

**ATTESTATION REPORT  
OF THE  
NEBRASKA MILITARY DEPARTMENT  
JULY 1, 2005 THROUGH JUNE 30, 2006**

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**Issued on December 4, 2006**

NEBRASKA MILITARY DEPARTMENT

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# NEBRASKA MILITARY DEPARTMENT

## **BACKGROUND**

The Military Department functions as the State department for both military and nonmilitary operations. The Army National Guard and the Air National Guard conduct military operations and missions to support civil authority when authorized by the Governor. The Nebraska Emergency Management Agency (NEMA), a component of the Military Department, coordinates civil resources to support civil authority in an emergency.

The Adjutant General, besides commanding the State military forces, is State Emergency Management Director, Emergency Resource Management Coordinator, Emergency Preparedness Director, and State Disaster Coordinator.

The Governor, as the State's military force Commander in Chief, appoints the Adjutant General from commissioned officers of the Nebraska National Guard. The Adjutant General serves until reaching the mandatory retirement age of 64, resigning, or being relieved. The Adjutant General controls Military Department forces for the Governor and transmits the Governor's orders.

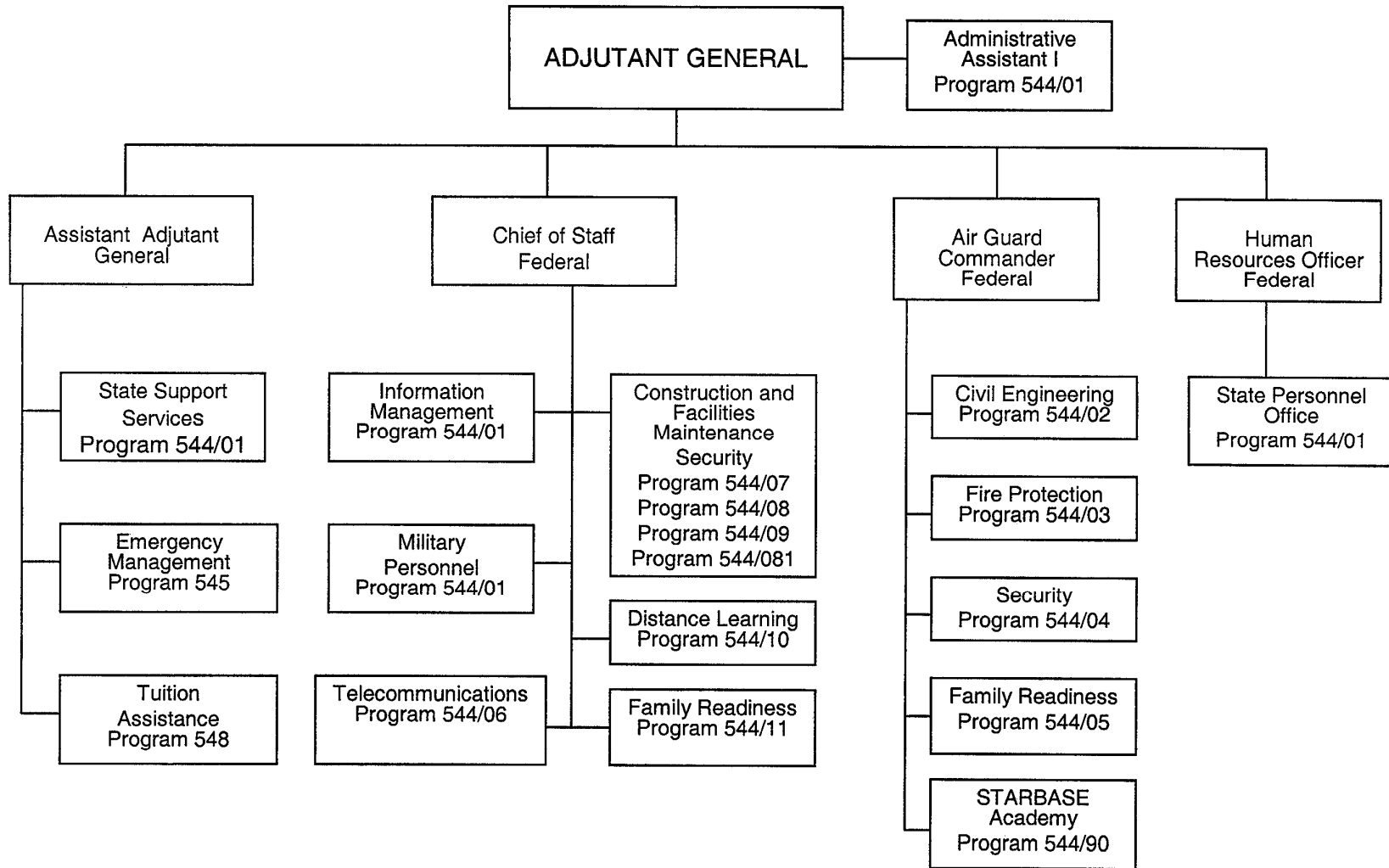
The Adjutant General represents the State at all national, regional, and area military and nonmilitary defense conferences. The Adjutant General develops all civil and military defense, State emergency preparedness, and disaster recovery plans for the State. The Adjutant General coordinates with appropriate national and regional agencies and other states to formulate Army, Air Force, civil defense, and emergency plans for the State.

## **MISSION STATEMENT**

The mission of the Military Department is to maintain the Nebraska National Guard (Army and Air) in a high state of readiness for mobilization and deployment in the event of a national or a State emergency, with adequate, well-trained personnel. The Department also strives to maintain a State Disaster and Emergency Management program to reduce the vulnerability of the citizens and communities of the State in the event of a national or man-made disaster or attack by coordinating the resources of Nebraska communities, State government, and the Federal government in the areas of disaster preparedness, disaster response, disaster recovery, and hazard mitigation.

NEBRASKA MILITARY DEPARTMENT

ORGANIZATIONAL CHART



NEBRASKA MILITARY DEPARTMENT

**EXIT CONFERENCE**

An exit conference was held November 14, 2006, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Military Department were:

<b>NAME</b>	<b>TITLE</b>
Major General Roger Lempke	Adjutant General
Shawn Fitzgerald	Controller
Al Berndt	NEMA Assistant Director
Deborah Kai	NEMA Business Manager
Amy Wilson	DAS State Finance System and Reports Coordinator

## NEBRASKA MILITARY DEPARTMENT

### SUMMARY OF COMMENTS

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

1. ***Improper Account Coding:*** We noted 9 of 74 documents tested were not coded to the correct major account. The financial schedule was adjusted for the proper coding.
2. ***Due To/From Fund:*** We noted a transfer of \$87,000 from the General fund to the Federal fund to cover Federal payroll expenditures. The transfer of monies back to the General fund was not processed until approximately four months after the original transfer. In addition, the Department did not record the due to or the due from fund on NIS at fiscal year end June 30, 2006.
3. ***Tuition Assistance:*** The Department did not monitor or require written agreement from the individuals that received tuition assistance stating they would serve in the Nebraska National Guard for three years after the completion of courses as required by State statute.
4. ***Internal Control Over Revenues:*** We noted six individuals had access on NIS to enter, revise, delete, void, and approve invoices and deposits.
5. ***Federal Grants Cash Management:*** The Department did not minimize the time between the drawdown of Federal funds from the Federal government and the disbursement for National Guard Operations and Maintenance program purposes. For 9 of 22 expenditures tested, the drawdown of funds appeared excessive. The Department did not comply with cash management requirements for Public Assistance Grants. An advance payment was made to a subrecipient March 3, 2006, and no invoices had been received as of October 16, 2006, to substantiate the actual costs.
6. ***Federal Reporting:*** One of five Homeland Security Cluster reports and one of five Public Assistance Grant reports tested for the period ended March 31, 2006, did not agree to NIS.
7. ***Federal Compliance - Payroll:*** The Department did not comply with OMB Circular A-87 requirements related to personnel services certifications.
8. ***Reconciliation of Bank Records to Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

NEBRASKA MILITARY DEPARTMENT

**SUMMARY OF COMMENTS**

(Continued)

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 MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

**1. Improper Account Coding**

Good internal control and good accounting practice require the use of proper account coding to ensure accounting records are accurate and the financial schedule is properly reflected.

We noted 9 of 74 documents tested were not coded to the correct major account:

- One document was coded to a travel expense account. The expenditure was for contractual services. There was no travel expenditure related to the payment. The document totaled \$19,997.
- Six journal entries tested were not properly coded. Expenditures totaling \$5,718,437, were originally coded to a capital asset account; the Department later determined they should be operating expenses. The original expenditures were incurred in a prior fiscal year, therefore when the journal entries were performed the financial schedule appeared as though the capital assets were a negative amount. The transactions above should have been coded to a prior year adjustment account so as not to misstate the financial schedule. Journal entries were subsequently prepared to reverse coding from operating expenditures to capital assets for \$4,067,325. The financial schedule was adjusted to reflect the proper coding.
- Two receipt documents were miscoded to a Federal grants revenue account. However, the documents should have been coded to a sale of services account. The total miscoding was \$284,495. The financial schedule was adjusted to reflect the proper coding.

Without proper recording of transactions there is an increased risk of financial schedule misstatement.

We recommend the Department implement procedures to ensure documents are properly recorded.

*Department's Response: NEMA Business Manager will work to ensure that all documents are coded correctly in the future. Journal entries have been submitted to correct the documents in question.*

*Internal controls/language has been implemented to ensure that receipt documents from Omaha Public Power District (OPPD) and Nebraska Public Power District (NPPD) are coded to 471100 (sales of service).*



NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

**2. Due To/From Fund**

Good accounting practice and good internal control require the timely processing of monies owed to other funds and the proper recording of monies owed on the Nebraska Information System (NIS).

During the testing of transfers, we noted a transfer of \$87,000 from the General fund to the Federal fund to cover Federal payroll expenditures. The transaction was processed the end of April 2006. The transfer of monies back to the General fund was not processed until the end of August 2006, approximately four months after the original transfer was performed. In addition, the Department did not record the due to or the due from fund on NIS at fiscal year end June 30, 2006. The financial schedule was adjusted to reflect this transaction.

Without the timely and accurate recording of monies there is an increased risk of loss or misuse of State and Federal funds.

We recommend the Department ensure transactions are processed timely. In addition, we recommend the Department ensure monies owed are properly recorded on NIS.

*Department's Response: NEMA Business Manager indicated that the original journal entry document transferring funds to cover payroll was inadvertently misplaced. As soon as the document was located, a subsequent journal entry was submitted to reverse the original document, and correct the financial statement. While not an excuse – this oversight occurred during the Chadron fire disaster.*

**3. Tuition Assistance**

Neb. Rev. Stat. Section 85-505.01 R.S.Supp., 2004 states, “Any member of the Nebraska National Guard who receives tuition assistance shall agree in writing to serve in the Nebraska National Guard for three years after the completion of the courses for which tuition assistance was given. Any member who receives tuition assistance may be asked to reimburse the State of Nebraska if any such member leaves the Nebraska National Guard during such three-year period.”

The Department did not monitor or require a written agreement from the individuals that received tuition assistance stating they would serve in the Nebraska National Guard for three years after the completion of courses.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Tuition Assistance** (Concluded)

There is an increased risk individuals could receive tuition assistance and not serve in the Nebraska National Guard for three years.

We recommend the Department ensure compliance with State statute and monitor and obtain written agreements from individuals stating they will serve in the Nebraska National Guard for three years after the completion of courses.

*Department's Response: The Nebraska National Guard's State Tuition Office has requested and is implementing a change to the Tuition Assistance online registration website. After the student/soldier completes the class request, and prior to submission the student/soldier must "click" a radial button and agree to the following statement.*

*I agree to serve in the Nebraska Army National Guard for three years after completion of the course(s) for which I am requesting assistance.*

*If the student/soldier does not agree to the above statement, their application will not be forwarded to the State Tuition Assistance Office.*

4. **Internal Control Over Revenues**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include an adequate segregation of duties so no one individual is able to handle all phases of a transaction from beginning to end.

We noted six individuals were set up on the NIS User Authorizations Spreadsheet for Accounts Receivable with a functional matrix code 36, which is to be used only by agencies that are not able to segregate receivable duties. These individuals were able to enter, revise, delete, void, and approve an invoice and deposit on NIS. This was also noted in the 2003 Management Letter.

Without adequate controls there is an increased risk for loss or errors to occur.

We recommend the Department review NIS authorizations to ensure an adequate segregation of duties. Accounts Receivable functional matrix code 36 should not be used by an agency of the Department's size.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

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

*Department's Response: Based on the number of transactions completed by the Military Department and the Business Process Description listed on the Accounts Receivable Functional Matrix Coding, it is the thought of the Department that (6) individuals with a A/R of code 36, is not excessive. SSSD staff as well as one CFMO Resource Management staff member are authorized – thereby allowing for contingency planning and continuity of operations during a 24/7 period if activities warrant.*

*DAS-Accounting representative that was present at the Exit Conference will research other agencies to determine security matrix code levels. NIS Team as well as representative present did not feel that (6) individuals with an A/R code of 36 was excessive.*

**Auditor's Response: NIS security includes functional codes for Accounts Receivable which provide for segregation of duties. We recommend the Department discontinue use of code 36 and segregate duties using Accounts Receivable code 32 Invoicer and code 34 Cash Applier.**

5. **Federal Grants Cash Management**

Title 31 CFR 205.33 requires that a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for program purposes. The timing and amount of funds transferred must be as close as administratively feasible to a state's actual cash outlay. Title 44 CFR 13.21 requires methods and procedures for payment to minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee.

We noted the following:

- The Department did not minimize the time between drawdown of Federal funds from the Federal government and the disbursement for National Guard Operations and Maintenance program purposes. For 9 of 22 expenditures tested, the drawdown of funds appeared excessive. Expenditures were 19 to 55 days after the drawdown request and 9 to 49 days after the receipt of Federal funds. The Department feels they are in compliance with cash management requirements. The Department tracks expenditures and compares to the budget on a monthly basis. A similar finding was noted in our 2005 Statewide Single Audit.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Federal Grants Cash Management** (Continued)

- The Department did not comply with cash management requirements to minimize the time between the transfer of funds to the subrecipient and the actual payout for Public Assistance Grants. One of fifteen documents tested was an advance payment of \$196,095 for a large project. The payment was made March 3, 2006, and no invoices had been received as of October 16, 2006, to substantiate the actual costs. We tested fifteen documents with federal expenditures totaling \$1,053,195. Total expenditures for Public Assistance Grants during the fiscal year were \$6,014,381. Five of the documents tested were for large projects. Large projects require reimbursements to subrecipients for actual costs. There were 24 large projects open during the fiscal year. The project tested was for hail-damaged vehicles.

Noncompliance with cash management requirements could result in interest due or penalties. Advance subrecipient payments increase the risk for loss or misuse of funds.

We recommend the Department comply with cash management requirements to ensure a minimal amount of time between the Federal drawdown and the disbursement of the funds for program purposes. We further recommend the Department implement procedures to ensure payments to subrecipients for large projects are reimbursed based on actual costs; if funds must be advanced the Department should ensure invoices are received on a timely basis.

*Department's Response:*

1. *205.33 How Are Funds Transfers Processed?*

*Proposed 205.33 reaffirms the overall goal of Part 205, efficient cash management. Federal program agencies and States must limit funds transfers to the minimum amounts necessary to meet program goals. These funds transfers must be conducted to minimize the time between the funding and the paying out of the funds for Federal assistance program purposes.*

*CMIA requires States and Federal agencies to minimize the time between the drawdown and the subsequent expenditure of Federal funds for Federal program purposes. A State may only draw down Federal funds in accordance with the time and amounts dictated by the agreed upon funding technique. Drawdowns may not include an extra amount, or occur earlier, to create a balance for the purpose of compensation.*

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Federal Grants Cash Management** (Concluded)

*Department's Response, Concluded:*

*Exhibit I – Funds Request and Receipt Times Schedule for Nebraska*

*This documentation confirms that the State of Nebraska Army and Air National Guard should receive federal funds in the State of Nebraska within 15 days of Request. This does not reference a specified expenditure time limit.*

2. *The CMIA Agreement states that the amount of the request shall be the amount the State expects to disburse.*

*The Nebraska Military Department is not listed in the Average Clearance Patterns. The Department exercises all efforts to minimize the time between the drawdown of federal funds from the federal government and their disbursement for program purposes.*

*The Military Department recommends that this finding be deleted from final reporting because CMIA agreement language does not stipulate that federal funds be expended within 15 days.*

*Proposed 205.33 reaffirms the overall goal of Part 205, efficient cash management. Federal program agencies and States must limit funds transfers to the minimum amounts necessary to meet program goals. These funds transfers must be conducted to minimize the time between the funding and the paying out of the funds for Federal assistance program purposes.*

*CMIA requires States and Federal agencies to minimize the time between the drawdown and the subsequent expenditure of Federal funds for Federal program purposes. A State may only draw down Federal funds in accordance with the time and amounts dictated by the agreed upon funding technique. Drawdowns may not include an extra amount, or occur earlier, to create a balance for the purpose of compensation.*

**Auditor's Response:** As indicated, Federal regulations require drawdowns be as close as administratively feasible to the expenditure of funds. We do not feel that expenditures paid 49 days after the receipt of Federal funds is in accordance with cash management requirements.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

**6. Federal Reporting**

NIS is the official accounting system of the State of Nebraska. Per 44 CFR Section 13.20 a State must account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State must be sufficient to (1) Permit preparation of reports required and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Good internal control requires procedures to ensure Federal expenditures are accurately reported and agree to the State accounting system.

We noted the following:

- One of five Homeland Security Cluster reports tested for the period ended March 31, 2006, did not agree to NIS. The Federal share of outlays reported was \$5,276,306, the amount per NIS was \$6,812,181 for the period January 1 through March 31, 2006; a variance of \$1,535,875. Auditors noted the grant expenditures were corrected for the June 30, 2006, quarterly report.
- One of five Public Assistance reports tested for the period ended March 31, 2006, did not agree to NIS. The Federal share of outlays reported was \$21,488, the amount per NIS was \$9,342 for the period September 13, 2005, through March 31, 2006; a variance of \$12,146.

Inaccurate reporting of expenditures could result in Federal sanctions.

We recommend the Department implement procedures to ensure Federal reports are accurate and agree to NIS.

*Department's Response: Three percent administrative fees are allowed on Public Assistance Grants for eligible costs. \$12,146 was not transferred to the cash fund and held in abeyance for miscellaneous unknown eligible expenditures (contingency).*

*Once the grant is complete and closed – the contingency will be transferred via journal entry to the Governor's Emergency Cash Fund.*

**7. Federal Compliance - Payroll**

OMB Circular A-87 (A-87) indicates the costs of compensation for personnel services are allowable if adequate support exists. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salary and wages will be supported by periodic

NEBRASKA MILITARY DEPARTMENT

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**7. Federal Compliance - Payroll (Continued)**

certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Where employees work on more than one Federal award, a distribution of their salaries or wages will be supported by personnel activity reports which reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which the employee is compensated, must be prepared at least monthly, and must be signed by the employee. Budget estimates determined before the services were performed do not qualify as support for charges to Federal awards.

We noted the following:

- Air Guard employees did not have monthly personnel activity reports that recorded each employee's actual time spent on different programs or a certification that the employees worked solely on a single program for the period. The National Guard did implement monthly personnel activity reports that record each employee's actual time spent on different programs as a percentage to be entered into NIS. However, it was only the Army National Guard that implemented this new procedure; Air Guard had not implemented this procedure. We tested eleven National Guard employees; six employees tested from the Army were appropriately certifying actual time spent on programs; five Air Guard employees tested did not have certifications in accordance with A-87. Total payroll for the fiscal year ended June 30, 2006, for Federal program FFY06 ANG FIRE was \$1,426,206. Total fiscal year ended June 30, 2006, payroll for Federal program FFY06 ANG FOMA was \$242,968.
- During our review of payroll for October 2005, we noted five NEMA employees tested did not have the required certification. Nebraska Emergency Management Agency (NEMA) implemented the new timesheets in December 2005 with the required A-87 certification. However, NEMA is still not in compliance with A-87 as one employee tested for April 2006 worked on more than one Federal program (Homeland Security and Emergency Management Performance Grants). Currently the employee is documenting how many hours they worked for each program on their timesheet, but their time is compensated based on a budget estimate, and not the actual hours worked for each program. We noted 4 of 35 NEMA employees worked on more than one Federal program and time was not charged to each program based on actual hours worked for those employees. Total annual payroll for these four employees was \$162,160.

NEBRASKA MILITARY DEPARTMENT

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**7. Federal Compliance - Payroll** (Concluded)

Noncompliance with requirements could result in unallowable costs charged to Federal grants. A similar finding was noted in our 2005 Statewide Single Audit.

We recommend the Department implement procedures to ensure the requirements of OMB Circular A-87 are met related to personnel services documentation. Charges must certify that employees worked solely on that program and the period covered. Time worked by employees on multiple Federal programs must be based on an after-the-fact distribution of actual activity.

*Department's Response: Air National Guard FOMA supervisors of State employees and Air National Guard Firefighter Supervisors of State employees will be advised to implement the monthly personnel activity reports to record each employee's actual time spent on different programs. ANG-Firefighter employees are directly coded to ONE program, and therefore will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared quarterly and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

*NEMA will no longer assign employees to more than one funding source. When/if an employee works on an activity/project with an alternative funding source than the one permanently assigned; the time expended on the activity/project will be recorded and charged on an hourly basis and will be certified by the employee and supervisor.*

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

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, we noted the absence of a completed reconciliation between the State Treasurer's bank statements and the accounting records on the Nebraska Information System (NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. Our previous comments noted monthly reconciliations were not completed in a timely manner and showed significant unknown variances with bank records short compared to accounting records. Although State Accounting continues to work on the reconciliation of bank records to NIS accounting records, we continue to note areas where improvement is needed in the reconciliation process to ensure NIS integrity and operational efficiency.



NEBRASKA MILITARY DEPARTMENT

**COMMENTS AND RECOMMENDATIONS**

(Continued)

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

As of October 31, 2006, State Accounting has developed a very detailed process of analyzing bank activity compared to activity recorded on NIS to identify reconciling items, but continued progress is needed. State Accounting continues to work on reconciliations for the months of June 2005 through June 2006 to determine the reasons for the continuing unknown variances. We have reviewed the reconciliations and noted the month of June 2006 shows an unknown variance of \$2,657,411. Again, the reconciliations show bank records short compared to accounting records.

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 NIS accounting records, there is a greater risk for fraud or errors to occur and to remain undetected.

We recommend State Accounting continue the reconciliation process to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between bank records and accounting records is obtained, State Accounting should submit the shortage amount to the Governor and the Legislature. The Governor and the Legislature should then develop a plan to correct NIS accounting records and resolve the shortage noted.

This issue is the responsibility of State Accounting; however, as the variance has 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: This issue is the responsibility of State Accounting, and therefore the variances should be identified by fund or agency and then be reported accordingly. This issue cannot be addressed or corrected at the Agency level at this time.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA MILITARY DEPARTMENT

### INDEPENDENT ACCOUNTANT'S REPORT

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Nebraska Military Department  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Military Department (Department) for the fiscal year ended June 30, 2006. 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 Military Department for the fiscal year ended June 30, 2006, 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 November 14, 2006, on our consideration of the Nebraska Military Department'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.

November 14, 2006

  
Assistant Deputy Auditor

NEBRASKA MILITARY DEPARTMENT  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2006

	State General Fund 10000	Military Cash Fund 23110	Governor's Emergency Fund 23120	Joint Operations Center Fund 32310
<b>REVENUES:</b>				
Appropriations	\$ 4,387,489	\$ -	\$ -	\$ -
Intergovernmental	6,509	53,923	222	-
Sales & Charges	-	311,162	44,476	-
Miscellaneous	31,835	173,902	-	27
<b>TOTAL REVENUES</b>	<b>4,425,833</b>	<b>538,987</b>	<b>44,698</b>	<b>27</b>
<b>EXPENDITURES:</b>				
Personal Services	2,012,081	262,122	-	-
Operating	1,376,482	309,291	-	21,883
Travel	68,985	13,044	-	-
Capital Outlay	3,638	55,208	-	-
Government Aid	926,303	1,312	-	-
<b>TOTAL EXPENDITURES</b>	<b>4,387,489</b>	<b>640,977</b>	<b>-</b>	<b>21,883</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	38,344	(101,990)	44,698	(21,856)
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	3,014	247	-	-
Deposit to General Fund	(41,358)	-	-	-
Operating Transfers In	-	-	-	21,856
Operating Transfers Out	(87,000)	-	(21,856)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(125,344)</b>	<b>247</b>	<b>(21,856)</b>	<b>21,856</b>
Net Change in Fund Balances	(87,000)	(101,743)	22,842	-
FUND BALANCES, JULY 1, 2005	229	241,121	1,078,774	-
FUND BALANCES, JUNE 30, 2006	<u>\$ (86,771)</u>	<u>\$ 139,378</u>	<u>\$ 1,101,616</u>	<u>\$ -</u>
<b>FUND BALANCES CONSIST OF:</b>				
General Cash	\$ -	\$ 141,800	\$ 1,101,616	\$ -
Petty Cash	-	300	-	-
NSF Items	-	(7)	-	-
Deposits with Vendors	229	107	-	-
Due From Other Funds	-	1,000	-	-
Due to Vendors	-	(50)	-	-
Due to Fund	(87,000)	(2,583)	-	-
Due to Government	-	(1,189)	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>\$ (86,771)</u></b>	<b><u>\$ 139,378</u></b>	<b><u>\$ 1,101,616</u></b>	<b><u>\$ -</u></b>

The accompanying notes are an integral part of the schedule.

Army National Guard Operations & Maintenance Fund 43110	Emergency Management Fund 43120	Air National Guard Operations & Maintenance Fund 43130	Other Federal Fund 43260	<b>Totals (Memorandum Only)</b>
\$ -	\$ -	\$ -	\$ -	\$ 4,387,489
6,512,510	27,921,054	4,067,108	4,587,900	43,149,226
-	-	-	-	355,638
22,207	-	14,430	7,271	249,672
<u>6,534,717</u>	<u>27,921,054</u>	<u>4,081,538</u>	<u>4,595,171</u>	<u>48,142,025</u>
1,302,291	910,007	2,723,391	89,110	7,299,002
5,117,625	632,347	1,242,928	3,361,179	12,061,735
37,687	190,805	20,868	13,497	344,886
96,325	19,730	12,609	1,086,237	1,273,747
-	26,187,458	-	-	27,115,073
<u>6,553,928</u>	<u>27,940,347</u>	<u>3,999,796</u>	<u>4,550,023</u>	<u>48,094,443</u>
(19,211)	(19,293)	81,742	45,148	47,582
-	286	-	-	3,547
-	-	-	-	(41,358)
-	87,000	-	-	108,856
-	-	-	-	(108,856)
-	87,286	-	-	(37,811)
(19,211)	67,993	81,742	45,148	9,771
<u>346,517</u>	<u>33,387</u>	<u>397,440</u>	<u>96,813</u>	<u>2,194,281</u>
<u>\$ 327,306</u>	<u>\$ 101,380</u>	<u>\$ 479,182</u>	<u>\$ 141,961</u>	<u>\$ 2,204,052</u>
\$ 445,265	\$ 14,380	\$ 488,083	\$ 141,961	\$ 2,333,105
-	-	-	-	300
-	-	-	-	(7)
-	-	-	-	336
-	87,000	-	-	88,000
(117,959)	-	(8,901)	-	(126,910)
-	-	-	-	(89,583)
-	-	-	-	(1,189)
<u>\$ 327,306</u>	<u>\$ 101,380</u>	<u>\$ 479,182</u>	<u>\$ 141,961</u>	<u>\$ 2,204,052</u>

NEBRASKA MILITARY DEPARTMENT

**NOTES TO THE SCHEDULE**

For the Fiscal Year Ended June 30, 2006

**1. Criteria**

The accounting policies of the Nebraska Military Department (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 the Nebraska State Accounting Manual published by DAS – Accounting Division 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, 2006, includes only those payables posted to NIS before June 30, 2006, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2006, **does not** include amounts for goods and services received before June 30, 2006 which had not been posted to NIS as of June 30, 2006.

NIS also records other liabilities in accounts titled Due to Vendors, Due to Fund, and Due to Government for the Department. 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 Department had no accounts receivable at June 30, 2006. 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.

NEBRASKA MILITARY DEPARTMENT

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Continued)

**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.

**30000 – Construction Funds** – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

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

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

**Appropriations** – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

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

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

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

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

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

**Operating** – Expenditures directly related to a program's primary service activities.

**Travel** – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

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

NEBRASKA MILITARY DEPARTMENT

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

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

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

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and due from other funds. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for the Department's funds at June 30, 2006, included Due to Vendors, Due to Fund, and Due to Government. The activity of these accounts are not recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

**Other Financing Sources** – Operating transfers and proceeds of fixed asset dispositions.

**2. State Agency**

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

**3. Totals**

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



NEBRASKA MILITARY DEPARTMENT

NOTES TO THE SCHEDULE

(Continued)

**4. General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

**5. Capital Assets**

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Department values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. 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. Substantially all initial building costs, land and land improvements costing in excess of \$100,000 are capitalized. Building improvements and renovations in excess of \$100,000 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. 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 the asset's life is not capitalized.

Buildings and Equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 Years
Equipment	3-20 Years

Capital asset activity of the Department for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets					
Buildings	\$ 19,124,780	\$ 1,057,978	\$ (143,371)	\$ 10,733,982	\$ 30,773,369
Land	19,358	3	-	-	19,361
Equipment	1,761,663	192,961	(153,552)	-	1,801,072
Construction in Progress	10,667,633	2,440,075	-	(10,733,982)	2,373,726
Total	<u>\$ 31,573,434</u>	<u>\$ 3,691,017</u>	<u>\$ (296,923)</u>	<u>\$ -</u>	<u>34,967,528</u>

NEBRASKA MILITARY DEPARTMENT

**NOTES TO THE SCHEDULE**  
(Continued)

**5. Capital Assets** (Concluded)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Less accumulated depreciation for:					
Buildings					11,355,898
Equipment					<u>1,223,141</u>
Total					<u>12,579,039</u>
 Total capital assets, net of depreciation					 <u>\$ 22,388,489</u>

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA MILITARY DEPARTMENT **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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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Military Department for the fiscal year ended June 30, 2006, and have issued our report thereon dated November 14, 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

In planning and performing our examination, we considered the Nebraska Military Department's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted a 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 Military Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Improper Account Coding).

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 consider the reportable condition described above as Comment Number 1 (Improper Account Coding) to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Military Department'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 Military Department in the Comments Section of this report as Comment Number 2 (Due To/From Fund), Comment Number 3 (Tuition Assistance), Comment Number 4 (Internal Control Over Revenues), Comment Number 5 (Federal Grants Cash Management), Comment Number 6 (Federal Reporting), Comment Number 7 (Federal Compliance - Payroll), and Comment Number 8 (Reconciliation of Bank Records to Nebraska Information System).

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.

November 14, 2006

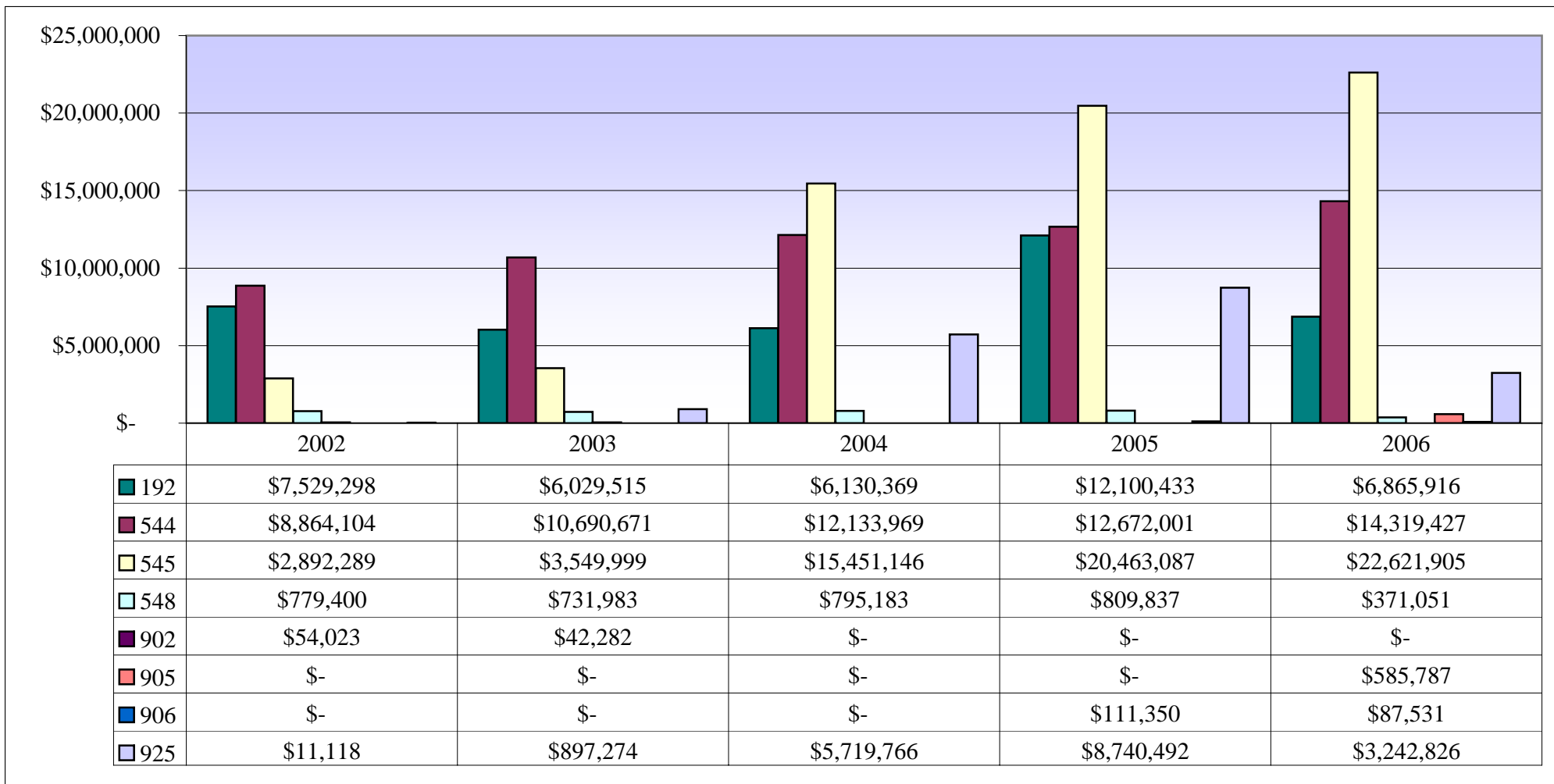
  
Assistant Deputy Auditor

NEBRASKA MILITARY DEPARTMENT

**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 MILITARY DEPARTMENT**  
**EXPENDITURES BY PROGRAM**  
For the Fiscal Years Ended June 30, 2002, through 2006



192-Governor's Emergency Program  
544-National and State Guard  
545-Civil Defense  
548-Tuition Assistance

902-Emergency Operations Renovation  
905-Joint Operations Center  
906-Joint Operations Center NEMA  
925-Federally Funded Projects

**NEBRASKA MILITARY DEPARTMENT**  
**EXPENDITURES BY FUND TYPE AND MAJOR ACCOUNT CATEGORY**  
For the Fiscal Years Ended June 30, 2002, through 2006

