

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF AGRICULTURE**

**JULY 1, 2004 THROUGH JUNE 30, 2005**

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**Issued on July 26, 2006**

NEBRASKA DEPARTMENT OF AGRICULTURE

TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1 - 2
Mission Statement	2
Organizational Chart	3
<b>Comments Section</b>	
Exit Conference	4
Summary of Comments	5 - 6
Comments and Recommendations	7 - 19
<b>Financial Section</b>	
Independent Accountant's Report	20 - 21
Schedule of Revenues, Expenditures, and Changes in Fund Balances	22 - 26
Notes to the Schedule	27 - 31
<b>Government Auditing Standards Section</b>	
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 <i>Government Auditing Standards</i>	32 - 33
<b>Statistical Section</b>	34
Expenditures by Program	35
Program Costs by Fund	36
Federal Expenditures from Homeland Security Cooperative Agreements	37

## NEBRASKA DEPARTMENT OF AGRICULTURE

### BACKGROUND

The Nebraska Department of Agriculture (Department) regulates and works as an advocate for agriculture. The Department also collects and compiles agricultural statistics.

The Department was one of six administrative departments created by the Civil Administrative Code Law of 1919. The Department's duties and organization has changed significantly since 1919. Many regulatory functions were added to the Department's duties. The Director is responsible for all activities within the Department. He serves at the pleasure of the Governor and reports directly to the Governor.

The following is a brief description of the programs of the Department:

**Program 27 – Administration** – comprised of supervision that provides leadership, direction, and supervision to the agency and eleven additional budgeted subprogram activities that provide support or are direct program activities assigned to the Department. Support activities include legal, fiscal, personnel, word processing, data processing, building overhead, and administrative revolving fund service for other agency boards and commissions. Other statutory program activities part of administration included: Ag Promotion, Mediation, Beginning Farmer, Competitive Livestock Marketing, Ag Product Grading/Inspection, Market News, and Ag Suppliers Lease Protection.

**Program 56 – Weights and Measures** – This division inspects commodities sold by weight, measure, or count for their content accuracy, as well as inspecting the accuracy of the devices on which commodities are weighed or measured. The package inspection program includes checking prepackaged commodities to verify information stated on the label in terms of weight, measure, or count. The division also checks all commercial scales and gas pumps in the State for accuracy. Weights and measures inspections are conducted in supermarkets, warehouses, packing plants, feed mills, gas stations, and many other locations.

**Program 57 – Bureau of Dairies and Foods** – The division assures consumers of sanitation and wholesomeness of the State's food supply through inspecting and licensing of restaurants, food warehouses, bottling plants, grocery stores, taverns, and concessionaires. An equally important responsibility is the inspection and registration of producers, haulers, handlers, and processors of Grade "A" and manufacturing milk.

**Program 61 – Agricultural Laboratories** – This division is comprised of four separate laboratories. It serves the Department by providing analytical data on assays performed on various agricultural commodities. Chemical, physical, and microbiological testing is performed to assure the quality of samples submitted.

## NEBRASKA DEPARTMENT OF AGRICULTURE

### BACKGROUND

(Continued)

**Program 63 – Bureau of Animal Industry** – The division is responsible for the protection of Nebraska’s livestock and poultry. This is accomplished by the enforcement of health requirements of livestock imported into Nebraska and livestock transported within the State. The division regulates animal health and sanitation requirements of auction markets, livestock dealers, rendering plants, and pet feed manufacturing facilities through licensing and inspection. The Bureau of Animal Industry cooperates with USDA/APHIS in controlling and eradicating specific animal diseases. In addition to many of the traditional diseases such as brucellosis and pseudorabies, the Bureau is very much involved in new and emerging diseases such as scrapies, chronic wasting disease, Johne’s, foot and mouth, tuberculosis, etc. Homeland security, premise identification, and animal identification activities have redirected efforts for this division.

**Program 333 – Bureau of Plant Industry** – The division is responsible for regulating, inspecting, and licensing feed, fertilizer, ag lime, pesticides, nursery stock, and seed companies. The Bureau of Plant Industry is responsible for surveying, controlling, and eradicating insects and plant diseases found in Nebraska, and preventing foreign insects and plant diseases from entering the State. Activities regulating the control of noxious weeds have been assigned to this division.

**Program 382 – Potato Development** – The Nebraska potato industry relies upon the Potato Development Program for funding to support basic research in the areas of disease, storage, and production. The Program also funds activities to promote potatoes and the potato industry. An excise tax of \$.75 per cwt is assessed on potatoes grown and shipped in Nebraska to provide the funds for use in research, promotion, and operation of the Program. These fees were lowered in the past to adjust the cash fund balance.

**Program 387 – Poultry Development** – The division was created to develop education, promotion, and/or appropriate research programs to enhance Nebraska’s egg and turkey producers in developing and maintaining a prosperous industry.

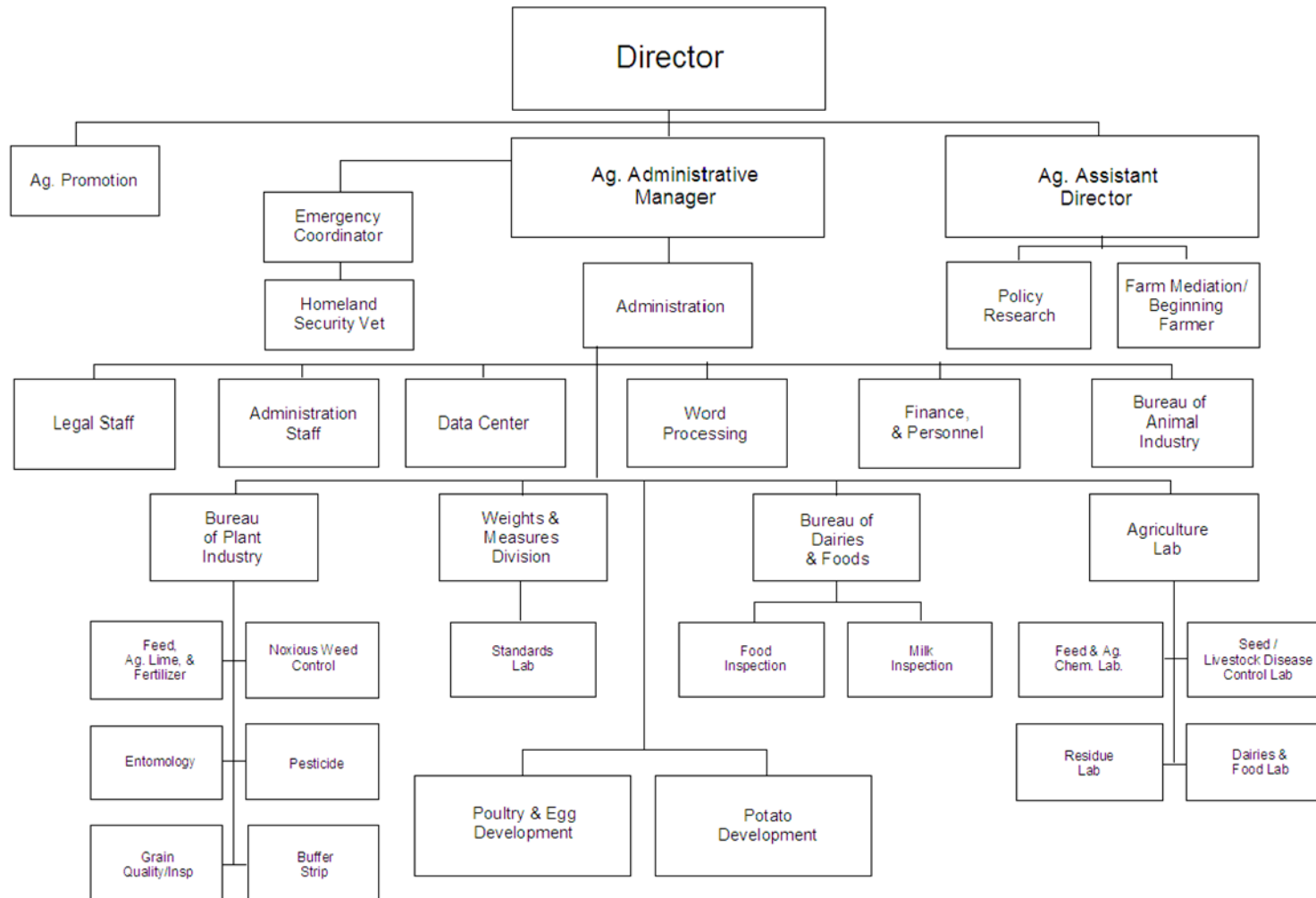
**Program 564 – Agricultural Development** – The division develops educational programs and conducts them throughout the State to support agriculture. Such programs include the Nebraska Agriculture Youth Institute and Urban Youth Farm Tour. Beginning in fiscal year 1997, through restructuring an advisory group, the Department began looking to expand funding opportunities and uses of the rural rehabilitation funds.

### MISSION STATEMENT

The Department mission is . . . “to regulate industries, as prescribed by statute; and to encourage and promote the interest of agriculture through advocacy and education.”

NEBRASKA DEPARTMENT OF AGRICULTURE

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF AGRICULTURE

**EXIT CONFERENCE**

An exit conference was held June 27, 2006, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Agriculture were:

<b>NAME</b>	<b>TITLE</b>
Robert Storant	Accounting and Finance Manager
Denis Blank	Chief Administrator
Greg Ibach	Director

NEBRASKA DEPARTMENT OF AGRICULTURE

SUMMARY OF COMMENTS

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

1. ***Internal Control Over Payroll:*** We noted several issues related to the internal control over payroll processing, including the lack of a documented review over payroll transactions, inadequate support for the allocation of payroll expenses, lack of compliance with Federal circulars, and lack of adequate timesheets.
2. ***Internal Control Over Capital Assets:*** We noted several issues related to the internal control over capital assets of the Department. We could not determine the accuracy of the reported asset figures on NIS due to a lack of segregation of duties over the capital asset process, assets were not properly valued on NIS, the Department did not consistently follow its capitalization policy, and other issues.
3. ***Internal Control Over Expenditures:*** Three employees of the Department were authorized to both prepare and approve/post the same batch as of June 30, 2005, which did not allow for an adequate segregation of duties. In addition, the review of the general ledger was not documented in most cases.
4. ***Internal Control Over Revenues:*** One individual in the Dairy Division opened the mail, processed fees received, entered the information into the database, reconciled the receipts to the general ledger, and also followed up on uncollectible accounts. There was not a proper segregation of duties to ensure all monies received were deposited.
5. ***Mileage:*** The Department had 48 permanently assigned vehicles from DAS – TSB and 35 Department-owned vehicles. There was not an adequate review of mileage logs to determine if miles driven were reasonable. Several vehicles had unsupported mileage driven.
6. ***Fines and Penalties:*** The Department collected \$72,042 in fines and penalties that was deposited to the Permanent School Fund. The Department also collected \$20,155 that was deposited to various cash funds of the Department. There is a conflict between the Department statutes and the Nebraska Constitution. This was also noted in our prior audit report.
7. ***Allocation of Expenses:*** There was not adequate documentation to support the allocation of costs between two cash funds for a van purchased by the Department. This was also noted in our prior audit report.

NEBRASKA DEPARTMENT OF AGRICULTURE

**SUMMARY OF COMMENTS**

(Continued)

8. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

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

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

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



NEBRASKA DEPARTMENT OF AGRICULTURE

COMMENTS AND RECOMMENDATIONS

**1. Internal Control Over Payroll**

The Department incurred \$8,036,463 for personal services for the year. At June 30, 2005, the Department employed 152 employees. We noted the following related to the internal control over the payroll process:

Review of Payroll

Good internal control requires documented procedures to ensure payroll transactions are accurately processed and to ensure no unauthorized changes in pay were made.

The Nebraska Information System (NIS) does not allow for an adequate segregation of duties over the payroll process. At June 30, 2005, four employees had access to process pay changes on NIS. Agencies must implement manual controls to compensate for the lack of segregation of duties within the system. The Department compared the payroll register for the prior pay period to the payroll register for the current pay period to ensure payroll processed accurately and to ensure there were no unauthorized changes in pay; however, there was no documentation supporting their review of the payroll register. We also noted the Department periodically reviewed pay changes on NIS, particularly in July after the annual pay increase for State employees; however, this review also was not documented.

Without adequate documentation to support the review performed over payroll, there is an increased risk for unauthorized changes in pay to occur and remain undetected.

We recommend the Department implement procedures to document the monthly review of the payroll register and the annual review of pay changes on NIS.

*Department's Response: The Department utilizes three employees in processing monthly payrolls and believes there is an adequate segregation of duties. Procedures have been changed so there will be documented proof the payroll register and review of payroll changes is available for future review.*

Allocation of Payroll Costs

Good internal control requires documentation to ensure the allocation of payroll costs is adequately supported. Legislative appropriation bills limit expenditures for personal services by program.

- 4 of 16 employees tested had payroll costs allocated between multiple programs. The Department did not have adequate documentation to support the percentages used to allocate payroll between programs. This was also noted in our prior audit report.

NEBRASKA DEPARTMENT OF AGRICULTURE

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Internal Control Over Payroll** (Continued)

- 2 of 16 employees tested had payroll costs allocated to Federal funds. The Department performed a certain number of inspections for the Federal government each year and was reimbursed for each inspection. The allocation of payroll costs to these Federal funds was determined at one time based on the estimated revenue for these inspections, but allocation has not been adjusted annually.

Without adequate documentation to support the allocation of payroll costs between funds and programs, there is an increased risk of inaccurate allocation of payroll costs to Department programs and funds. This may also result in noncompliance with legislative restrictions.

We recommend the Department ensure the method used to allocate payroll costs to multiple programs is adequately supported. We also recommend the Department review Federal fund balances periodically and adjust payroll cost allocations as needed to minimize the balance in the Federal funds.

*Department's Response: Each budgeted program in the Department pays approximately 3% direct administrative support. The allocation is adjusted each fiscal year based on legislated appropriation by program. Different positions are coded to each program to account for the percentage of administrative costs allocated. The allocation is not based on time actually incurred to a program by an administrative staff member. The Department maintains documentation of the allocation and believes the allocation is reasonable.*

*Relative to payroll cost allocated to federal funds, this is in reference to three Food and Drug Administration (FDA) fixed price contracts where the Department receives a fixed cost per inspection that offsets Department costs to do a similar feed or food inspection under State statutory authority. FDA controls the assignments of inspections throughout the fiscal year resulting in an unsteady revenue flow. The Department will make more timely adjustments of payroll to minimize the federal fund balances identified.*

**APA's Response:** As noted, we were not provided adequate documentation to support the allocation of payroll costs between different programs. In many cases Department staff verbally indicated the method used to allocate payroll costs to different programs, but in the exceptions noted in this comment, the allocation method did not agree to the explanation of the allocation given by the Department or was not otherwise adequately supported.

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Internal Control Over Payroll** (Continued)

Compliance with Federal Circulars

Good internal control requires procedures to ensure compliance with Federal requirements. Office of Management and Budget (OMB) Circular A-87 requires charges for salaries and wages for employees who work solely on a single Federal award or cost objective be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. OMB Circular A-87 also requires employees who work on multiple activities or cost objectives to maintain personnel activity reports or equivalent documentation that meets the standards in subsection (5) to document the distribution of their salaries or wages.

One of three employees tested had payroll costs allocated to two separate Federal grants and was not in compliance with OMB Circular A-87. The employee did not maintain personnel activity reports to document the distribution of salary to these grants. We also noted employees who worked on only one Federal grant did not maintain timesheets that indicated the Federal program worked on and did not complete the semi-annual certification required by OMB.

Using unsupported information for allocation purposes may result in an inaccurate allocation of Federal grant funds. Without adequate documentation to support the distribution of salary for employees working on multiple activities, the Department is not in compliance with OMB Circular A-87.

We recommend the Department ensure requirements of OMB Circular A-87 are met by maintaining semi-annual certifications, or by ensuring employees working on more than one Federal grant or project maintain actual hours worked on each Federal grant, as required.

*Department's Response: Project codes developed on the Department's Employee Reporting System (ERS) will be required to be used by all Department staff who work on federal grants and contracts and all employees paid by federal funds will do a certification for hours reported.*

Adequate Timesheets

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 requires all State officers and heads of departments, their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Internal Control Over Payroll** (Concluded)

service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur. Good internal control requires procedures to ensure adequate documentation is on file to support forty hours of work each week, particularly when employees expect payment for unused sick and vacation leave upon termination.

Five of sixteen employees tested did not have timesheets that reflected a forty hour work week. Salaried, exempt employees of the Department only record absences from work and did not indicate in any way a forty hour work week was completed.

Without adequate procedures to ensure there is documentation to support a forty hour work week for all employees, there is an increased risk for fictitious unused vacation and sick leave payments upon termination.

We recommend the Department report actual hours worked or include a statement on each timesheet that certifies the employee worked or was on approved leave for at least forty hours each week to support compliance with State statute.

*Department's Response: The State statute in reference has been in place since 1957, and this is the first reference to the Department not being in compliance. The Department is concerned U.S. Department of Labor, Fair Labor Standards Division may use this information to rule an exempt position should be classified as non-exempt for overtime purposes. The Department will follow applicable law and make appropriate changes.*

**2. Internal Control Over Capital Assets**

Good internal control requires procedures to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires procedures to ensure capital assets are properly stated, consistently reported, and properly depreciated.

Under NIS, capital assets are not capitalized in the funds used to acquire them. Instead capital assets are reflected as expenditures. Capital assets, which would include equipment for the Department, are reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The amounts recorded as capital outlay expenditures on NIS for the Department appear to be materially correct; however, NIS includes a separate ledger to accumulate and track data for capital assets that are used and reported in the CAFR. Such data would include costs, accumulated depreciation, net book value, items added and removed, and other specific data on capital asset items. The Department's capital asset balance on NIS as of June 30, 2005, was \$3,969,153. The accumulated depreciation was \$2,739,659, for a total net

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Internal Control Over Capital Assets (Continued)**

book value of \$1,229,494. During the fiscal year, the Department added \$356,960 in assets and removed \$455,228 in assets on NIS. We could not determine the accuracy of the reported asset figures on NIS due to the following:

- NIS did not allow for an adequate segregation of duties over the fixed asset process. At June 30, 2005, two employees had access to control an asset from beginning to end. Generally, one employee added items and initiated the disposal of items from the system. This individual did not appear to have a good understanding of the exception reports from NIS or how to properly dispose of the exceptions noted. A second individual reviewed various exception reports and the disposition of assets on those reports, but that individual did not appear to have the required knowledge of the fixed asset module in NIS and did not consistently review the exception reports. There was no review of the Additions and Retirements Report to ensure assets were properly added and removed from the system.
- 5 of 15 assets tested were not correctly valued on NIS. One asset on NIS was valued at triple its actual cost. A scanner was recorded at \$7,224 on NIS, while the actual cost of the asset was \$2,408. Two assets were valued at double the actual cost. An aluminum livestock trailer was recorded at \$26,420 on NIS, while the actual cost of the asset was \$13,210. A van was recorded at \$18,800 on NIS, while the actual cost of the asset was \$9,400. Two other items tested also had incorrect costs assigned to the assets.
- The Department did not consistently follow its capitalization policy. The Department's capitalization policy prior to the NIS implementation had been to record everything, regardless of cost, as a capital asset; however, when NIS was implemented in 2003, the Department allowed each division to add assets on NIS at their own discretion. Some divisions decided only to add items with a cost greater than \$1,500; some divisions added everything. We could not trace several items (office furniture, refrigerator, etc.) in the Department to the fixed asset master list on NIS.
- A furnace owned by the Department was coded on NIS to computer equipment and is being depreciated over 3 years, rather than being coded to equipment and being depreciated over 10 years.
- 1 of 10 assets could not be traced from NIS to the physical asset. A folding machine no longer was in the Department's possession. The item was not properly disposed when the item was no longer used by the Department.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Internal Control Over Capital Assets (Concluded)**

There is an increased risk for errors or irregularities related to the value of capital assets on NIS without an adequate segregation of duties over capital assets, without adequate training over the various exception reports and how to process items included in these reports, without a documented review of the fixed asset Additions and Retirements Report, and without a consistently applied capitalization policy.

We recommend the Department ensure an adequate segregation of duties over the capital assets process on NIS. We recommend the individuals involved in the processing of capital assets obtain an adequate understanding of the various NIS exception reports to understand how to properly process items which appear on the reports. We recommend an independent review of the Additions and Retirements Report on NIS to ensure all additions to and retirements from NIS are authorized. We also recommend the Department ensure all items on the capital asset list are in accordance with the current capitalization policy set by the Department. Finally, we recommend the Department review all assets on the capital asset listing to ensure the cost is accurately stated and that all items are in the possession of the Department.

*Department's Response: The Department was not aware of the Additions and Retirement Report available through NIS that helps insure assets are properly added and removed from the system. Utilization of this report, with proper review, will correct many of the deficiencies noted. The auditor's office staff was helpful in explaining the NIS functionality related to fixed assets.*

**3. Internal Control Over Expenditures**

Good internal control requires an adequate segregation of duties so no one individual can prepare, approve, and post their own batches. A system of internal control should include proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end. In addition, good internal control requires a documented review of the general ledger to ensure batches were posted accurately and no unauthorized transactions were processed.

Batch Management is a security feature on NIS that allows agencies to designate who can approve/post batches for each individual authorized to prepare batches. If set up properly, this feature allows agencies to properly segregate duties within NIS. Three employees from the Department were authorized on NIS Batch Management to both prepare and approve/post the same batch as of June 30, 2005, which did not allow for a proper segregation of duties. This was

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Internal Control Over Expenditures (Concluded)**

addressed by the Department after the fiscal year end. A review of the general ledger was performed by the Accounting and Finance Division for the entire Department; however, the review was not documented. In addition, the Plant Industry, Weights and Measures, Agriculture Development, Laboratory, Poultry, and Potato Divisions all performed a review of the general ledger; however, these reviews were also not documented. The Dairy and Food Division performed a documented review of the general ledger; however, the Division only had 3 of 12 general ledgers on file for fiscal year 2005.

When one individual can prepare, approve, and post the same batches and a documented review of the general ledger has not been performed, there is an increased risk errors or fraud may occur and not be detected, resulting in loss or misuse of State funds.

We recommend the Department maintain an adequate segregation of duties and implement policies to review NIS Batch Management to ensure no one user is able to prepare, approve, and post the same batches. We also recommend the Department implement procedures to perform a documented review of the general ledger in all divisions.

*Department's Response: As noted by the State Auditor's Office, NIS batch management had been addressed and changed.*

*The Department believes the procedures in place for review of the NIS general ledger is adequate, but recognizes a better job of documenting the review is needed.*

**4. Internal Control Over Revenues**

Good internal control requires procedures to ensure a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end. Good internal control also requires a proper segregation of duties to ensure all money received is deposited.

One individual opened the mail for the Dairy Division, processed remittance forms, entered information into the database, reconciled the receipts to the general ledger after they posted, and followed up on uncollectible accounts.

When only one individual is responsible for opening mail which contains money, processing fees collected, and following up on uncollected accounts, there is an increased risk that all monies due the Department are not properly deposited.

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Internal Control Over Revenues (Concluded)**

We recommend the Department ensure a proper segregation of duties over revenues for the Dairy Division. If an adequate segregation of duties is not possible, compensating controls should be implemented to ensure all monies received are deposited.

*Department's Response: Changes in how the Dairy Division deposits funds will be made to comply with Department procedures already in place.*

**5. Mileage**

Good internal control requires all mileage be reviewed to ensure miles driven are reasonable, and the review be documented.

Neb. Rev. Stat. Section 81-1025(2)(a) R.R.S. 1999 states, "Each operator of a special-use vehicle as prescribed in section 81-1011 or a motor vehicle in which a state agency holds the title shall follow the policy and use the travel report form which shall be established by the director or designated head of the state agency owning such vehicle. The form shall include, but not be limited to, the name of the operator, the license number of the vehicle, the total daily mileage or total hours of daily operation, and any other information the director or designated head deems relevant."

Neb. Rev. Stat. Section 81-1025(1) R.R.S. 1999 states, "Each operator of a state-owned motor vehicle, except a special-use vehicle as prescribed in section 81-1011 or a motor vehicle in which a state agency hold the title, shall report the points between which the motor vehicle traveled each time used, the odometer readings at such points, the time of arrival and departure, the necessity and purpose for such travel, the license number of such motor vehicle, and the department to which such motor vehicle belongs."

Neb. Rev. Stat. Section 81-1176 R.R.S. 1999 states requests for reimbursement of personal automobile mileage shall be for miles actually driven and necessarily traveled by the most direct route.

As of February 2006, the Department had 48 permanently assigned vehicles from the Department of Administrative Services (DAS) - Transportation Services Bureau (TSB) and 35 Department-owned vehicles. During our review of the DAS - TSB permanently assigned vehicles, personal vehicles, and Department-owned vehicles, we noted the following:

- There was not an adequate review of mileage logs to determine if miles driven were reasonable. Additionally, none of the divisions tested signed the mileage logs.



NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Mileage (Continued)**

- The Department did not have a policy for the reporting of mileage of Department-owned vehicles as required by Neb. Rev. Stat. Section 81-1025(2)(a). One of six divisions tested did not use DAS - TSB logs during the fiscal year. In addition, we noted as of June 2006, another division was also not using DAS - TSB logs to report mileage. Both of these divisions used the weekly employee status report to record mileage.
- Five Department-owned vehicles were tested. We selected five trips in two different months for each vehicle tested. Three of five vehicles had mileage that could not be supported. There was a total of 192 unsupported miles for these three vehicles ranging from 8 to 68 miles per trip.
- Five permanently-assigned vehicles from DAS - TSB were tested. We selected five trips for one month for each vehicle tested. Four of five vehicles had mileage that could not be supported. There was a total of 166 unsupported miles for these four vehicles, ranging from 4 to 47 miles per trip.
- All five DAS - TSB vehicles tested did not report all points of destination on the travel log. Additionally, one of five Department-owned vehicles tested did not report all points of destination.
- One of seven expense reimbursement documents tested included reimbursement to an employee for miles driven using a personal vehicle in one month. There was a total of 105 unsupported miles ranging from 2 to 21 miles per trip.

Without adequate procedures to ensure mileage driven is reasonable, there is an increased risk of loss or misuse of State funds or vehicles.

We recommend the Department implement procedures to ensure miles driven using personal vehicles, permanently-assigned DAS - TSB vehicles, and Department-owned vehicles are reasonable. We also recommend the Department document the review of the use of vehicles by signing all vehicle logs after the review. Finally, we recommend the Department develop a policy for the proper reporting of Department-owned vehicles in accordance with statute.

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Mileage** (Concluded)

*Department's Response: The Department does review miles driven to ensure that mileage is reasonable, but due to the number of inspections, establishment locations, and scheduling concerns, use of "Map Blast" to verify mileage is not always reasonable. Employees' scheduling, supervisor review, and detailed documentation is important. The Department recognizes documentation improvement in this area can be made and will instruct each division to review the processes utilized and discuss the process with all employees. The Department will adopt a policy change to recognize the ERS for recording mileage of Department-owned vehicles.*

**6. Fines and Penalties**

The Nebraska Constitution Article VII, Section 5(1) states, ". . . all fines, penalties, and license money arising under the general laws of the state . . . shall belong and be paid over to the counties respectively where the same may be levied or imposed . . . All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue . . ."

Neb. Rev. Stat. Section 79-1035.01 R.R.S. 2003 created the Permanent School Fund and states the principal balance of the fund "shall be held and invested in perpetuity by the state in trust for the support of its common schools. The annual interest and other income, but not the principal, is subject to use for the support and maintenance of the common schools in each public school district of the state as the Legislature provides in accordance with Article VII, Section 9, of the Constitution of Nebraska."

Neb. Rev. Stat. Section 2-10,103.02(2) R.R.S. 1997 regarding fines under the Plant Protection and Plant Pest Act, states "All money collected by the department as an administrative fine shall be remitted on a monthly basis to the State Treasurer for credit to the permanent school fund." Neb. Rev. Stat. Section 2-2651(1) R.R.S. 1997 regarding fines under the Pesticide Act, states, "All money collected as a civil or an administrative fine shall be remitted to the State Treasurer for credit to the permanent school fund." The Department followed the language provided in the statutes for the deposit of penalties it assessed and collected pursuant to the Plant Protection and Plant Pest Act and the Pesticide Act. The Department deposited \$72,042 in fines to the Permanent School Fund during the fiscal year ended June 30, 2005.

In addition, we noted fines and penalties collected that were deposited and utilized by funds of the Department. Neb. Rev. Stat. Sections 2-1092(4), 2-1097(4), 2-10,116.01, 2-1807(2), 2-2634(1), 2-2635(6), 54-627(3), 54-856(3)(a), 81-2,147.10(1), 81-2,162.06(4), 89-187(21), and 81-2,270(6) establish penalties for the Plant Protection and Plant Pest Cash Fund, Nebraska

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**6. Fines and Penalties (Concluded)**

Potato Development Fund, Natural Resources Water Quality Fund, Pesticide Administrative Cash Fund, Commercial Dog and Cat Operator Inspection Program Cash Fund, Commercial Feed Administration Cash Fund, Nebraska Seed Administrative Cash Fund, Fertilizers and Soil Conditioners Administrative Fund, Weights and Measures Administrative Fund, and Pure Food Cash Fund. Neb. Rev. Stat. Sections 2-10,117, 2-1808, 2-2627(1), 2-2635(6), 54-635, 54-857, 81-2,147.11, 81-2,162.27, 89-1,100, 81-2,291, direct the Department to deposit these penalties to each fund. The Department collected \$20,155 during fiscal year 2005 per these statutes. This was also noted in the prior audit report.

There is a conflict between the Department statutes and the Nebraska Constitution. If fines and penalties are deposited into the Permanent School Fund as provided by statute, the monies are not being distributed as required by the Nebraska Constitution.

We recommend the Department request a legal opinion from the Nebraska Attorney General requesting guidance for the appropriate fund to deposit all fines and penalties. We also recommend the Department work with the Legislature to resolve the apparent conflict between State statutes and the Nebraska Constitution.

*Department's Response: The Department enforces all statutes dealing with fines and penalties in accordance with the laws passed by the Legislature.*

**APA's Response: We acknowledge the Department enforced the related statutes in accordance with laws passed by the Legislature. However, since there is an apparent conflict between the laws passed by the Legislature and the State Constitution, we recommend the Department obtain an Attorney General opinion to ensure the fines and penalties are deposited in the proper funds.**

**7. Allocation of Expenses**

Good internal control requires adequate supporting documentation to ensure costs are properly allocated to various funds and programs. In addition, various Department funds have certain State and Federal requirements regarding use which must be adhered to.

There was not adequate documentation to support the allocation of costs between two cash funds for a van purchased by the Department. The van cost \$17,267. The payment was split equally between Fund 20810 - Commercial Feed Administration Fund and Fund 20820 - Fertilizers and

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**7. Allocation of Expenses** (Concluded)

Soil Conditioners Administrative Fund; however, there was no documentation to support these funds utilized the equipment in the same proportion as charged. A similar finding was noted in our prior audit report.

Without a clear method and support for charging costs associated with more than one activity, costs may be allocated incorrectly and various funding sources may support more or less than their share of costs. In addition, fiscal accountability is significantly diminished without adequate support for expenses charged to each fund.

We recommend the Department document and support the basis for allocating costs to ensure funds are properly charged.

*Department's Response: There is no correct cost allocation for many of the expenses incurred by programs that have multiple funding sources. The Department, at the time of purchase, does document the intended use of all equipment and the cost allocation between funding sources recognizing that ultimate use will vary from how it was coded. The allocation for all fixed assets are approved by Finance and Personnel and the Chief Administrator before processing any capital outlay requisitions.*

**8. Reconciliation of Bank Records to the Nebraska Information System**

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both the Nebraska Information System (NIS) and the Nebraska Accounting System (NAS), system before NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. The APA's previous comments noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although State Accounting continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of December 19, 2005, to be as follows:

State Accounting has worked on the reconciliation process, but continued progress is needed. State Accounting's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify

NEBRASKA DEPARTMENT OF AGRICULTURE

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. Reconciliation of Bank Records to the Nebraska Information System (Concluded)**

reconciling items. State Accounting has completed their reconciliation process for the months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of \$3,425,381, \$3,405,702, and \$3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

We recommend State Accounting continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of State Accounting; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

*Department's Response: The Department supports and encourages a reconciliation of the financial information contained on NIS. Any adjustments that are done to bring the reconciliation in balance should be an open process with communication to agencies that may be affected.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF AGRICULTURE

### INDEPENDENT ACCOUNTANT'S REPORT

**Deann Haeffner, CPA**  
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Nebraska Department of Agriculture  
Lincoln, Nebraska

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Agriculture (Department) for the fiscal year ended June 30, 2005. 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**  
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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.

**Mary Avery**  
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Subdivision Budget  
Coordinator  
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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 Agriculture for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

**Mark Avery, CPA**  
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**Perry Pirsch, JD, MPA**  
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In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2006, on our consideration of the Nebraska Department of Agriculture'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.

June 27, 2006

  
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF AGRICULTURE  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2005

	State General Fund 10000	Noxious Weed Cash Fund 20750	Tractor Permit Cash Fund 20760	Weed Book Cash Fund 20780	Pesticide Administrative Cash Fund 20790	Commercial Feed Administration Cash Fund 20810	Fertilizers and Soil Conditioners Administrative Fund 20820	Nebraska Poultry and Egg Development, Utilization, and Marketing Fund 20830	Nebraska Agricultural Products Marketing Cash Fund 20840
<b>REVENUES:</b>									
Appropriations	\$ 5,593,840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	665,246	299,316	172,260	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Sales & Charges	(59)	311,577	5,550	22,600	274,008	23,600	22,755	-	46,317
Miscellaneous	210,184	8,140	198	3,546	45,276	15,137	17,398	58,635	53,938
<b>TOTAL REVENUES</b>	<b>5,803,965</b>	<b>319,717</b>	<b>5,748</b>	<b>26,146</b>	<b>319,284</b>	<b>703,983</b>	<b>339,469</b>	<b>230,895</b>	<b>100,255</b>
<b>EXPENDITURES:</b>									
Personal Services	3,971,704	272,177	4,110	2,655	232,679	503,201	282,169	94,196	1,609
Operating	1,090,591	25,756	4	5,046	311,204	138,319	78,258	123,257	41,654
Travel	506,966	45,712	-	-	14,496	23,282	11,885	11,903	19,710
Capital Outlay	24,579	-	-	-	3,279	34,564	20,956	1,133	8,098
Government Aid	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>5,593,840</b>	<b>343,645</b>	<b>4,114</b>	<b>7,701</b>	<b>561,658</b>	<b>699,366</b>	<b>393,268</b>	<b>230,489</b>	<b>71,071</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	210,125	(23,928)	1,634	18,445	(242,374)	4,617	(53,799)	406	29,184
<b>OTHER FINANCING SOURCES (USES):</b>									
Sales of Assets	762	-	-	-	701	-	-	4	-
Deposit to General Fund	(210,887)	-	-	-	-	-	-	-	-
Deposit to/from Common Fund	-	-	-	-	-	-	-	-	-
Operating Transfers In	-	25,000	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	(62,800)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(210,125)</b>	<b>25,000</b>	<b>-</b>	<b>(62,800)</b>	<b>701</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>
Net Change in Fund Balances	-	1,072	1,634	(44,355)	(241,673)	4,617	(53,799)	410	29,184
FUND BALANCES, JULY 1, 2004	11,018	194,585	4,217	160,012	591,575	120,966	294,581	56,349	47,455
FUND BALANCES, JUNE 30, 2005	\$ 11,018	\$ 195,657	\$ 5,851	\$ 115,657	\$ 349,902	\$ 125,583	\$ 240,782	\$ 56,759	\$ 76,639
<b>FUND BALANCES CONSIST OF:</b>									
General Cash	\$ -	\$ 195,652	\$ 5,851	\$ 114,596	\$ 347,827	\$ 124,906	\$ 240,732	\$ 56,415	\$ 76,359
Petty Cash	-	-	-	-	-	75	-	-	-
NSF Items	-	-	-	-	-	-	-	-	-
Deposits with Vendors	11,018	5	-	1,020	2,075	605	50	344	180
Accounts Receivable Invoiced	-	-	-	125	-	-	-	-	100
Due From Other Government	-	-	-	-	-	-	-	-	-
Long-Term Investments	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	(84)	-	(3)	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 11,018</b>	<b>\$ 195,657</b>	<b>\$ 5,851</b>	<b>\$ 115,657</b>	<b>\$ 349,902</b>	<b>\$ 125,583</b>	<b>\$ 240,782</b>	<b>\$ 56,759</b>	<b>\$ 76,639</b>

The accompanying notes are an integral part of the schedule.

(Continued)



NEBRASKA DEPARTMENT OF AGRICULTURE  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2005

	Soil and Plant Analysis Laboratory Cash Fund 20850	State Apiary Cash Fund 20870	Manufacturing Milk Cash Fund 20880	Pure Food Cash Fund 20890	Nebraska Seed Administrative Cash Fund 21780	Plant Protection and Plant Pest Cash Fund 21790	Agricultural Products Marketing Information Cash Fund 21800	Pure Milk Cash Fund 21810	Livestock Auction Market Fund 21820
<b>REVENUES:</b>									
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	227	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Sales & Charges	700	200	2,515	666,134	72,862	170,835	11,400	295,158	514,582
Miscellaneous	13	43	34	28,137	820	12,081	(7,413)	1,433	1,613
<b>TOTAL REVENUES</b>	<b>713</b>	<b>243</b>	<b>2,549</b>	<b>694,271</b>	<b>73,682</b>	<b>182,916</b>	<b>4,214</b>	<b>296,591</b>	<b>516,195</b>
<b>EXPENDITURES:</b>									
Personal Services	-	-	2,160	478,864	61,919	162,874	-	240,769	29,584
Operating	62	154	90	97,500	16,187	54,078	12,396	44,226	495,473
Travel	430	-	13	60,173	210	13,692	6,767	19,709	2,830
Capital Outlay	-	-	-	2,900	-	-	-	3,996	-
Government Aid	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>492</b>	<b>154</b>	<b>2,263</b>	<b>639,437</b>	<b>78,316</b>	<b>230,644</b>	<b>19,163</b>	<b>308,700</b>	<b>527,887</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	221	89	286	54,834	(4,634)	(47,728)	(14,949)	(12,109)	(11,692)
<b>OTHER FINANCING SOURCES (USES):</b>									
Sales of Assets	-	-	-	28	-	-	98	-	-
Deposit to General Fund	-	-	-	-	-	-	-	-	-
Deposit to/from Common Fund	-	-	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	37,800	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>-</b>	<b>37,800</b>	<b>98</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	221	89	286	54,862	(4,634)	(9,928)	(14,851)	(12,109)	(11,692)
FUND BALANCES, JULY 1, 2004	486	1,222	-	21,800	30,743	76,527	21,189	24,143	24,745
FUND BALANCES, JUNE 30, 2005	<u>\$ 707</u>	<u>\$ 1,311</u>	<u>\$ 286</u>	<u>\$ 76,662</u>	<u>\$ 26,109</u>	<u>\$ 66,599</u>	<u>\$ 6,338</u>	<u>\$ 12,034</u>	<u>\$ 13,053</u>
<b>FUND BALANCES CONSIST OF:</b>									
General Cash	\$ 622	\$ 1,311	\$ 286	\$ 75,457	\$ 25,758	\$ 66,469	\$ 6,328	\$ 12,009	\$ 12,993
Petty Cash	-	-	-	50	-	-	-	-	-
NSF Items	-	-	-	-	-	-	-	-	-
Deposits with Vendors	85	-	-	1,155	351	130	10	25	60
Accounts Receivable Invoiced	-	-	-	-	-	-	-	-	-
Due From Other Government	-	-	-	-	-	-	-	-	-
Long-Term Investments	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>\$ 707</u>	<u>\$ 1,311</u>	<u>\$ 286</u>	<u>\$ 76,662</u>	<u>\$ 26,109</u>	<u>\$ 66,599</u>	<u>\$ 6,338</u>	<u>\$ 12,034</u>	<u>\$ 13,053</u>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF AGRICULTURE  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2005

	Nebraska Potato Development Fund 21840	Domesticated Cervine Animal Cash Fund 21850	Weights and Measures Administrative Fund 21870	Graded Egg Fund 21880	Buffer Strip Incentive Fund 21950	Commercial Dog and Cat Operator Inspection Program Cash Fund 21960	Winery and Grape Producers Promotional Fund 21970	Natural Resource Water Quality Fund 25540	Ethanol Production Incentive Cash Fund 26020
<b>REVENUES:</b>									
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	56,015	-	-	-	-	-	-	-	7,426,456
Intergovernmental	-	-	-	-	-	-	-	-	-
Sales & Charges	-	7,136	596,821	85	609,720	102,294	-	1,031,890	-
Miscellaneous	1,385	158	22,286	152	24,969	4,090	161	2,250	(2,020)
<b>TOTAL REVENUES</b>	<b>57,400</b>	<b>7,294</b>	<b>619,107</b>	<b>237</b>	<b>634,689</b>	<b>106,384</b>	<b>161</b>	<b>1,034,140</b>	<b>7,424,436</b>
<b>EXPENDITURES:</b>									
Personal Services	17,886	9,574	442,625	1,477	5,595	83,918	-	-	-
Operating	21,674	530	130,824	18	632,759	8,135	10,855	11	-
Travel	108	568	38,742	14	28	10,516	-	-	-
Capital Outlay	-	-	98,840	-	-	189	-	-	-
Government Aid	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>39,668</b>	<b>10,672</b>	<b>711,031</b>	<b>1,509</b>	<b>638,382</b>	<b>102,758</b>	<b>10,855</b>	<b>11</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	17,732	(3,378)	(91,924)	(1,272)	(3,693)	3,626	(10,694)	1,034,129	7,424,436
<b>OTHER FINANCING SOURCES (USES):</b>									
Sales of Assets	-	-	20,504	-	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-	-	-	-	-
Deposit to/from Common Fund	-	-	-	-	-	-	4,995	(1,034,129)	(7,424,436)
Operating Transfers In	999	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>999</b>	<b>-</b>	<b>20,504</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,995</b>	<b>(1,034,129)</b>	<b>(7,424,436)</b>
Net Change in Fund Balances	18,731	(3,378)	(71,420)	(1,272)	(3,693)	3,626	(5,699)	-	-
FUND BALANCES, JULY 1, 2004	171	3,774	317,839	4,776	511,023	54,346	5,960	-	-
FUND BALANCES, JUNE 30, 2005	\$ 18,902	\$ 396	\$ 246,419	\$ 3,504	\$ 507,330	\$ 57,972	\$ 261	\$ -	\$ -
<b>FUND BALANCES CONSIST OF:</b>									
General Cash	\$ 18,635	\$ 396	\$ 246,048	\$ 3,504	\$ 507,330	\$ 57,972	\$ 261	\$ -	\$ -
Petty Cash	-	-	300	-	-	-	-	-	-
NSF Items	-	-	-	-	-	-	-	-	-
Deposits with Vendors	267	-	71	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-	-	-	-	-
Due From Other Government	-	-	-	-	-	-	-	-	-
Long-Term Investments	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 18,902</b>	<b>\$ 396</b>	<b>\$ 246,419</b>	<b>\$ 3,504</b>	<b>\$ 507,330</b>	<b>\$ 57,972</b>	<b>\$ 261</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF AGRICULTURE  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2005

	Federal Letter of Credit Fund 40000	Homeland Security - NEMA Fund 41810	USDA Ag Loan Mediation Program Fund 41820	FDA Partnership Fund 41830	FDA Sulfamethazine Fund 41841	USDA Ag Development Fund 41850	EPA Pesticide FIFRA Fund 41860	FDA Food Inspection Fund 41900	FDA Medicated Feed Fund 41920
<b>REVENUES:</b>									
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-	-	-	-
Intergovernmental	272,002	98,760	177,075	19,240	2,294	-	729,032	31,382	45,422
Sales & Charges	-	-	-	-	-	300	-	-	-
Miscellaneous	-	22	1,087	(4,246)	83	242,910	(17,225)	(7,012)	980
<b>TOTAL REVENUES</b>	<b>272,002</b>	<b>98,782</b>	<b>178,162</b>	<b>14,994</b>	<b>2,377</b>	<b>243,210</b>	<b>711,807</b>	<b>24,370</b>	<b>46,402</b>
<b>EXPENDITURES:</b>									
Personal Services	-	-	40,504	14,240	-	82,485	429,074	24,673	62,922
Operating	805	48,560	89,023	644	12	73,702	263,055	867	3,648
Travel	1,197	12,107	20,771	-	1,095	36,578	8,108	2,564	4,150
Capital Outlay	-	37,911	-	-	-	-	15,457	-	-
Government Aid	270,000	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>272,002</b>	<b>98,578</b>	<b>150,298</b>	<b>14,884</b>	<b>1,107</b>	<b>192,765</b>	<b>715,694</b>	<b>28,104</b>	<b>70,720</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	204	27,864	110	1,270	50,445	(3,887)	(3,734)	(24,318)
<b>OTHER FINANCING SOURCES (USES):</b>									
Sales of Assets	-	-	-	-	-	-	3,963	-	-
Deposit to General Fund	-	-	-	-	-	-	-	-	-
Deposit to/from Common Fund	-	-	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,963</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	-	204	27,864	110	1,270	50,445	76	(3,734)	(24,318)
FUND BALANCES, JULY 1, 2004	-	-	26,368	241	1,208	2,757,022	200	52,681	40,659
FUND BALANCES, JUNE 30, 2005	<u>\$ -</u>	<u>\$ 204</u>	<u>\$ 54,232</u>	<u>\$ 351</u>	<u>\$ 2,478</u>	<u>\$ 2,807,467</u>	<u>\$ 276</u>	<u>\$ 48,947</u>	<u>\$ 16,341</u>
<b>FUND BALANCES CONSIST OF:</b>									
General Cash	\$ -	\$ 204	\$ 54,232	\$ 351	\$ 2,478	\$ 34,293	\$ 276	\$ 48,947	\$ 16,310
Petty Cash	-	-	-	-	-	-	-	-	-
NSF Items	-	-	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-	251	-	-	20
Accounts Receivable Invoiced	-	-	-	-	-	325	-	-	-
Due From Other Government	-	-	-	-	-	-	-	-	-
Long-Term Investments	-	-	-	-	-	2,772,598	-	-	-
Deposits	-	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-	-	11
<b>TOTAL FUND BALANCES</b>	<u>\$ -</u>	<u>\$ 204</u>	<u>\$ 54,232</u>	<u>\$ 351</u>	<u>\$ 2,478</u>	<u>\$ 2,807,467</u>	<u>\$ 276</u>	<u>\$ 48,947</u>	<u>\$ 16,341</u>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF AGRICULTURE  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2005

	USDA APHIS Fund 41930	USDA Entomology Survey Program Fund 41950	USDA Export Marketing Fund 41970	Management Services Expense Revolving Fund 51810	Permanent School Fund 63340	<b>Totals (Memorandum Only)</b>
<b>REVENUES:</b>						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,593,840
Taxes	-	-	-	-	-	8,619,520
Intergovernmental	807,622	148,789	4,984	-	-	2,336,602
Sales & Charges	-	-	-	343,126	-	5,132,106
Miscellaneous	(181,289)	(26,373)	(1,064)	(4,385)	72,042	578,174
<b>TOTAL REVENUES</b>	<b>626,333</b>	<b>122,416</b>	<b>3,920</b>	<b>338,741</b>	<b>72,042</b>	<b>22,260,242</b>
<b>EXPENDITURES:</b>						
Personal Services	131,462	32,084	-	317,274	-	8,036,463
Operating	366,580	72,029	32,663	44,458	-	4,335,107
Travel	67,053	6,687	-	1,610	-	949,674
Capital Outlay	76,518	-	-	6,673	-	335,093
Government Aid	27,000	-	-	-	-	297,000
<b>TOTAL EXPENDITURES</b>	<b>668,613</b>	<b>110,800</b>	<b>32,663</b>	<b>370,015</b>	<b>-</b>	<b>13,953,337</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(42,280)	11,616	(28,743)	(31,274)	72,042	8,306,905
<b>OTHER FINANCING SOURCES (USES):</b>						
Sales of Assets	-	-	-	396	-	26,456
Deposit to General Fund	-	-	-	-	-	(210,887)
Deposit to/from Common Fund	-	-	-	-	(72,042)	(8,525,612)
Operating Transfers In	-	-	-	22,650	-	86,449
Operating Transfers Out	-	-	-	-	-	(62,800)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,046</b>	<b>(72,042)</b>	<b>(8,686,394)</b>
Net Change in Fund Balances	(42,280)	11,616	(28,743)	(8,228)	-	(379,489)
FUND BALANCES, JULY 1, 2004	110,093	2,840	74,055	14,748	-	5,659,617
FUND BALANCES, JUNE 30, 2005	<u>\$ 67,813</u>	<u>\$ 14,456</u>	<u>\$ 45,312</u>	<u>\$ 6,520</u>	<u>\$ -</u>	<u>\$ 5,280,128</u>
<b>FUND BALANCES CONSIST OF:</b>						
General Cash	\$ 67,813	\$ 14,455	\$ 45,312	\$ 13,259	\$ -	\$ 2,495,647
Petty Cash	-	-	-	-	-	425
NSF Items	-	-	-	138	-	138
Deposits with Vendors	-	1	-	331	-	18,054
Accounts Receivable Invoiced	-	-	-	-	-	550
Due From Other Government	-	-	-	10	-	10
Long-Term Investments	-	-	-	-	-	2,772,598
Deposits	-	-	-	(7,218)	-	(7,218)
Due to Fund	-	-	-	-	-	(76)
<b>TOTAL FUND BALANCES</b>	<b>\$ 67,813</b>	<b>\$ 14,456</b>	<b>\$ 45,312</b>	<b>\$ 6,520</b>	<b>\$ -</b>	<b>\$ 5,280,128</b>

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF AGRICULTURE

**NOTES TO THE SCHEDULE**

For the Fiscal Year Ended June 30, 2005

**1. Criteria**

The accounting policies of the Nebraska Department of Agriculture 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.S.Supp., 2004, 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, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005, which had not been posted to NIS as of June 30, 2005.

NIS also records other liabilities in accounts titled Deposits and Due to Fund. 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 AGRICULTURE

**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.

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.

**Taxes** – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consists of various taxes set by statute for the Commercial Feed Administration Fund, the Fertilizers and Soil Condition Administration Fund, the Poultry and Egg Development Marketing Fund, the Nebraska Potato Development Fund, and the Ethanol Production Incentive Fund.

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

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

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

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.

NEBRASKA DEPARTMENT OF AGRICULTURE

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

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

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

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

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and long term investments. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS. Long term investments (investments) are stated at fair value based on quoted market prices. Law or legal instruments may restrict these investments. Investments are under the control of the State Treasurer or other administrative bodies as determined by law.

**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, 2005, included Deposits and Due to Fund. The activity of these accounts is not recorded on the Schedules of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

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

**2. State Agency**

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

NEBRASKA DEPARTMENT OF AGRICULTURE

**NOTES TO THE SCHEDULE**

(Continued)

**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.

**4. Investments**

Long-Term Investments represent the balance as reflected on NIS. These investments are part of the Nebraska Miscellaneous Trust Funds. Additional information on the Miscellaneous Trust Funds can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005.

**5. Deposits to/from Common Funds**

The Ethanol Production Incentive Cash Fund is common to the Department of Agriculture, the Ethanol Board, and the Department of Revenue. An excise tax is levied upon all corn and grain sorghum sold through commercial channels in Nebraska or delivered in Nebraska. For any sale or delivery of corn or grain sorghum on or after October 1, 2001, and before October 1, 2004, the tax was one-half cent per bushel for corn and one-half cent per hundredweight for grain sorghum. For any sale or delivery of corn or grain sorghum on or after October 1, 2004, and before October 1, 2005, the tax was three-fourths cent per bushel for corn and three-fourths cent per hundredweight for grain sorghum. The tax shall be collected, administered, and enforced by the Department of Agriculture. The Department of Agriculture deposited \$7,424,436 to this fund in fiscal year 2005.

The Natural Resources Water Quality Cash Fund is common to the Department of Agriculture and the Department of Natural Resources. The Department of Agriculture collects pesticide registration fees, in accordance with Neb. Rev. Stat. Section 2-2634, of which a portion is remitted to the Natural Resources Water Quality Cash Fund. The Department of Agriculture also collects commercial applicator license fees, in accordance with Neb. Rev. Stat. Section 2-2638, which is remitted to the Natural Resources Water Quality Cash Fund. Finally, the Department of Agriculture collects private applicator license fees, in accordance with Neb. Rev. Stat. Section 2-2641, which is remitted to the Natural Resources Water Quality Cash Fund. The Department of Agriculture deposited \$1,034,129 to this fund in fiscal year 2005.

The Permanent School Fund is a common fund shared with several other State agencies. All amounts contributed to this fund are reflected in the fund balances of the Nebraska State Treasurer. The State Constitution requires fines and penalties arising under the general laws of the State to be used for the support of the common schools in the respective subdivisions where



NEBRASKA DEPARTMENT OF AGRICULTURE

**NOTES TO THE SCHEDULE**

(Continued)

**5. Deposits to/from Common Funds (Concluded)**

the same may accrue. Department of Agriculture statutes Neb. Rev. Stat. Sections 2-10,103.02(2), 2-2651(1), and 54-2606 require the Department to remit the funds to the State Treasurer for deposit to the permanent school fund. See Comment and Recommendation Number 6 (Fines and Penalties) in this report, as the statutes appear to be in conflict with the State Constitution. The Department deposited \$72,042 in fines and penalties to the permanent school fund during fiscal year 2005.

The Winery and Grape Producers Promotion Cash Fund is shared with the Department of Agriculture and the Nebraska Liquor Control Commission. Each Nebraska winery shall pay to the Nebraska Liquor Control Commission twenty dollars for every one hundred sixty gallons of juice produced or received by its facility, in accordance with Neb. Rev. Stat. Section 53-304. For administrative purposes, the fund shall be located in the Department of Agriculture. All revenue credited to the fund shall be used by the Department at the direction of and in cooperation with the Nebraska Grape and Winery Board, to develop and maintain programs for the research and advancement of the growing, selling, marketing, and promotion of grapes, fruits, berries, honey, and other agricultural products and their byproducts grown and produced in Nebraska for use in the wine industry. The Liquor Control Commission deposited \$4,995 into the fund during fiscal year 2005.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF AGRICULTURE **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**

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Don Dunlap, CPA  
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Agriculture for the fiscal year ended June 30, 2005, and have issued our report thereon dated June 27, 2006. 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.

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### Internal Control Over Financial Reporting

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In planning and performing our examination, we considered the Nebraska Department of Agriculture'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Department of Agriculture's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Internal Control Over Payroll), Comment Number 2 (Internal Control Over Capital Assets), Comment Number 3 (Internal Control Over Expenditures), Comment Number 4 (Internal Control Over Revenues), and Comment Number 8 (Reconciliation of Bank Records to the Nebraska Information System).

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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 that none of the reportable conditions described above are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Agriculture'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we reported to management of the Nebraska Department of Agriculture in the Comments Section of this report as Comment Number 5 (Mileage), Comment Number 6 (Fines and Penalties), and Comment Number 7 (Allocation of Expenses).

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.

June 27, 2006

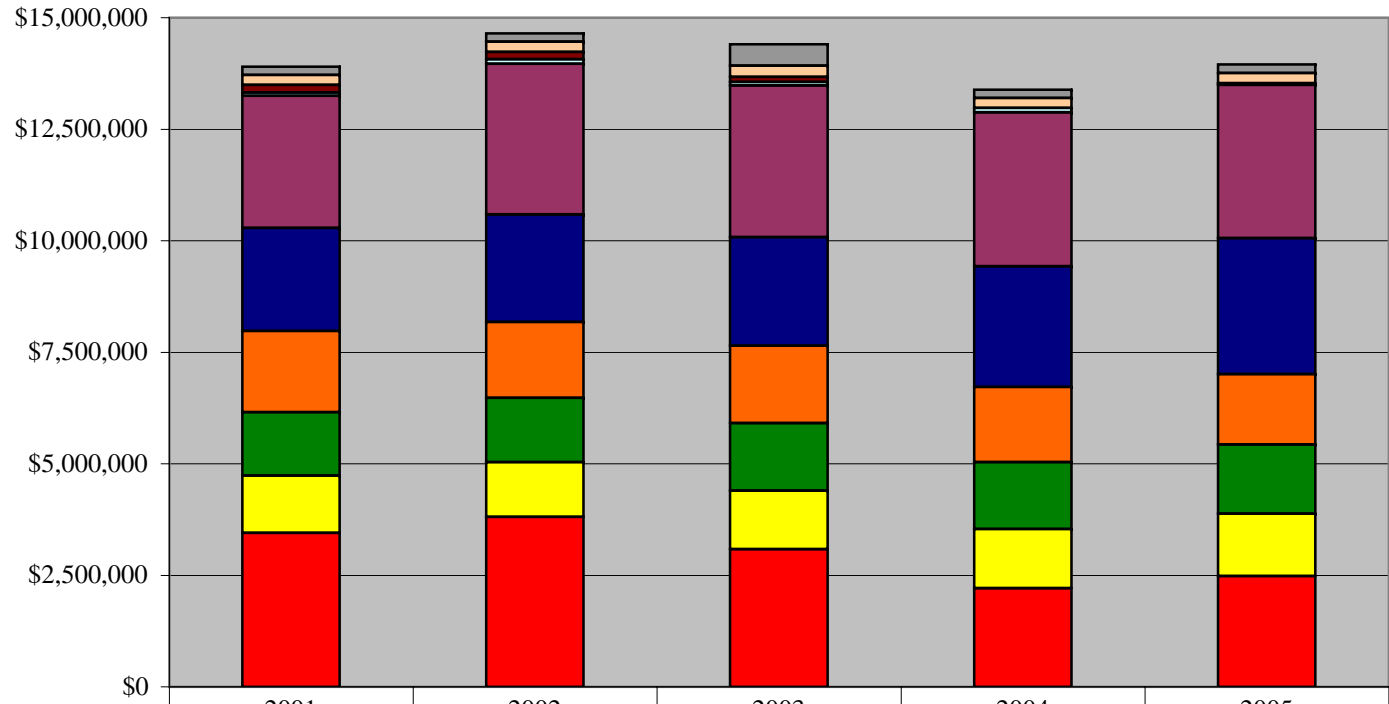
  
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF AGRICULTURE

**STATISTICAL SECTION**

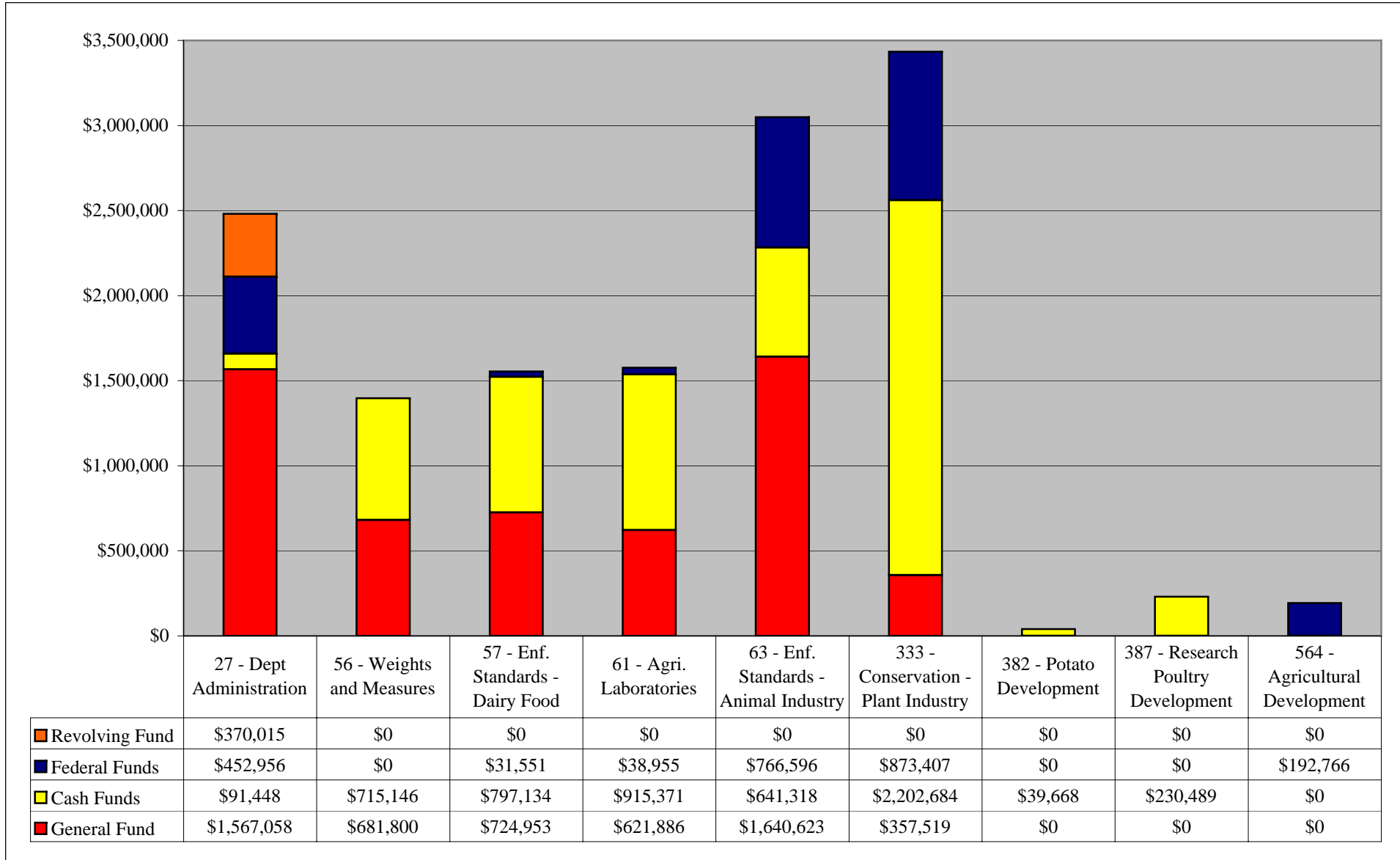
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

**NEBRASKA DEPARTMENT OF AGRICULTURE**  
**EXPENDITURES BY PROGRAM**  
 Fiscal Years 2001 through 2005



	2001	2002	2003	2004	2005
■ 564 - Agricultural Development	\$183,655	\$186,723	\$480,695	\$183,880	\$192,766
■ 387 - Research - Poultry Development	\$224,838	\$232,316	\$246,769	\$222,231	\$230,489
■ 385 - Research - Agricultural Statistics	\$169,880	\$167,773	\$114,389	\$4,946	\$0
■ 382 - Research - Potato Development	\$73,410	\$96,737	\$82,390	\$96,099	\$39,668
■ 333 - Conservation - Plant Industry	\$2,962,034	\$3,381,780	\$3,395,384	\$3,451,035	\$3,433,610
■ 63 - Enforce Standards - Animal Industry	\$2,310,987	\$2,404,947	\$2,438,094	\$2,709,789	\$3,048,537
■ 61 - Agricultural Laboratories	\$1,823,959	\$1,701,404	\$1,733,650	\$1,683,361	\$1,576,211
■ 57 - Enforce Standards - Dairy Food	\$1,418,372	\$1,444,405	\$1,511,824	\$1,498,004	\$1,553,638
■ 56 - Weights and Measures	\$1,282,947	\$1,227,742	\$1,312,378	\$1,325,455	\$1,396,946
■ 27 - Departmental Administration	\$3,450,782	\$3,807,629	\$3,086,069	\$2,211,572	\$2,481,477

NEBRASKA DEPARTMENT OF AGRICULTURE  
**PROGRAM COSTS BY FUND**  
 Fiscal Year Ended June 30, 2005



NEBRASKA DEPARTMENT OF AGRICULTURE  
**FEDERAL EXPENDITURES FROM HOMELAND SECURITY COOPERATIVE AGREEMENTS**  
 Fiscal Year 2005

