

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS  
JULY 1, 2004 THROUGH JUNE 30, 2005**

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**Issued on January 13, 2006**

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1
Mission Statement	1
Organizational Chart	2
<b>Comments Section</b>	
Exit Conference	3
Summary of Comments	4
Comments and Recommendations	5 - 7
<b>Financial Section</b>	
Independent Accountant's Report	8 - 9
Schedule of Revenues, Expenditures, and Changes in Fund Balances	10
Notes to the Schedule	11 - 13
<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>	14 - 15
<b>Statistical Section</b>	16
Veterans' Aid Fund Revenues and Expenditures	17
Average Allowance Per Claim	18

## NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

### **BACKGROUND**

The Department of Veterans' Affairs, created in 1947, serves as the advocacy agency for Nebraska's 159,487 veterans. The Department is headed by a Director of Veterans' Affairs who is appointed by the Governor, subject to approval by the Legislature. The Department is responsible for aiding and assisting veterans and their eligible dependents in applying for and receiving State and Federal veterans' benefits, and for supervising and administering various State programs.

The Department is located in Lincoln, but cooperates with veterans' organizations and county veteran's service officers throughout the State in making referrals and recommendations, and providing information to veterans.

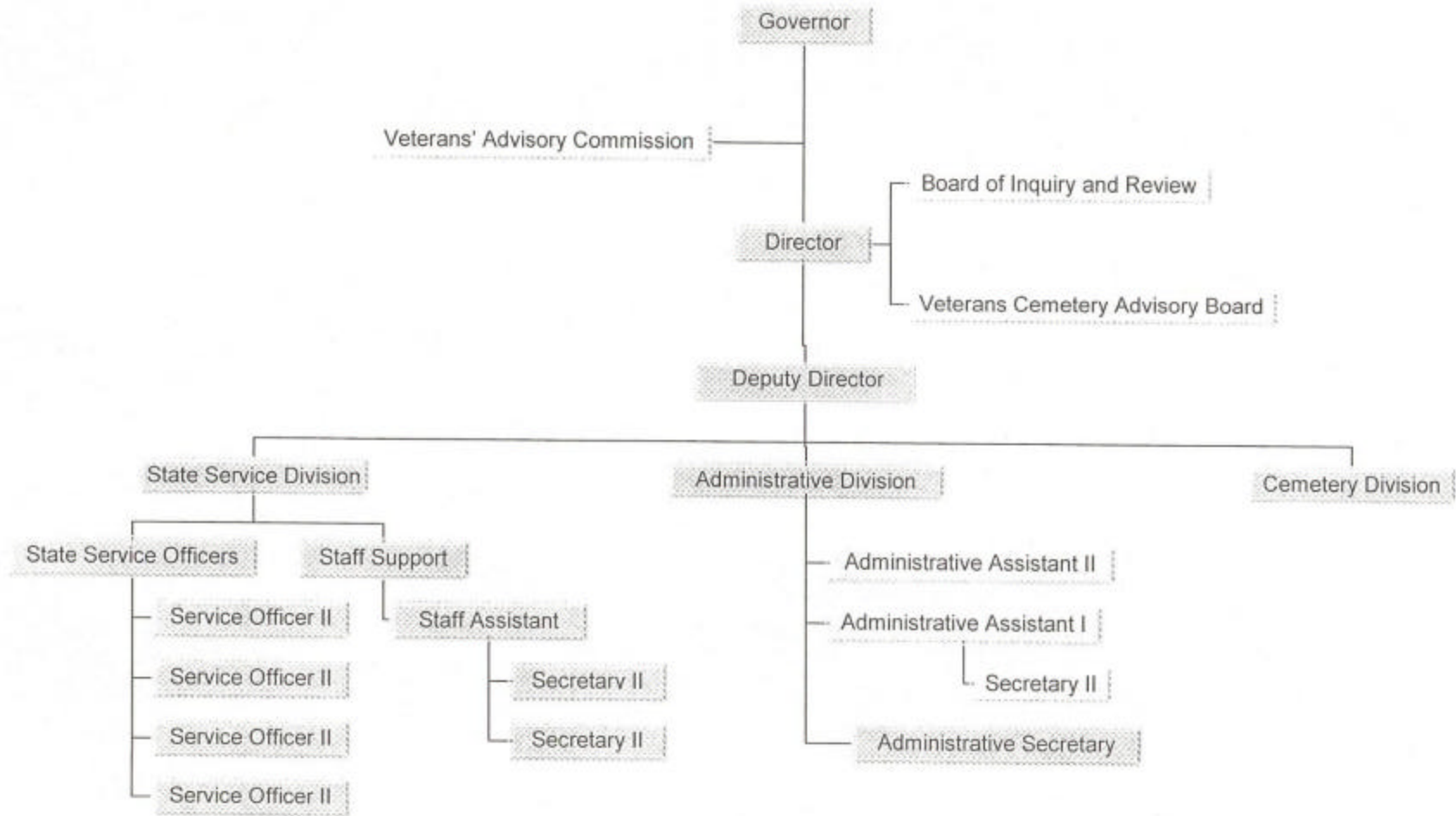
### **MISSION STATEMENT**

The mission of the Department of Veterans' Affairs is to provide assistance to Nebraska veterans and their dependents in acquiring county, State, and Federal benefits to which they are entitled by virtue of their service to this country.

1. Administer State benefit programs for qualified Nebraska veterans and eligible dependents.
2. Prepare and present cases on State and Federal benefits for qualified Nebraska veterans and their dependents before the United States Department of Veterans Affairs.
3. Serve as the State government chief advocate for the veterans' position on all issues, legislative or otherwise, that impact their benefits, their status or their social well-being.
4. A State Veteran's Cemetery System has been created in statutes with the objective of operating and maintaining veteran cemeteries in Nebraska.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**EXIT CONFERENCE**

An exit conference was held December 22, 2005 with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Veterans' Affairs were:

<b>NAME</b>	<b>TITLE</b>
John Hilgert	Director
Daniel L. Parker	Deputy Director
Denise Sanders	Administrative Assistant

## NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

### SUMMARY OF COMMENTS

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

1. ***Timesheets Not Maintained:*** Two employees did not maintain timesheets or other documentation to support they rendered at least forty hours of work each week.
2. ***Lack of Segregation of Duties Over Capital Assets:*** One individual could perform all capital asset transactions including maintaining, adding, and deleting capital assets. There was no independent review of the Additions and Retirements Report.
3. ***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. Where no response has been included, the Department declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

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

**COMMENTS AND RECOMMENDATIONS**

**1. Timesheets Not Maintained**

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 except any week in which a paid holiday may occur." Title 273 NAC 9-002 states "Each agency shall maintain a record for each employee, accounting for time worked and all absences from work." Good internal control requires adequate documentation to ensure all employees render forty hours of work each week, particularly when employees will receive a payment for unused vacation and/or sick leave upon termination.

Two of three employees tested did not maintain timesheets or other documentation to support at least forty hours of work each week. These employees were overtime exempt and accrued vacation and sick leave. Leave requests were completed and approved and leave used was entered into NIS rather than hours worked.

Without adequate records to support hours worked, there is an increased risk for fraudulent or inaccurate unused leave payments at termination.

We recommend the Department implement procedures to ensure all employees who expect payment of unused leave at termination maintain adequate documentation to support forty hours of work or leave each week.

*Department's Response: The Department of Veterans' Affairs will implement procedures to ensure all employees maintain timesheets in the recommended form in order to insure adequate documentation.*

**2. Lack of Segregation of Duties Over Capital Assets**

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

One individual could perform all capital asset transactions including maintaining, adding, and deleting capital assets. There was no independent review of the Additions and Retirements Report. This was a finding in our fiscal year 2000 audit report of the Department.

Without adequate control over capital asset records, there is an increased risk of loss or theft of State assets.

We recommend the Department implement procedures to ensure an adequate segregation of duties is in place over capital assets. This would include an independent, documented review of the Additions and Retirements Report from NIS.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Lack of Segregation of Duties Over Capital Assets (Concluded)**

*Department's Response: The Department accepts the recommendations of the Audit to include an independent review of the Additions and Retirements Report from NIS.*

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

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 Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

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 NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions 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 DAS Accounting Division 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 August 11, 2005 to be as follows:

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.



**COMMENTS AND RECOMMENDATIONS**

(Continued)

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

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. 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.

The APA recommends DAS Accounting Division 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 DAS Accounting Division; 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.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

### INDEPENDENT ACCOUNTANT'S REPORT

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Veterans' Affairs (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.

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.

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 Veterans' Affairs 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005, on our consideration of the Nebraska Department of Veterans' Affairs' 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.

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

Assistant Deputy Auditor

December 22, 2005

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

	General Fund 10000	Veterans' Aid Fund 63200	<b>Total (Memorandum Only)</b>
<b>REVENUES:</b>			
Appropriations	\$ 683,138	\$ -	\$ 683,138
Miscellaneous	-	19,923	19,923
<b>TOTAL REVENUES</b>	<b>683,138</b>	<b>19,923</b>	<b>703,061</b>
<b>EXPENDITURES:</b>			
Personal Services	595,142	-	595,142
Operating	66,514	-	66,514
Travel	17,933	-	17,933
Capital Outlay	3,549	-	3,549
Government Aid	-	835,804	835,804
<b>TOTAL EXPENDITURES</b>	<b>683,138</b>	<b>835,804</b>	<b>1,518,942</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(815,881)	(815,881)
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers In	-	1,490,540	1,490,540
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>1,490,540</b>	<b>1,490,540</b>
Net Change in Fund Balances	-	674,659	674,659
FUND BALANCES, JULY 1, 2004	532	392,976	393,508
FUND BALANCES, JUNE 30, 2005	<u>\$ 532</u>	<u>\$ 1,067,635</u>	<u>\$ 1,068,167</u>
<b>FUND BALANCES CONSIST OF:</b>			
General Cash	\$ -	\$ 1,067,635	\$ 1,067,635
Deposits with Vendors	532	-	532
<b>TOTAL FUND BALANCES</b>	<b>\$ 532</b>	<b>\$ 1,067,635</b>	<b>\$ 1,068,167</b>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Department of Veterans' Affairs (Department) 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.

The Department had no accounts receivable at June 30, 2005. 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.

**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.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

**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.

**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 and deposits with vendors. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS.

**Other Financing Sources** – Operating transfers.

**2. State Agency**

The 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 Veterans' Affairs is part of the primary government for the State of Nebraska.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

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. 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's 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. Generally, equipment that has a cost of \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. 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 three to five years.

Capital asset activity of the Department for the fiscal year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Equipment	\$ 39,558	\$ 3,549	\$ -	\$ 43,107
Less accumulated depreciation for:				
Equipment				39,006
Total capital assets, net of depreciation				\$ 4,101

**5. Transfers**

Operating Transfers In includes net investment income received by the Nebraska Veterans Aid Fund (Fund 63330). Net investment income is transferred to the Veterans' Aid Income Fund (Fund 63200) according to Neb. Rev. Stat. Section 80-401, R.R.S 2003. The Nebraska Veterans' Aid Fund is accounted for in the Nebraska Board of Educational Lands and Funds, a State agency of the State of Nebraska.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS  
**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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Department of Veterans' Affairs  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Veterans' Affairs for the fiscal year ended June 30, 2005, and have issued our report thereon dated December 22, 2005. 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 Veterans' Affairs' 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 certain 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 Veterans' Affairs' 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 3 (Reconciliation of Bank Records to the Nebraska Information System).



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 Veterans' Affairs' 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 noted certain additional items that we reported to management of the Nebraska Department of Veterans' Affairs in the Comments Section of this report as Comment Number 1 (Timesheets Not Maintained) and Comment Number 2 (Lack of Segregation of Duties Over Capital Assets).

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. Channer CPA in black ink.

Assistant Deputy Auditor

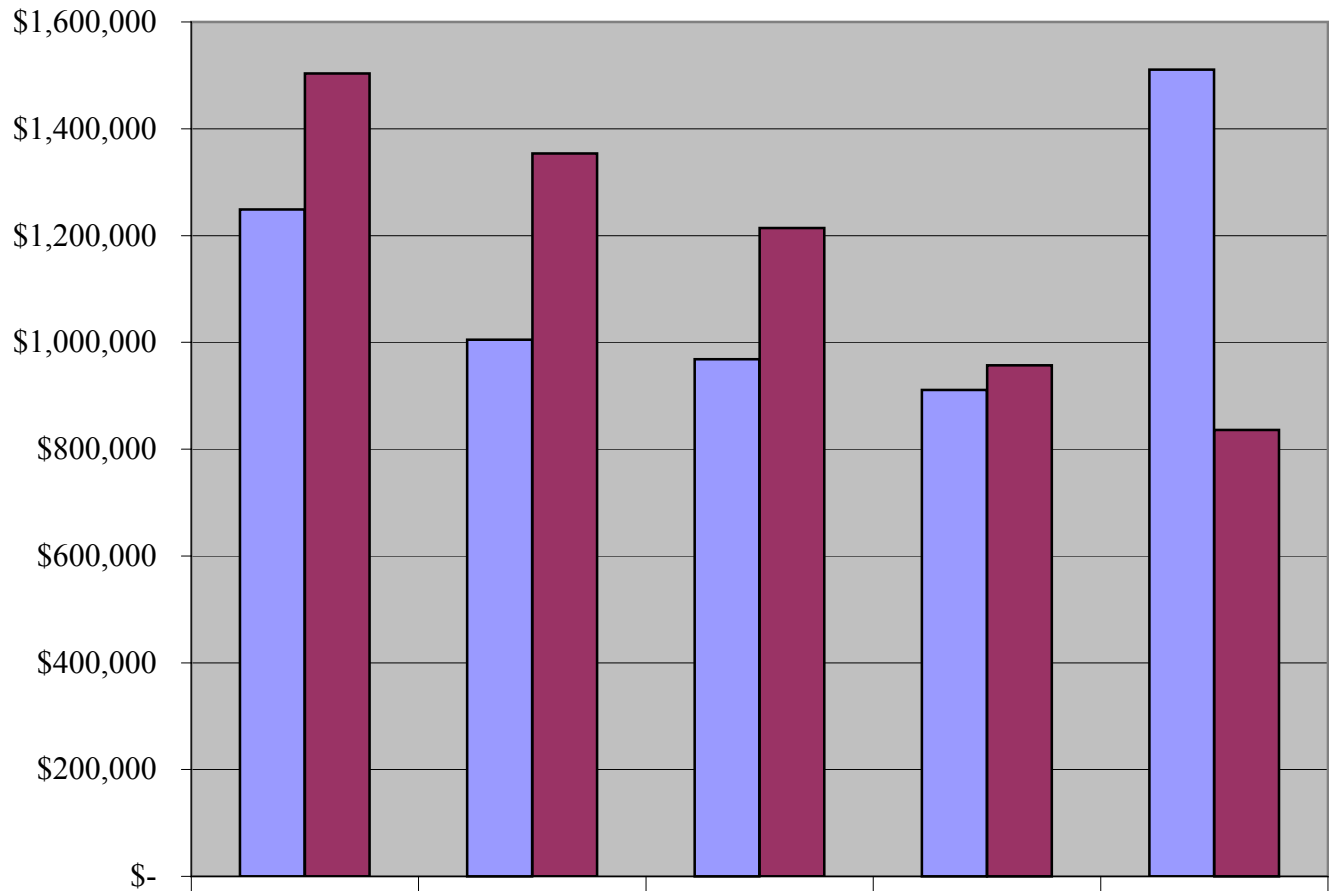
December 22, 2005

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**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 VETERANS' AFFAIRS**  
**VETERANS' AID FUND REVENUES AND EXPENDITURES**  
 Fiscal Years Ending June 30, 2001, 2002, 2003, 2004, 2005



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
■ Net Income from Investments & Other	\$1,248,916	\$1,004,950	\$968,257	\$910,995	\$1,510,463
■ Expended for Aid to Veterans	\$1,503,356	\$1,353,929	\$1,214,381	\$957,144	\$835,804

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS  
**AVERAGE ALLOWANCE PER CLAIM**  
 Fiscal Years Ending June 30, 2001, 2002, 2003, 2004, 2005

