only have access to a room at a higher non-government rate. There are many other situations of a similar nature that would cause the lodging costs to appear higher than necessary when considered separately from the rest of the travel context.

The State Accounting Manual, which is the expression of the State's accounting policies, does not suggest federal per diem rates be used for lodging reimbursement. State statute only requires that actual costs for lodging be reimbursed. Again, all employees have been instructed to request the government rate for lodging.

Auditors' Response: None of the lodging costs identified that exceeded the maximum GSA lodging amount were for lodging at the location of a conference. A letter to all agencies from DAS dated December 15, 2000 states "From this time forward, we are recommending departments utilize the federal maximum per diem standards as published by the government as a reasonable guideline."

Department's Response, Continued:

- *Three documents reimbursed \$382 in lodging expenses for stays in cities located less than sixty miles from the person's headquarter city.*

Specific Response: The Department policy of paying for lodging as stated in Administrative Memorandum #205 is as follows: "Lodging will not be paid, or reimbursed, unless a person is more than 60 miles from his or her workplace. Lodging for travel of a distance less than 60 miles from the headquarters city may be approved by a Team Leader for extraordinary reasons." In those instances, the reason must be clearly stated on the backup documentation. The Department agrees that the reason for approving the exception was not included on the backup documentation.

Document #1390693- the reason for the overnight stay in Omaha was due to an early morning flight out of Omaha.

Document #2401300- The reason for the overnight stay in Ashland was the two individuals were involved in setting up the conference rooms in advance for another meeting on the next day. In addition, a blizzard prevented them from returning that night.

Document #2537219- the agenda included team building activities that were not scheduled to end until late in the evening. As a result, the employees that were identified as living within 60 miles of the meeting site were given prior approval for overnight travel status by the Vocational Rehabilitation Administrator.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Travel Expense Reimbursements (Concluded)

Department's Response, Concluded:

- *Eight documents approving an official function, conference, or hearing were signed by an employee who had not been officially delegated as responsible by the Commissioner of Education.*

Specific Response: The Commissioner of Education had previously designated Ann Masters to approve working lunches. However, we were unable to find documentation of this designation on file in the Department or DAS Accounting. Subsequently, the Commissioner has sent a memo to DAS Accounting authorizing Ann Masters, Polly Feis, and Mike Stefkovich to approve working lunches for the Department of Education staff and functions. A copy of the memo of authorization is available from the Department or from DAS Accounting.

7. Contract Expenditures

The Department's contracts generally state "Travel expenses for meals and lodging to be reimbursed in accord with applicable procedures for UNL and NDE [Nebraska Department of Education]." A letter from the Director of DAS regarding meal and lodging guidelines dated December 15, 2000 states, "From this time forward, we are recommending departments utilize the Federal maximum per diem standards as published by the government as a reasonable guideline." The Federal rate during the fiscal year ended June 30, 2004, for the entire state of Nebraska, excluding Douglas County, was \$55 per night for lodging and \$31 per day for meals and incidentals. The Department's administrative memorandum #205 issued November 2002, "Employee Expense Reimbursement" states, "Required Receipts – Original vendor receipts must be attached to ERDs [Expense Reimbursement Documents] in support of the following expenses . . . (b) lodging, (c) meals . . ." Good business practices require adequate detail be contained within a contractual agreement.

We noted the following during our examination of contract expenditures:

- One Department contract included lodging for 12 people for four days and four people for eight days, a total budget of \$8,000. This was a rate of \$100 per person per day. The contract also included meals for 12 people for four days and four people for eight days, a total budget of \$3,496. This was a rate of \$38 per person per day. The total reimbursements for meals and lodging under the Federal maximum per diem rate during this timeframe for Lincoln, Nebraska should have been \$6,880. This would have lowered the total cost of the contract by \$4,616.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. **Contract Expenditures** (Continued)

- One Department contract had no travel expense receipts for meals and lodging on file.
- One Department contract, which included reimbursing a contractor's travel expenses, did not contain sufficient detail outlining the Department's and DAS' expense reimbursement policy.

As a result of not reimbursing contractor travel expenses according to DAS' expense policies, there was an increased cost to the State. Travel comments have been included in prior audits.

We recommend travel expenses should not be budgeted, contracted, or approved if they are over the Federal per diem rate for the areas traveled. We recommend original receipts be required for all meal and lodging expenses that are reimbursed to contractors or subcontractors. We recommend the Department ensure their contracts contain sufficient detail regarding the Department's and DAS' expense reimbursement policy.

Department's Response:

General Response: The Department contracts do not as standard practice reference UNL applicable procedures for contractor travel expenses. Contract 23134 stated that the Contractor (UNL) shall pay travel expenses for meals and lodging in accord with applicable procedures for UNL and NDE. The Contract does not state that detail documentation of the travel expenditures for the individuals will be submitted to NDE. The Department did however receive a listing of the expenditures itemized by individual in conjunction with the payment to UNL. The documentation is available upon request from NDE's Central Accounting.

The auditor's comment references NDE's Administrative Memo #205 – Employee Expense Reimbursement. Although, this administrative guidance does not apply to contracts, we recommend that staff consider its guidelines when drafting contracts that reimburse expenses of contractors.

- *One Department contract included lodging for 12 people . . .*

Specific Response: The items in question are budgeted lodging and meals in a contract. As such, a budget sets an upper limit of expenditures. The contract itself states that lodging and meals are to be reimbursed in accordance with applicable procedures for UNL and NDE.

In regard to lodging, NDE's policy is that lodging selected is expected to reasonably minimize total cost including travel time and employee time. The total contract budget for travel expenses was \$21,670. The actual expenditures for travel totaled \$18,930.11.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Contract Expenditures (Concluded)

Department's Response, Concluded:

- *One Department contract had no travel expense receipts for meals and lodging on file.*

Specific Response: NDE will consider amending its administrative guidance on contract drafting to require original receipts for documentation of contractor's expenses, which are to be reimbursed.

- *One Department contract, which included reimbursing a contractor's travel expenses, did not contain sufficient detail outlining the Department and DAS's expense reimbursement policy.*

Specific Response: The Department agrees that the letter contract did not contain sufficient detail regarding the Department and DAS' expense reimbursement policies. The Department revised its policy regarding letter contracts effective June 1, 2004. At that time, we included several examples of letter contracts that would provide sufficient detail. This was covered extensively in both a NDE Management Forum meeting (available to Supervisors and Managers) and an in-service training for Department staff. It is also our policy that during the pre-audit of a letter contract payment, if the letter contract does not contain sufficient detail, the pre-auditor visits with the employee who wrote the letter contract providing them with examples of sufficient detail. Department staff members have been informed that NDE Central Accounting staff and NDE General Counsel's staff are available to provide them technical assistance in writing their letter contracts.

8. Expenditure Incorrectly Identified as Payable

Good business practices call for the recording of expenditures in the correct fiscal year. Expenditures for goods received in the prior year should be recorded as a prior year obligation and expenditures for goods received in the current year should be recorded as a current year obligation.

We noted one of ten expenditures tested, paid in June 2004, was incorrectly identified as an obligation of the fiscal year ended June 30, 2003.

We recommend transactions be correctly identified as to whether they are current or prior year obligations.

Department's Response: We agree with the auditors. The document identified (3794310) had an invoice date of June 29, 2004. However, in reviewing the invoice, it was for future services and should not have been processed as a prior year document.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Expenditure Incorrectly Identified as Payable (Concluded)

Department's Response, Concluded:

The following e-mail was sent to all NDE staff on June 17, 2004 concerning the entering of prior fiscal year payables into NIS.

“All documents entered and approved after June 21st will have to have a GL Date entered in NIS with a July date. When entering invoices in Payables after June 21st for current year expenditure (July 1, 2003 through June 30, 2004), you must select Prior Year Voucher Processing rather than the normal selection of Voucher Processing.”

We will continue to notify staff of the requirement to identify payments in the correct fiscal year.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA DEPARTMENT OF EDUCATION

INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Nebraska State Board of Education
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Education (Department) for the fiscal year ended June 30, 2004. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements 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.

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Education for the fiscal year ended June 30, 2004, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2004, on our consideration of the Nebraska Department of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the

results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Timothy J. Channer CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Assistant Deputy Auditor

November 17, 2004

NEBRASKA DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	State General Fund 10000	Dept. of Educ. Cash Fund 21300	Professional Practices Comm. Fund 21310	Pvt. Postsecond. Career School Fund 21320	Diagnostic Research Ctr. Fund 21350	Teachers Certification Fund 21390
REVENUES:						
Appropriations	\$ 808,395,003	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	698,317	-	-	-	-
Sales & Charges	8,374	64,741	115,199	35,385	-	300,944
Miscellaneous	2,260	353,730	4,659	4,893	2,229	62,598
TOTAL REVENUES	808,405,637	1,116,788	119,858	40,278	2,229	363,542
EXPENDITURES:						
Personal Services	8,266,646	105,863	70,123	48,124	-	361,215
Operating	5,375,032	477,423	17,161	7,021	500	104,923
Travel	275,623	27,759	11,400	1,771	-	18,909
Capital Outlay	7,975	-	-	-	-	-
Government Aid	809,834,136	3,020	-	-	-	452
TOTAL EXPENDITURES	823,759,412	614,065	98,684	56,916	500	485,499
Excess (Deficiency) of Revenues Over (Under) Expenditures	(15,353,775)	502,723	21,174	(16,638)	1,729	(121,957)
OTHER FINANCING SOURCES (USES):						
Sales of Assets	13,680	-	-	-	-	-
Deposit to General Fund	(24,314)	-	-	-	-	-
Deposit to Common Fund (Note 6)	-	-	-	-	-	-
Operating Transfers In (Notes 5 and 7)	15,364,409	116,442	-	28,803	-	-
Operating Transfers Out (Note 5)	-	(116,442)	-	(28,803)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	15,353,775	-	-	-	-	-
Net Change in Fund Balances	-	502,723	21,174	(16,638)	1,729	(121,957)
FUND BALANCES, JULY 1, 2003	51,905	1,080,816	112,867	126,381	55,263	527,897
FUND BALANCES, JUNE 30, 2004	\$ 51,905	\$ 1,583,539	\$ 134,041	\$ 109,743	\$ 56,992	\$ 405,940
FUND BALANCES CONSIST OF:						
General Cash	\$ -	\$ 1,088,297	\$ 133,741	\$ 109,743	\$ 56,992	\$ 405,792
Petty Cash	50	-	-	-	-	-
NSF Items	-	-	-	-	-	180
Deposits with Vendors	51,855	-	-	-	-	-
Accounts Receivable Invoiced	-	557,433	300	-	-	90
Due From Other Funds	-	-	-	-	-	-
Due From Other Government	-	-	-	-	-	-
Loans Receivable	-	-	-	-	-	-
Due to Vendors	-	(2,733)	-	-	-	(122)
Deposits	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-
Due to Government	-	(59,458)	-	-	-	-
TOTAL FUND BALANCES	\$ 51,905	\$ 1,583,539	\$ 134,041	\$ 109,743	\$ 56,992	\$ 405,940

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	School Technology Fund 21470	Tuition Recovery Fund 21480	Education Innovation Fund 21490	Federal Letter of Credit Fund 40000	NDE Federal Projects Fund 41340	Child Nutrition Program Fund 41480
REVENUES:						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	243,411,949	3,315,804	-
Sales & Charges	-	-	-	-	881	-
Miscellaneous	10,146	9,596	179,765	277,015	126,565	169
TOTAL REVENUES	10,146	9,596	179,765	243,688,964	3,443,250	169
EXPENDITURES:						
Personal Services	-	-	101,950	14,679,080	1,670,906	-
Operating	-	(1)	80,021	8,824,162	717,834	-
Travel	-	-	1,192	739,684	60,929	-
Capital Outlay	-	-	-	197,009	27,148	-
Government Aid	412,446	-	1,602,673	219,249,029	254,699	-
TOTAL EXPENDITURES	412,446	(1)	1,785,836	243,688,964	2,731,516	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(402,300)	9,597	(1,606,071)	-	711,734	169
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-	-
Deposit to Common Fund (Note 6)	859,867	-	-	-	-	-
Operating Transfers In (Notes 5 and 7)	-	8,728	6,127,245	-	202,162	-
Operating Transfers Out (Note 5)	-	(8,728)	(6,254,503)	-	(199,256)	-
TOTAL OTHER FINANCING SOURCES (USES)	859,867	-	(127,258)	-	2,906	-
Net Change in Fund Balances	457,567	9,597	(1,733,329)	-	714,640	169
FUND BALANCES, JULY 1, 2003	30,306	182,467	4,198,351	-	3,508,066	225,106
FUND BALANCES, JUNE 30, 2004	\$ 487,873	\$ 192,064	\$ 2,465,022	\$ -	\$ 4,222,706	\$ 225,275
FUND BALANCES CONSIST OF:						
General Cash	\$ 487,873	\$ 192,064	\$ 2,465,022	\$ -	\$ 4,028,243	\$ 225,275
Petty Cash	-	-	-	-	-	-
NSF Items	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	81,036	-
Due From Other Funds	-	-	-	-	40,000	-
Due From Other Government	-	-	-	-	98	-
Loans Receivable	-	-	-	-	73,453	-
Due to Vendors	-	-	-	-	(124)	-
Deposits	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-
Due to Government	-	-	-	-	-	-
TOTAL FUND BALANCES	\$ 487,873	\$ 192,064	\$ 2,465,022	\$ -	\$ 4,222,706	\$ 225,275

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	Dept. of Ed. Revolving Fund 51320	Dept. of Educ. Trust Fund 61310	Temporary School Fund 61360	Public Grazing Fund 71310	Forest Reserve Fund 71320	Flood Control Fund 71330	Total (Memorandum Only)
REVENUES:							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 808,395,003
Intergovernmental	-	-	-	-	-	-	247,426,070
Sales & Charges	415,941	-	-	-	-	-	941,465
Miscellaneous	11,789	83,515	578,712	-	-	-	1,707,641
TOTAL REVENUES	427,730	83,515	578,712	-	-	-	1,058,470,179
EXPENDITURES:							
Personal Services	333,343	-	-	-	-	-	25,637,250
Operating	35,325	50,452	-	-	-	-	15,689,853
Travel	-	136	-	-	-	-	1,137,403
Capital Outlay	14,325	-	-	-	-	-	246,457
Government Aid	-	390	23,676,968	-	-	-	1,055,033,813
TOTAL EXPENDITURES	382,993	50,978	23,676,968	-	-	-	1,097,744,776
Excess (Deficiency) of Revenues Over (Under) Expenditures	44,737	32,537	(23,098,256)	-	-	-	(39,274,597)
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	13,680
Deposit to General Fund	-	-	-	-	-	-	(24,314)
Deposit to Common Fund (Note 6)	-	-	23,776,961	-	-	-	24,636,828
Operating Transfers In (Notes 5 and 7)	45,877	-	8,634,081	-	-	-	30,527,747
Operating Transfers Out (Note 5)	(48,783)	-	(8,156,000)	-	-	-	(14,812,515)
TOTAL OTHER FINANCING SOURCES (USES)	(2,906)	-	24,255,042	-	-	-	40,341,426
Net Change in Fund Balances	41,831	32,537	1,156,786	-	-	-	1,066,829
FUND BALANCES, JULY 1, 2003	218,390	2,078,297	14,079,713	-	-	-	26,475,825
FUND BALANCES, JUNE 30, 2004	\$ 260,221	\$ 2,110,834	\$ 15,236,499	\$ -	\$ -	\$ -	\$ 27,542,654
FUND BALANCES CONSIST OF:							
General Cash	\$ 302,164	\$ 2,106,758	\$ 15,239,279	\$ 405	\$ 40,481	\$ 127,039	\$ 27,009,168
Petty Cash	-	-	-	-	-	-	50
NSF Items	-	-	-	-	-	-	180
Deposits with Vendors	-	6,257	-	-	-	-	58,112
Accounts Receivable Invoiced	-	-	-	-	-	-	638,859
Due From Other Funds	-	-	-	-	-	-	40,000
Due From Other Government	-	-	-	-	-	-	98
Loans Receivable	-	-	-	-	-	-	73,453
Due to Vendors	(1,943)	(2,181)	-	-	-	-	(7,103)
Deposits	-	-	(2,780)	-	-	-	(2,780)
Due to Fund	(40,000)	-	-	(8)	(1,069)	(4,496)	(45,573)
Due to Government	-	-	-	(397)	(39,412)	(122,543)	(221,810)
TOTAL FUND BALANCES	\$ 260,221	\$ 2,110,834	\$ 15,236,499	\$ -	\$ -	\$ -	\$ 27,542,654

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2004

1. Criteria

The accounting policies of the Nebraska Department of Education 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 Department 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, 2004 includes only those payables posted to NIS before June 30, 2004 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2004 **does not** include amounts for goods and services received before June 30, 2004 which had not been posted to NIS as of June 30, 2004.

NIS also records other liabilities (primarily in the Distributive Fund Type) in accounts titled 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.

The NIS system does not include liabilities for accrued payroll and compensated absences.

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.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

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

50000 – Revolving Funds – account for the operation of state agencies which provide goods and services to other departments or agencies within state government.

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 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.

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.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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 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 the fund balance and are reported as recorded 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 liabilities recorded on NIS for the Department's funds at June 30, 2004 included Deposits, Due to Fund, and Due to Government. The activity of these accounts are not recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

Other Financing Sources – Operating transfers, deposits from common funds, and proceeds of fixed asset dispositions.

2. State Agency

The Nebraska Department of Education (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 schedule includes all funds of the Department.

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

3. Totals

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

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

(Continued)

4. 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. 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). The Department values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. During the fiscal year ending June 30, 2003, the Department changed their capitalization policy and increased their threshold to \$1,500. Equipment that had a cost of at least \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. As a result of the change in the capitalization threshold, 1,135 items with a total cost of \$1,222,588 were deleted from the capital asset records because their purchase cost was less than \$1,500. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them 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.

Equipment is depreciated using the straight-line method with estimated useful lives of 3 to 10 years.

Capital asset activity of the Department for the fiscal year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	\$ 4,577,394	\$ 285,784	\$ 1,567,835	\$ 3,295,343
Less Accumulated Depreciation for:				
Equipment				2,829,928
Total Capital Assets, Net of Depreciation				\$ 465,415

5. Transfers

Transfers In includes \$6,127,245 transferred to the Education Innovation Fund from the proceeds of the Nebraska State Lottery per Neb. Rev. Stat. Section 9-812(1) R.R.S. 2000 and \$8,634,081 transferred to the Temporary School Fund from investment income earned in the Permanent School Fund. Transfers Out includes \$6,254,503 transferred from the Education Innovation Fund to the State General Fund per Neb. Rev. Stat. Section 9-812(2) R.R.S. 2000 and \$8,156,000 from the Temporary School Fund to the Board of Educational Lands and Funds for costs of administering the unsold school lands.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

(Continued)

6. Deposits from Common Funds

Deposits to School Technology Fund 21470 consist of funds received by the Governor's State Energy Office in repayment of energy efficiency loans and credited to the School Technology Fund per Neb. Rev. Stat. Section 81-1634 R.R.S. 1999.

Deposits to Temporary School Fund 61360 consisted of receipts collected by the following agencies and deposited to Fund 61360:

Department of Labor	\$ 350
Board of Educational Lands and Funds	23,430,838
Liquor Control Commission	<u>345,773</u>
Total	<u>\$ 23,776,961</u>

7. Government Aid, Operating Transfers In

In accordance with Neb. Rev. Stat. Section 77-913(3) R.R.S. 2000, the State Treasurer allocates sixty percent of the Insurance Premium Tax funds to the Department for distribution to school districts as equalization aid. During the fiscal year ended June 30, 2004, \$15,364,409 in Insurance Premium Tax funds were transferred to the Department as a negative expenditure and then paid out as government aid in the State General Fund 10000. The schedule of revenues and expenditures was adjusted to show the transfer as Transfers In and increase Government Aid by \$15,364,409.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

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

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

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

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Nebraska State Board of Education
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Education for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 17, 2004. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Education'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 an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Education's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Nebraska Information System and Accounting Procedures).

A material weakness is a reportable 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 caused by error or fraud 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, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Education'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 grant agreements, 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 or other matters that is required to be reported under *Government Auditing Standards*, and is described in the Comments Section of our report as Comment Number 2 (Federal Payroll Documentation).

We also noted certain additional items that we reported to management of the Nebraska Department of Education in the Comments Section of this report as Comment Number 3 (Personnel and Payroll), Comment Number 4 (Termination Payments), Comment Number 5 (Legislative Restrictions on Appropriations), Comment Number 6 (Travel Expense Reimbursements), and Comment Number 7 (Contract Expenditures).

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature of Timothy J. Chamber CPA in black ink.

Assistant Deputy Auditor

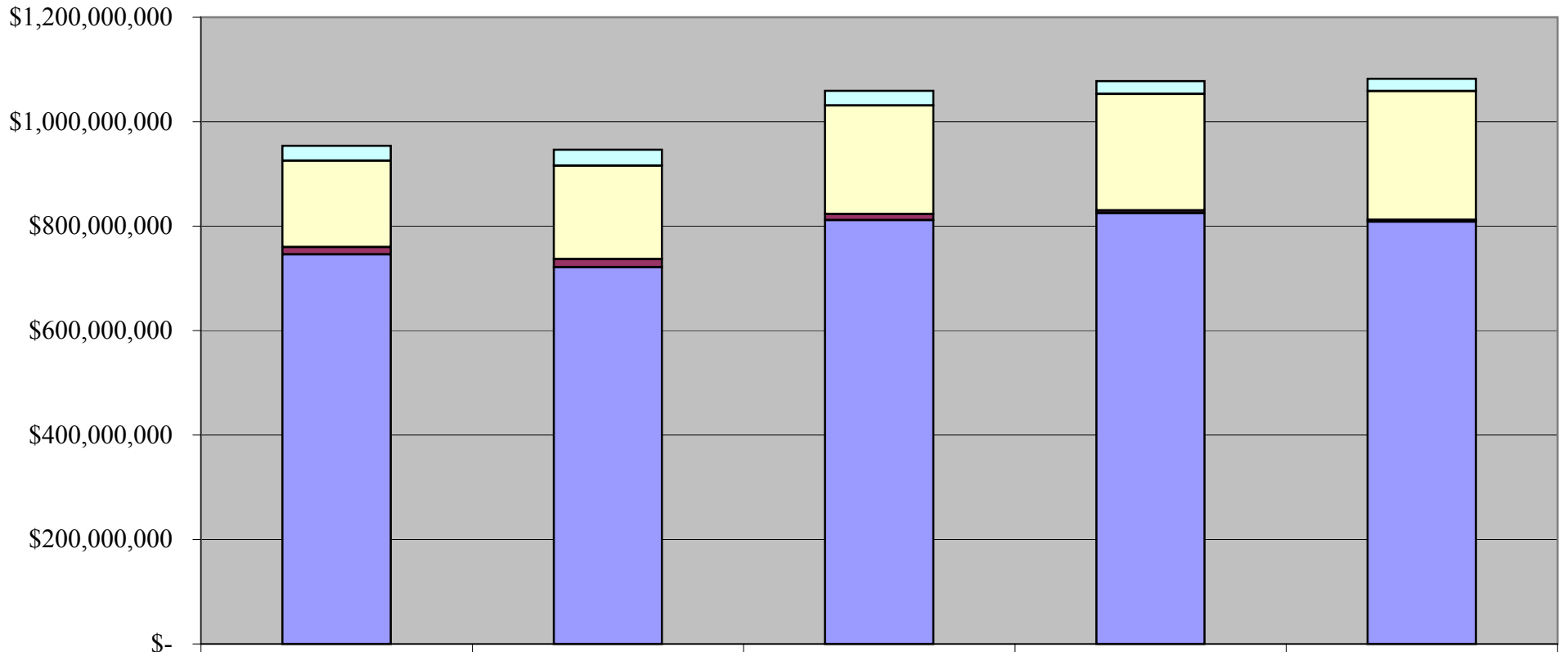
November 17, 2004

NEBRASKA DEPARTMENT OF EDUCATION

STATISTICAL SECTION

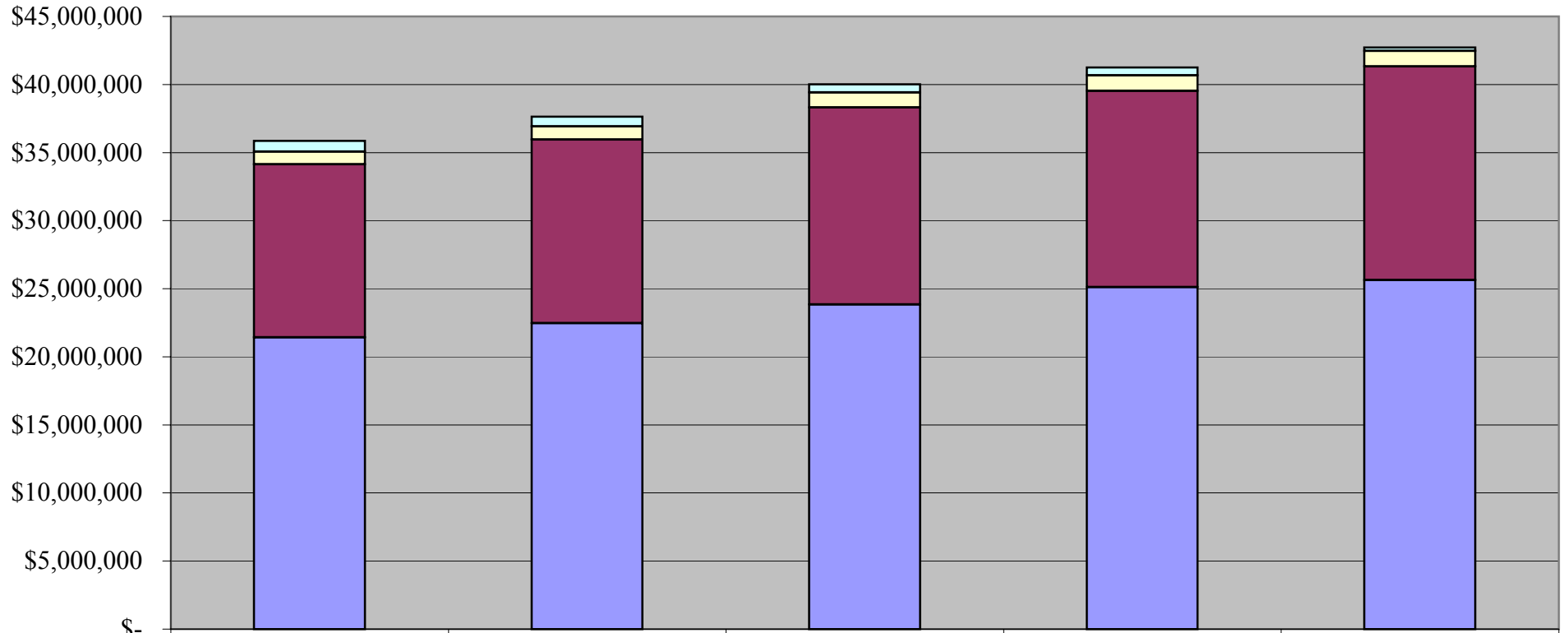
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

NEBRASKA DEPARTMENT OF EDUCATION
EXPENDITURES BY FUND TYPE
 Fiscal Years 2000-2004



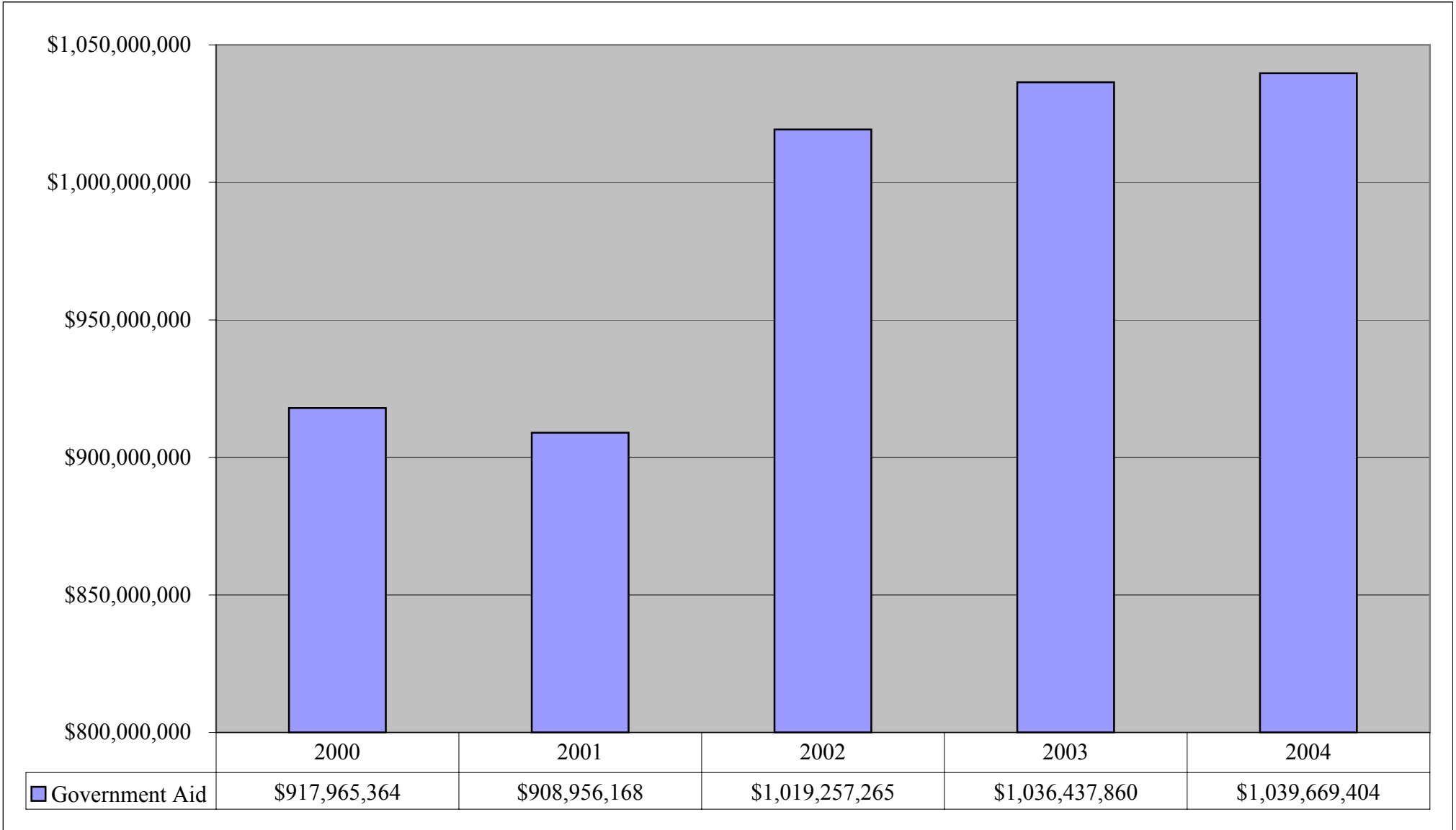
	2000	2001	2002	2003	2004
Trust Funds	\$28,612,440	\$30,679,133	\$28,049,194	\$24,312,483	\$23,727,946
Federal Funds	\$165,390,002	\$179,010,980	\$208,368,968	\$223,145,087	\$246,420,480
Cash & Revolving	\$14,026,304	\$15,604,276	\$11,480,353	\$5,274,377	\$3,836,938
General Fund	\$745,791,067	\$721,299,735	\$811,364,935	\$824,948,541	\$808,395,003

NEBRASKA DEPARTMENT OF EDUCATION
EXPENDITURES OTHER THAN GOVERNMENT AID
 Fiscal Years 2000-2004

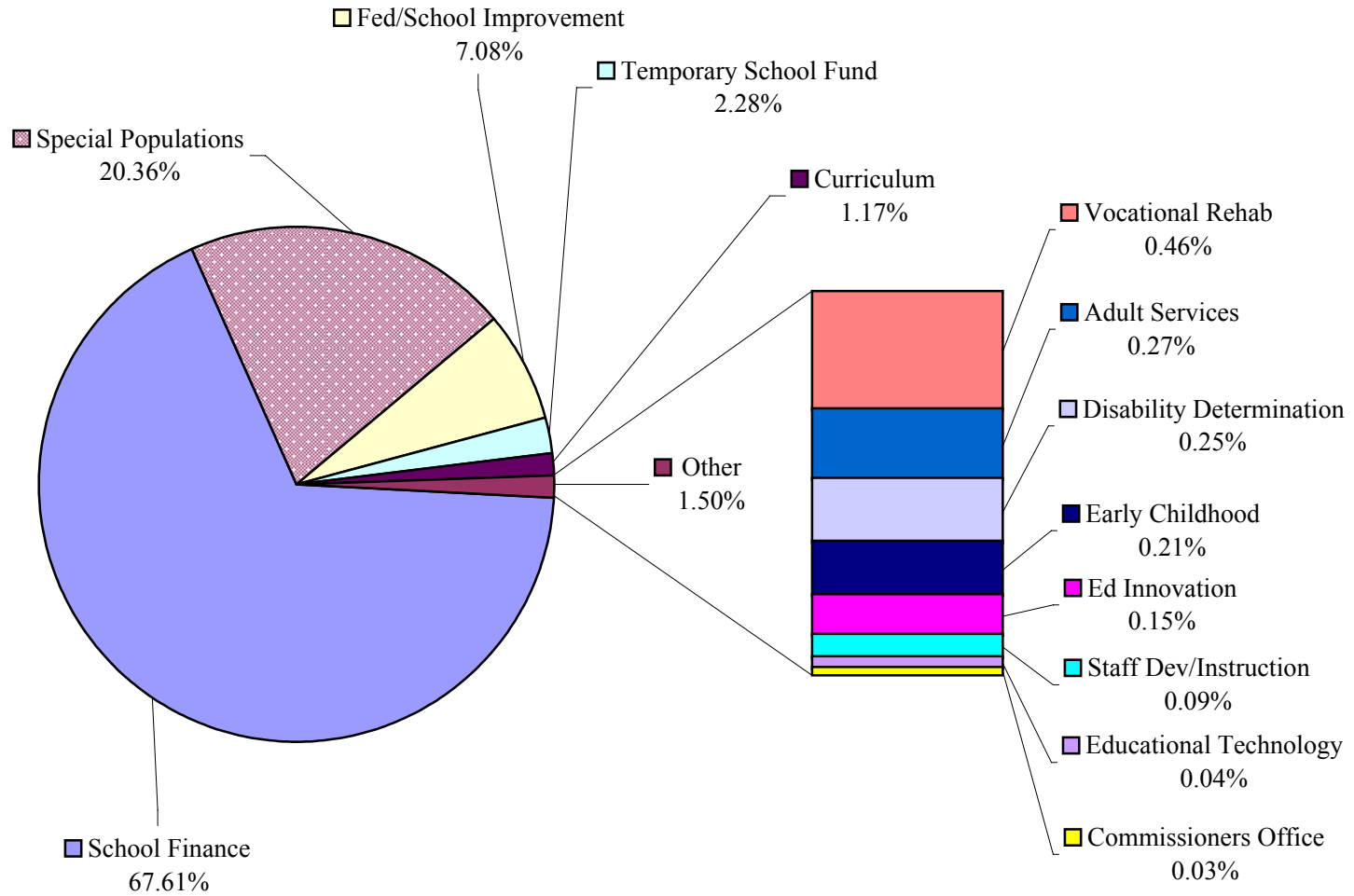


Capital Outlay	\$793,575	\$708,421	\$594,424	\$579,243	\$246,457
Travel	\$918,557	\$974,359	\$1,088,939	\$1,140,176	\$1,137,403
Operating	\$12,721,735	\$13,484,303	\$14,486,930	\$14,411,590	\$15,689,853
Personal Service	\$21,420,581	\$22,470,874	\$23,835,893	\$25,111,618	\$25,637,250

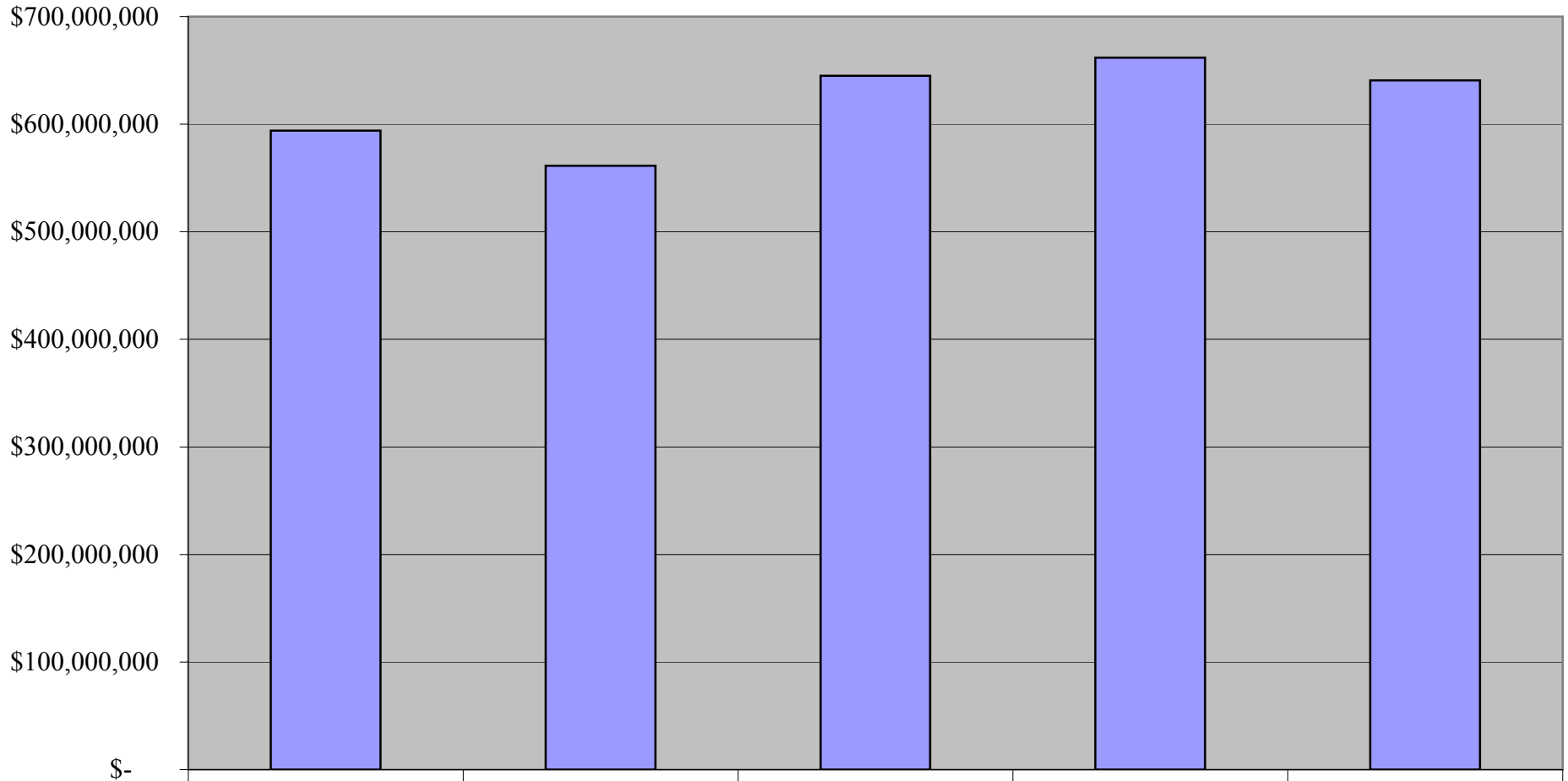
NEBRASKA DEPARTMENT OF EDUCATION
GOVERNMENT AID EXPENDITURES
 Fiscal Years 2000-2004



NEBRASKA DEPARTMENT OF EDUCATION
GOVERNMENT AID EXPENDITURES BY PROGRAM
 Fiscal Year Ending June 30, 2004



NEBRASKA DEPARTMENT OF EDUCATION
STATE AID TO SCHOOLS - DISBURSEMENTS
 Fiscal Years 2000-2004



	2000	2001	2002	2003	2004
State Aid to Schools	\$593,996,810	\$561,300,443	\$644,988,235	\$661,873,715	\$640,650,957

**NEBRASKA DEPARTMENT OF EDUCATION
STATE AID TO SCHOOLS - STATISTICS**

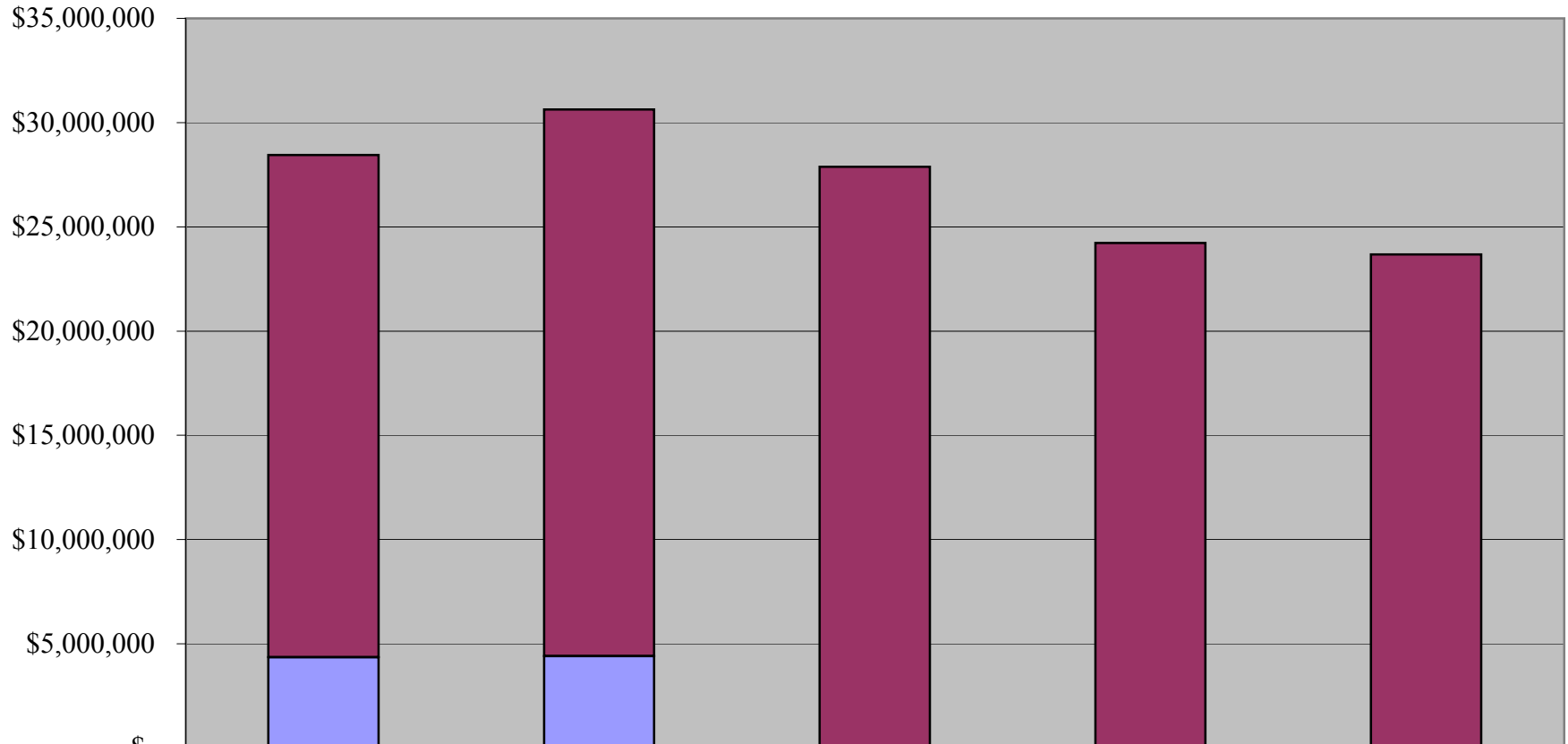
School districts receiving more than \$10 million in State aid during the fiscal year ended June 30, 2004.

<u>County</u>	<u>District</u>	<u>School</u>	<u>State Aid</u>	<u>Formula Students</u>	<u>Average per Formula Students</u>
Adams	18	Hastings	\$ 10,108,981	3,171	\$ 3,188
Dakota	11	So. Sioux City	13,521,020	3,353	\$ 4,033
Dawson	1	Lexington	11,536,107	2,651	\$ 4,352
Dodge	1	Fremont	10,468,877	4,364	\$ 2,399
Douglas	1	Omaha	113,949,873	43,696	\$ 2,608
Douglas	17	Millard	42,473,328	19,023	\$ 2,233
Hall	2	Grand Island	28,021,473	7,907	\$ 3,544
Lancaster	1	Lincoln	46,550,723	30,860	\$ 1,508
Sarpy	1	Bellevue	33,821,653	8,712	\$ 3,882
Sarpy	27	Papillion-La Vista	24,198,390	7,972	\$ 3,035
			<u>334,650,425</u>	<u>131,709</u>	<u>\$ 2,541</u>
Remaining Schools			306,000,532	146,385	\$ 2,090
Total State Aid			<u>\$ 640,650,957</u>	<u>278,094</u>	<u>\$ 2,304</u>

To determine system formula needs, school districts are grouped into standard, sparse, and very sparse cost groupings. Each grouping has a formula cost per student determined which is used to calculate system needs.

<u>Grouping</u>	<u>Formula Cost per Student</u>	<u>Number of Districts in Grouping</u>	<u>Number of Formula Students</u>	<u>Aid Distributed</u>	<u>Average Aid Per Student</u>
Standard	\$ 5,257	180	253,577	\$ 577,623,482	\$ 2,278
Sparse	\$ 6,357	58	19,020	51,017,052	\$ 2,682
Very Sparse	\$ 7,489	23	5,497	12,010,423	\$ 2,185
Total		261	278,094	\$ 640,650,957	

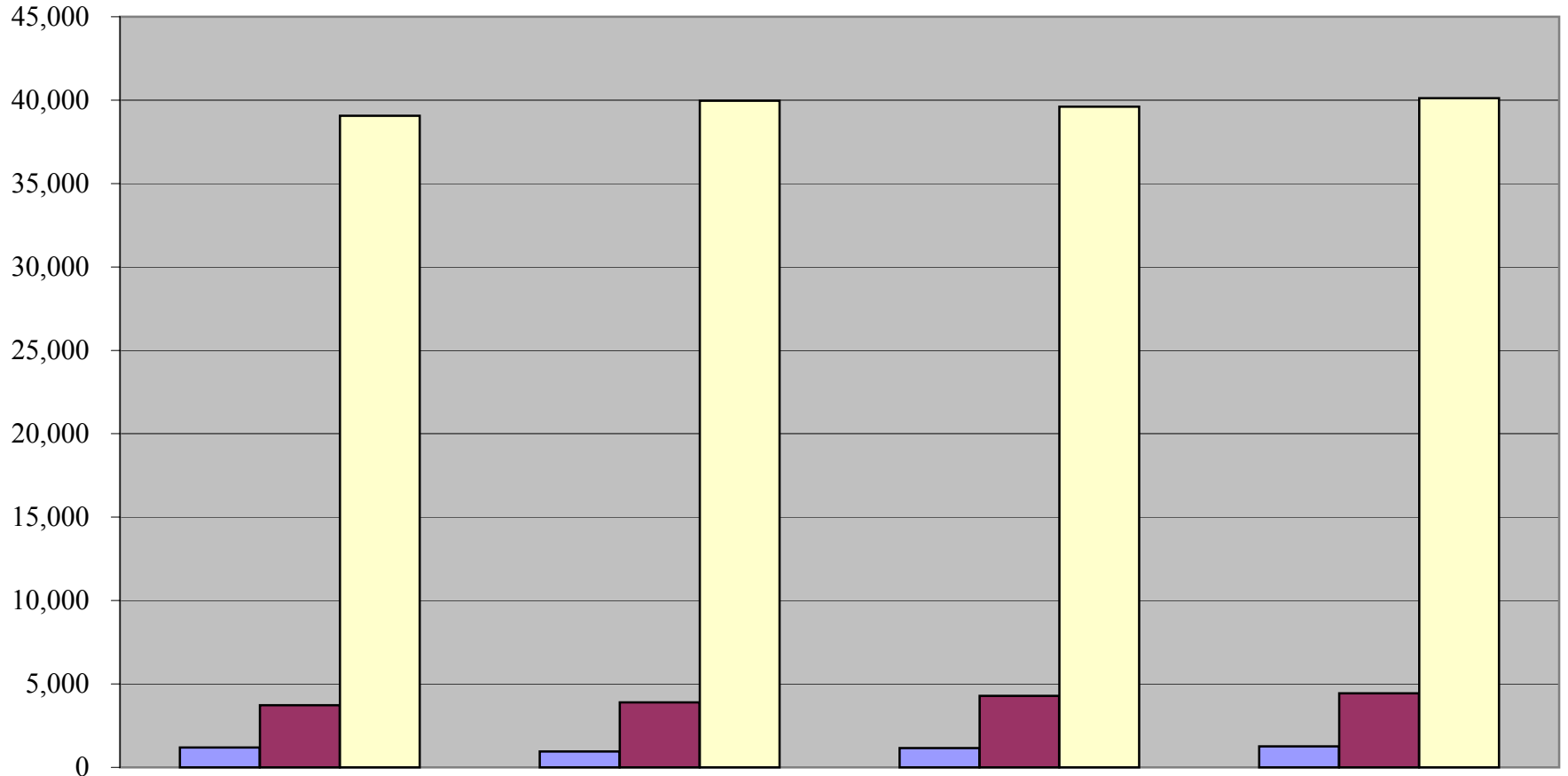
**NEBRASKA DEPARTMENT OF EDUCATION
TEMPORARY SCHOOL FUND EXPENDITURES**
Fiscal Years 2000-2004



	2000	2001	2002	2003	2004
■ Apportionment	\$24,084,042	\$26,218,871	\$27,883,569	\$24,229,589	\$23,676,968
■ In Lieu of School Land Tax	\$4,357,915	\$4,413,313	\$4,165	\$360	\$360

Note: Payments of In Lieu of School Land Tax have decreased dramatically due to a revision of Neb. Rev. Stat. Section 79-1035 R.S.Supp., 2002. School lands leased for private purposes have property tax payments made by the Board of Educational Lands and Funds starting in Fiscal Year Ending June 30, 2002. Only school lands leased for public purposes are exempt from property tax and therefore have an In Lieu of School Land Tax payment.

**NEBRASKA DEPARTMENT OF EDUCATION
SPECIAL EDUCATION POPULATIONS CHART
Fiscal Years 2000-2003**



	2000	2001	2002	2003
Birth through age 2	1,185	953	1,162	1,260
3 through age 5	3,724	3,896	4,295	4,445
6 to 21 years old	39,069	39,968	39,600	40,116
Total	43,978	44,817	45,057	45,821

Data was not yet available for 2004.

NEBRASKA DEPARTMENT OF EDUCATION
SPECIAL POPULATIONS AID DISBURSEMENTS
 Fiscal Years 2000-2004

