ATTESTATION REPORT
OF THE
NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

JULY 1, 2004 THROUGH JUNE 30, 2005

Issued on February 15, 2006

NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

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NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

BACKGROUND

Originally created by the 1976 Legislature, the Nebraska Coordinating Commission for Postsecondary Education (Commission) was given constitutional authority by Nebraska voters in the 1990 general election to coordinate the activities of Nebraska's public postsecondary institutions. The Commission assumed this power on January 1, 1992.

The Commission was given constitutional responsibility to review and approve or disapprove each postsecondary education institution's programs and capital construction projects. In addition, the Commission was directed by the constitution to complete the State's first Comprehensive Statewide Plan for Postsecondary Education. This document was completed and approved by the Commission in June 1992. The Commission is required to review the Comprehensive Plan on a regular basis and make changes as needed.

The Commission also has the statutory responsibility to administer certain financial aid programs and to collect data and factual information about postsecondary institutions which are provided to the Federal government and State officials.

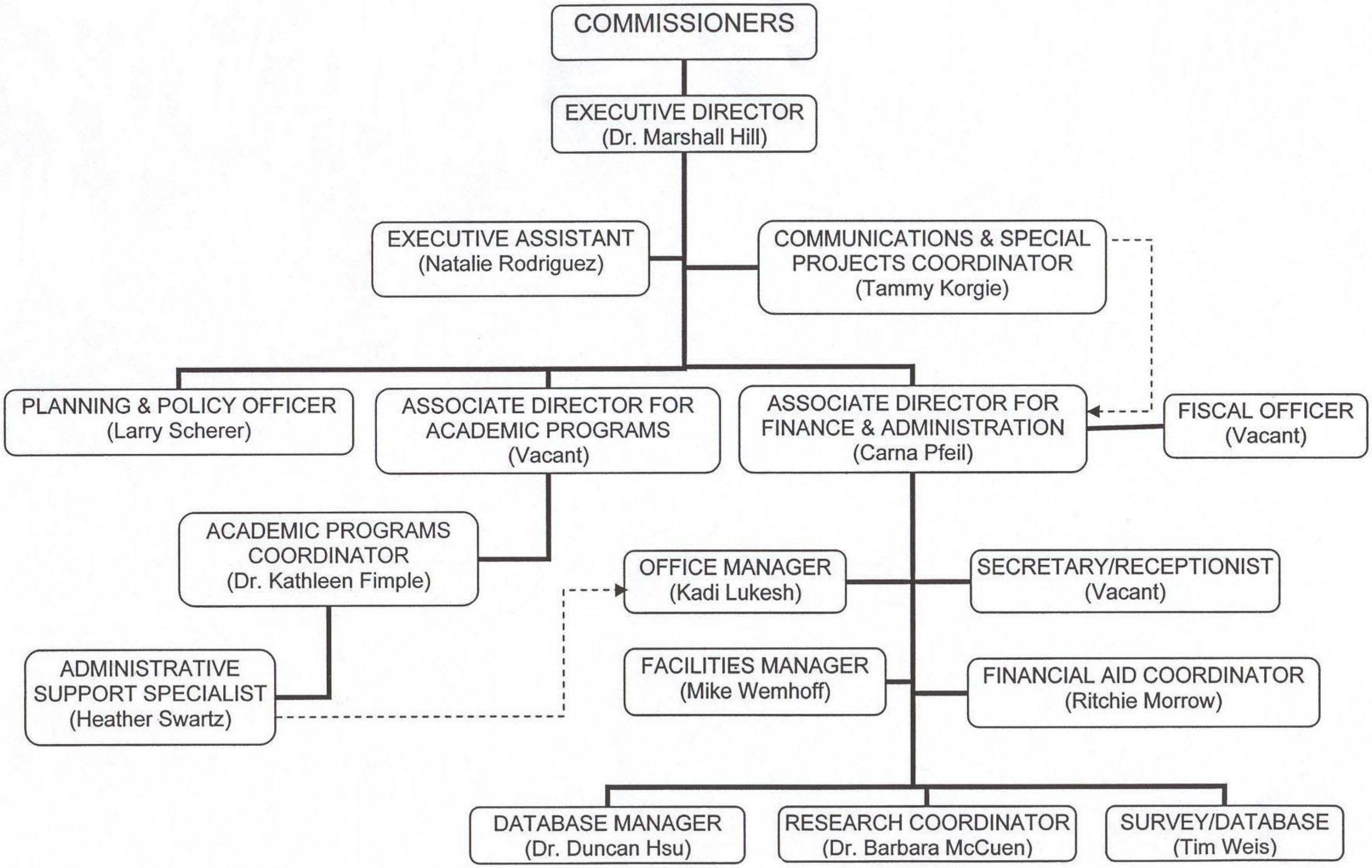
The Commission has 11 members appointed by the Governor, subject to legislative approval. One member is chosen from each of the six State Supreme Court districts, and five others are chosen at large. Members serve six-year terms. Members and their immediate families may not serve on any postsecondary education governing board and may not be employed by any postsecondary education institution, either directly or by contract. The Commission meets at least six times a year. Members are not paid, but are reimbursed for expenses.

MISSION STATEMENT

The mission of the Nebraska Coordinating Commission for Postsecondary Education is to promote high quality, ready access, and efficient use of resources in Nebraska higher education.

NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

ORGANIZATIONAL CHART



NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

EXIT CONFERENCE

An exit conference was held January 26, 2006, with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Coordinating Commission for Postsecondary Education were:

NAME	TITLE
Marshall Hill	Executive Director
Carna Pfeil	Associate Director
Kadi Lukesh	Bookkeeper/Budget Coordinator/ Office Manager

SUMMARY OF COMMENTS

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

1. ***Adequate Recording of Time Worked:*** The Commission did not require exempt employees to keep documentation of actual time worked.

2. ***Travel Expenditures:*** During our testing of ten travel expenditures, we noted a lack of adequate documentation to support expenses. In addition, we noted noncompliance with Federal and State regulations and payment for unreasonable expenditures.

3. ***Community Scholarship Foundation Program:*** A community foundation applied for and was awarded $2,000 for a Community Scholarship Foundation grant. Later, it was decided they were not going to participate and would return the monies. It was noted the funds were never received by the Commission.

4. ***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 Commission 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 COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

COMMENTS AND RECOMMENDATIONS

1. Adequate Recording of Time Worked

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, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur."

In addition, good business practice as well as good internal control requires hours actually worked be adequately documented, for example, via timesheets, time logs, etc., and such documentation be kept on file to provide evidence of compliance with the requirements of Section 84-1001. Furthermore, good internal control also requires that whenever employees accrue vacation and sick leave, adequate documentation must be maintained to support the employee having "earned" the amounts recorded in the leave records by documenting not less than forty hours of work each week.

During testing we noted the Commission does not require exempt employees to keep documentation of actual time worked.

Without documentation of time worked, the Commission cannot be certain the accumulation of sick and vacation leave is accurate. Furthermore, this information is necessary to document compliance with Neb. Rev. Stat. Section 84-1001(1).

> We recommend the Commission obtain and retain adequate supporting documentation, in the form of a time record, to provide evidence employees are rendering not less than forty hours of labor each week, except any week in which a paid holiday may occur. The time records should be signed by the employee, thereby certifying the hours worked per week. The time record should include the amount of hours worked on a daily basis.

Commission's Response: The Commission understands the necessity to obtain and retain adequate records, such as time sheets, to provide evidence that its non-exempt employees are working not less than forty hours per week. This is not only a Nebraska requirement, it also is a Federal Labor Standards Act requirement for employees qualified for overtime. The Commission keeps hourly records for all its non-exempt personnel.

The audit recommendation to also keep hourly time records for exempt personnel is not a process the Commission believes is prudent, nor is it required by Federal Labor Standards Act, 29 CFR, Chapter V, Part 516. The Federal law states that for exempt employees (those not qualified for overtime compensation), "an employer shall maintain and preserve records

1. <u>Adequate Recording of Time Worked</u> (Concluded)

Commission's Response, Concluded:
containing all the information and data required by 516.2 (a) except paragraphs (a) (6) through (10) and, in addition, the basis on which wages are paid in sufficient detail to permit calculation for each pay period." Items required in (a) (1) through (5) of section 516.2 are: "(1) name in full; (2) home address; (3) date of birth, if under 19; (4) sex and occupation in which employed; and (5) time of day and day of week on which the employee's work week begins. If the employee is part of a workforce or employed in or by an establishment all of whose workers have a work week beginning at the same time on the same day, a single notation of the time of the day and beginning day of the work week for the whole workforce or establishment will suffice."

The Commission follows the Federal Labor Standards requirements for exempt employees and believes those requirements also satisfy Nebraska law. Prior to employment, the Commission issues each exempt employee a letter offering the exempt position to the potential employee. The offer letter states the annual salary plus benefits, the start date for employment, the specific duty hours, and a statement that the employee will work at least 40 hours per week. The new employee signs the offer letter as their commitment to the work arrangements.

The Commission believes the auditor's recommendation is contrary to the identification of an exempt position. Federal rules specifically state exempt employees are not subject to overtime, nor is their pay to be decreased based on working less than 40 hours in any given week. Even of more concern to the Commission is the potential for exempt employees to accumulate hours worked over forty per week and request that the agency pay them for those additional, accumulated hours. This could lead to a significant financial burden for the agency and the state.

For the above stated reasons, the Commission will not follow the recommendation of the auditor on this issue. The Commission has checked with numerous other state agencies and none of those agencies are asking exempt employees to record their hours worked each week. Most cite the rationale the Commission expressed above: that recording the hours has the potential to place undue financial burden on the agency and the state. Even the state's own DAS Personnel Division does not use time records for exempt employees.

APA's Response: There is an important distinction between FLSA compliance and sound accounting practices. Good internal control requires documentation to support the 40 hours of work rendered by each employee. We would not expect each employee to record all hours actually worked, but to simply include a certification that is signed by each employee and their supervisor that they, in fact, rendered 40 hours of service each week. When employees expect payment of unused vacation and/or sick leave upon termination or retirement, there must be adequate records to support the leave balances paid to employees.

2. Travel Expenditures

Internal Revenue Service (IRS) Publication 463 requires an accountable plan to have adequate accounting of expenses. IRS Publication 463 states that adequate accounting requires employees to submit to their employers a statement of expense, an account book, a diary, or a similar record in which each expense is entered at or near the time of occurrence, along with documentary evidence. According to the publication, "Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense." A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information: 1) the name and location of the restaurant, 2) the number of people served, and 3) the date and amount of expense. Credit card receipts do not contain adequate detail to substantiate meals.

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 states, when travel expense reimbursements are requested the times of arrival and departure should be shown on the request.

Good internal control requires procedures to ensure requirements of the State's accountable plan are met and reimbursements are reasonable based on the Federal guideline per place of travel. In addition, good internal control requires adequate supporting documentation for travel expenditures.

During our testing of ten travel expenditures, we noted the following:

- One document did not have adequate documentation to support the expenditure. The document was for contractual travel and was not itemized as to the specific travel expenses incurred. The document totaled $1,173.

- Two documents included reimbursement of unreasonable amounts for meals based on the Federal guideline per place of travel. One individual spent $39 for one meal. The Federal guideline for dinner was $26. The second individual exceeded the Federal guideline by $8 for the day.

- Two documents did not have detailed receipts to support the meal expenditures. A total of $131 was reimbursed for meals that were not supported by detailed receipts or by a meal log.

- Three documents did not have start and stop times indicated on the expense reimbursement form.

2. <u>Travel Expenditures</u> (Continued)

- Three documents included unreasonable amounts for lodging based on the Federal guideline per place of travel and there was no documentation to support the reason. The Federal guideline was exceeded by a total of $380.

    a) One individual stayed in Grand Island at a room rate of $70. The Federal guideline was $55. This exceeded the guideline by $15 for the night.

    b) The former Executive Director attended a conference in Portland, Oregon. He did not stay at the hotel where the conference was held. He stayed three nights at $131 per night. The Federal guideline rate was $91. This exceeded the guideline by $40 per night, for a total of $120.

    c) A Commission meeting was held at Peru State College. Five commissioners stayed one night at a room rate of $104 per night. The Federal guideline rate was $55. The total expenditure exceeded the recommended guideline rate by $245. There was no documentation to indicate why the commissioners stayed at that hotel as opposed to another hotel within the guideline.

- One expense reimbursement did not have adequate supporting documentation for airfare expenditures totaling $229.

Without adequate accounting of meal expenses from the employee to the employer, the State could lose its accountable plan status. If the State does not have an accountable plan, the amounts reimbursed to employees for meals would be considered taxable income. Furthermore, there is an increased risk unreasonable expenses will be reimbursed when the Federal guidelines and State statutes are not followed or when inadequate documentation is not obtained.

> We recommend the Commission implement procedures to ensure provisions of the State's accountable plan are met and expenses are properly supported and reasonable.

Commission's Response: The Commission has reiterated its policies to its Commissioners and staff regarding travel for Commission business. Some of the items identified in the audit, such as failures to specifically indicate start and stop times and the headquarter city on reimbursement forms, are inconsequential, but we have already encouraged Commissioners and staff to provide that information in the future.

2. <u>Travel Expenditures</u> (Continued)

Commission's Response, Continued:
Some of the items mentioned by the auditors include better documentation on receipts, additional supporting documentation on airfares, and more detailed documentation on contractual travel. All of those audit exceptions were useful to know and the Commission has taken steps to improve documentation in the identified areas.

The Commission, however, has significant disagreement with several travel items identified in the audit.

(1) The audit stated that employees spent more than the Federal guideline for meals. The exception indicated that Commission employees should spend specific amounts for breakfast, lunch, and dinner, based on Federal guidelines. This is not a requirement of the state. According to DAS Accounting, "the state uses actual costs, the federal guidelines are only guidelines, and exceeding the rate identified in the guidelines is appropriate if the expense is reasonable." Further, the state does not use the breakdown of a specific amount for breakfast, lunch, and dinner, and reimbursements are based on actual receipts. This is stated clearly in Section 81-1174 of Nebraska Revised Statute: "employees traveling on state business shall claim only actual amounts paid for meals. Employees should not submit claims based on any per diem amount. (The federal maximum per diem standard rates are only guidelines and should not be claimed.)"

The Commission has a meal reimbursement policy in its Policy and Procedures Manual and in its Employee Handbook. The policy states that the Commission will pay for actual costs of meals and that receipts must be submitted for reimbursement. Employees are expected to use reasonable discretion and judgment. If the total for the meals exceeds the Commission's established guidelines, the Executive Director has the authority to approve the expenditures after determining their reasonableness.

The Commission believes it has a sound reimbursement policy and one that is within the guidelines of the state. The Commission therefore does not intend to change its policies and procedures with regard to meal reimbursements.

(2) The audit mentions three instances where lodging expenses exceeded the federal guidelines. Again, the federal guidelines are just that — "guidelines." The state does not require state agencies to follow federal guidelines for lodging.

2. <u>Travel Expenditures</u> (Concluded)

Commission's Response, Concluded:

The Commission always requests the state government rate when traveling in Nebraska. Sometimes that rate is higher than the federal guideline, but it is the rate the state negotiated.

The Commission holds its Commission meetings in cities across Nebraska to visit first hand the institutions its work affects. When Commissioners travel in Nebraska, the Commission does not require that they stay at the least expensive hotel or motel in the city. Some hotels are not adequate and, in those instances, the related lodging expense may exceed the federal guideline, but the agency always requests the state-negotiated rate.

The Commission, therefore, does not intend to change its policies and procedures on lodging because it believes it has a reasonable, legal, and financially prudent process.

(3) There are times when staff travel to conferences and the conference hotel is fully booked. In those instances, the staff member must secure lodging at an alternate hotel and the cost per night can sometimes be higher than the conference hotel. Although we will continue to make every reasonable effort to hold down costs, we believe our procedures in these circumstances are appropriate.

APA's Response: A letter to all agencies from DAS dated December 15, 2000, states, "from this time forward, we are recommending departments utilize the federal maximum per diem standards as published by the government as a reasonable guideline." Nebraska State employees traveling on state business are accountable to Nebraska taxpayers and owe a duty to Nebraska taxpayers to follow the federal GSA guidelines. While there may be exceptions, the reasons as to why those guidelines are exceeded should be documented.

3. <u>Community Scholarship Foundation Program</u>

Good internal control requires the Commission properly account for and follow up on outstanding receivables. The possibility of loss of State funds increases without proper controls to ensure money due to the State is received.

We noted a community foundation applied for and was awarded $2,000 for a Community Scholarship Foundation grant. The foundation later decided they were not going to participate in the grant and would return the monies issued. During the audit it was noted the funds were never received by the Commission.

3. Community Scholarship Foundation Program (Concluded)

> We recommend the Commission implement procedures to ensure all monies due to the State are followed up on and collected timely.

Commission's Response: We agree with the auditor's comments and recommendations regarding the Community Scholarship program. The Commission believed it had a good process for maintaining internal and external control over dollars in the scholarship program. However, we appreciate the auditor's recommendation to strengthen our procedures to ensure all monies are accounted for and collected in a timely manner. With regard to the funds cited as the exception, those funds were returned in January 2006, after several months of discussion to clarify the intended use of the funds.

The Commission will implement better controls over money in the Community Scholarship program.

4. 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

4. <u>Reconciliation of Bank Records to the Nebraska Information System</u> (Concluded)

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.

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.

Commission's Response: The Commission understands the necessity for bank records to be reconciled to the Nebraska Information System. However, as stated by the auditor, this issue is a responsibility of DAS Accounting and not within the purview of the Commission. No procedures or processes need to be addressed by the Commission.

Commission's Overall Response: As stated previously, we regard many of the recommendations both in the exit interview and the audit report as constructive and, where appropriate, have taken action to implement the recommendations of the auditors. In other areas where we believe the recommendations are not prudent or appropriate, we respectfully decline to make changes in Commission procedures.

During the audit, the auditors were courteous and completely professional in the conduct of their duties. We appreciate their willingness to work with the staff throughout the process.

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NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Coordinating Commission for Postsecondary Education
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Coordinating Commission for Postsecondary Education (Commission) for the fiscal year ended June 30, 2005. The Commission'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 Coordinating Commission for Postsecondary Education 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 January 26, 2006, on our consideration of the Nebraska Coordinating Commission for Postsecondary Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

Pat Reding, CPA

January 26, 2006 Assistant Deputy Auditor

NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	General Fund 10000	NCCPSE Admin Cash Fund 24810	Nebraska Scholarship Fund 24820	Federal Fund 40000
REVENUES:				
Appropriations	$ 6,932,451	$ -	$ -	$ -
Intergovernmental	-	-	-	962,659
Sales & Charges	-	7,800	-	-
Miscellaneous	-	1,655	84,630	15,549
TOTAL REVENUES	6,932,451	9,455	84,630	978,208
EXPENDITURES:				
Personal Services	934,206	-	-	13,716
Operating	215,018	4,360	-	682
Travel	21,963	2,808	-	608
Capital Outlay	8,765	-	-	-
Government Aid	5,752,499	-	2,059,273	963,202
TOTAL EXPENDITURES	6,932,451	7,168	2,059,273	978,208
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	2,287	(1,974,643)	-
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Note 5)	-	-	5,100,683	-
Operating Transfers Out (Note 5)	-	-	(3,100,683)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	2,000,000	-
Net Change in Fund Balances	-	2,287	25,357	-
FUND BALANCES, JULY 1, 2004	-	24,127	24,951	-
FUND BALANCES, JUNE 30, 2005	$ -	$ 26,414	$ 50,308	$ -
FUND BALANCES CONSIST OF:				
General Cash	$ -	$ 25,664	$ 50,308	$ -
Accounts Receivable Invoiced	-	750	-	-
TOTAL FUND BALANCES	$ -	$ 26,414	$ 50,308	$ -

The accompanying notes are an integral part of the schedule.

Title I Fund 44810	NCCPSE Trust Fund 64810	Sun-Mart Scholarship Fund 64820	**Total (Memorandum Only)**
$ -	$ -	$ -	$ 6,932,451
-	-	-	962,659
-	-	-	7,800
232	27,498	7,180	136,744
232	27,498	7,180	8,039,654
-	-	-	947,922
-	24,849	-	244,909
-	-	-	25,379
-	-	-	8,765
-	-	6,000	8,780,974
-	24,849	6,000	10,007,949
232	2,649	1,180	(1,968,295)
-	-	-	5,100,683
-	-	-	(3,100,683)
-	-	-	2,000,000
232	2,649	1,180	31,705
6,463	17,153	6,111	78,805
$ 6,695	$ 19,802	$ 7,291	$ 110,510
$ 6,695	$ 19,802	$ 7,291	$ 109,760
-	-	-	750
$ 6,695	$ 19,802	$ 7,291	$ 110,510

NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Coordinating Commission for Postsecondary Education are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.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 Commission 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 NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Commission are:

> **10000 – General Fund** – accounts for all financial resources not required to be accounted for in another fund.
>
> **20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.
>
> **40000 – Federal Funds** – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Continued)

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 Commission 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, operating grants from nongovernment sources, and miscellaneous adjustments.

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

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

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.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and receivable accounts. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts are also included in fund balance and are reported as recorded on NIS.

Other Financing Sources – Operating transfers.

2. State Agency

The Nebraska Coordinating Commission for Postsecondary Education (Commission) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The schedule includes all funds of the Commission.

The Nebraska Coordinating Commission for Postsecondary Education is part of the primary government for the State of Nebraska.

3. Totals

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

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 Commission 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 $300 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.

NOTES TO THE SCHEDULE
(Continued)

4. Capital Assets (Concluded)

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

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Equipment	$ 197,824	$ 8,765	$ 31,977	$ 174,612
Less accumulated depreciation for:				
Equipment				156,132
Total capital assets, net of depreciation				$ 18,480

5. Transfers

The Commission had $5,100,683 in transfers in from the Nebraska Lottery during fiscal year 2005. Neb. Rev. Stat. Section 9-812 R.S.Supp., 2004 requires until January 1, 2008, a portion of the dollar amount of the lottery tickets, which have been sold, on an annualized basis to be transferred to the beneficiary funds, except that the dollar amount transferred shall not be less than the dollar amount transferred to the funds in fiscal year 2003. Of the money remaining after the payment of prizes and operating expenses, twenty-four and three-fourths percent shall be transferred to the Nebraska Scholarship Fund.

Due to the passing of Constitutional Amendment 4, from January 1, 2005, and forward, of the money remaining after the payment of prizes and operating expenses, twenty-two and one-fourth percent shall be transferred to the Nebraska Scholarship Fund.

In addition, the Commission had $3,100,683 in transfers out during fiscal year 2005. Neb. Rev. Stat. Section 85-1920 R.S.Supp., 2004 required, for fiscal year 2004-2005, two million dollars to be used to carry out the Nebraska Scholarship Act, and the remainder to be transferred to the General Fund.

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NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

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

Nebraska Coordinating Commission for Postsecondary Education
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Coordinating Commission for Postsecondary Education for the fiscal year ended June 30, 2005, and have issued our report thereon dated January 26, 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.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Coordinating Commission for Postsecondary Education's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted a 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 Coordinating Commission for Postsecondary Education's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 4 (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 Coordinating Commission for Postsecondary Education's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 Coordinating Commission for Postsecondary Education in the Comments Section of this report as Comment Number 1 (Adequate Recording of Time Worked), Comment Number 2 (Travel Expenditures), and Comment Number 3 (Community Scholarship Foundation Program).

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

Pat Reding, CPA

January 26, 2006 — Assistant Deputy Auditor

STATISTICAL SECTION

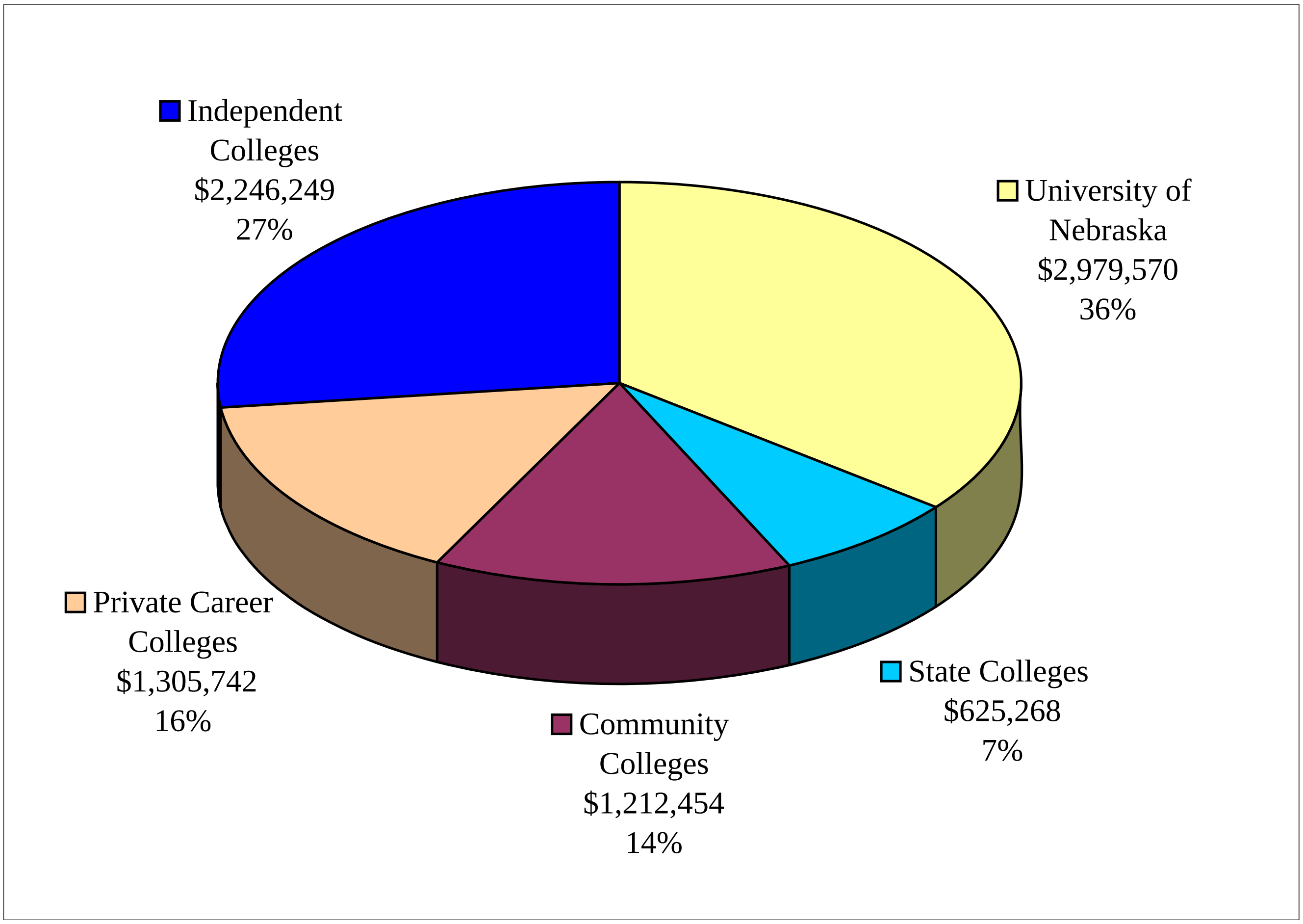
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

NEBRASKA SCHOLARSHIP PROGRAM 690 AID BY SECTOR

Fiscal Year Ended June 30, 2005

Note: Additional aid was expended in Programs 297, 640, and 691.



University of Nebraska: UNL, UNO, UNMC, UNK, NCTA-Curtis

State Colleges: Chadron, Peru, Wayne

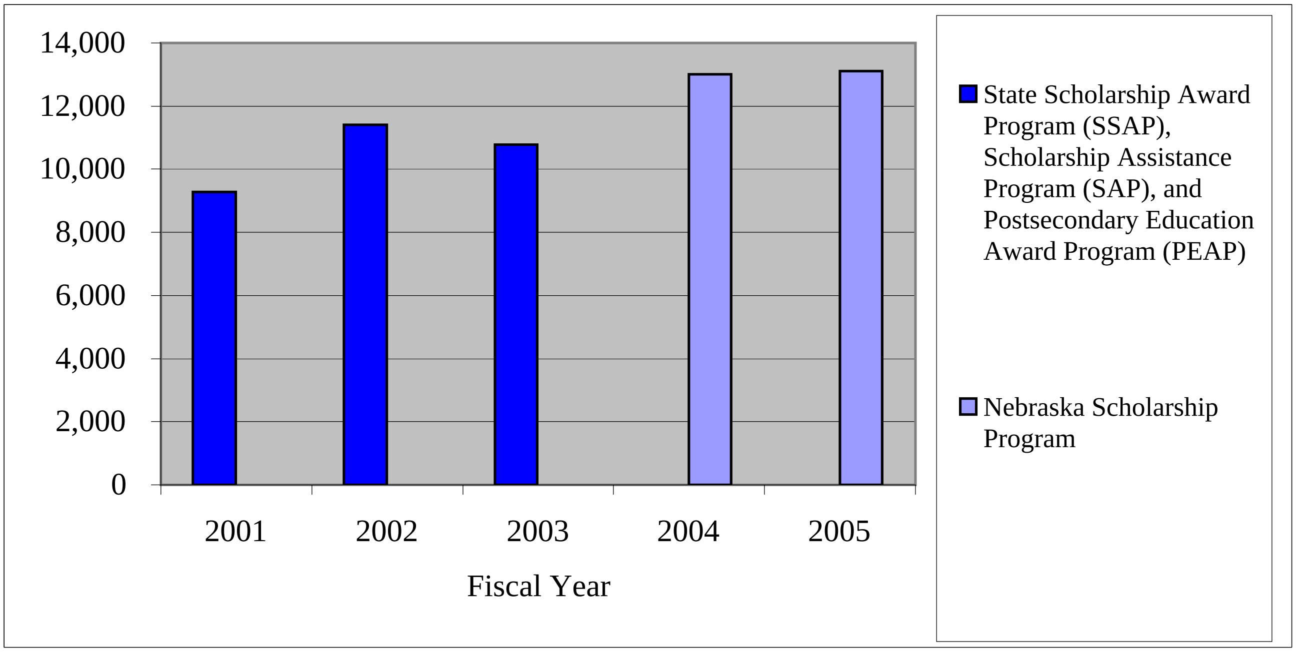
Community Colleges: Central, Metropolitan, Mid-Plains, Northeast, Southeast, Western NE

Private Career Colleges: Bahner-Fremont, Capitol Beauty School, College of Hair Design, The Creative Center, Hamilton College-Lincoln, Hamilton College-Omaha, ITT Educational Service, Inc., Joseph's Colleges of Beauty, Myotherapy Institute, Omaha School of Massage Therapy, Vatterott College-Deerfield, Vatterott College-Dodge, Xenon International School of Hair.

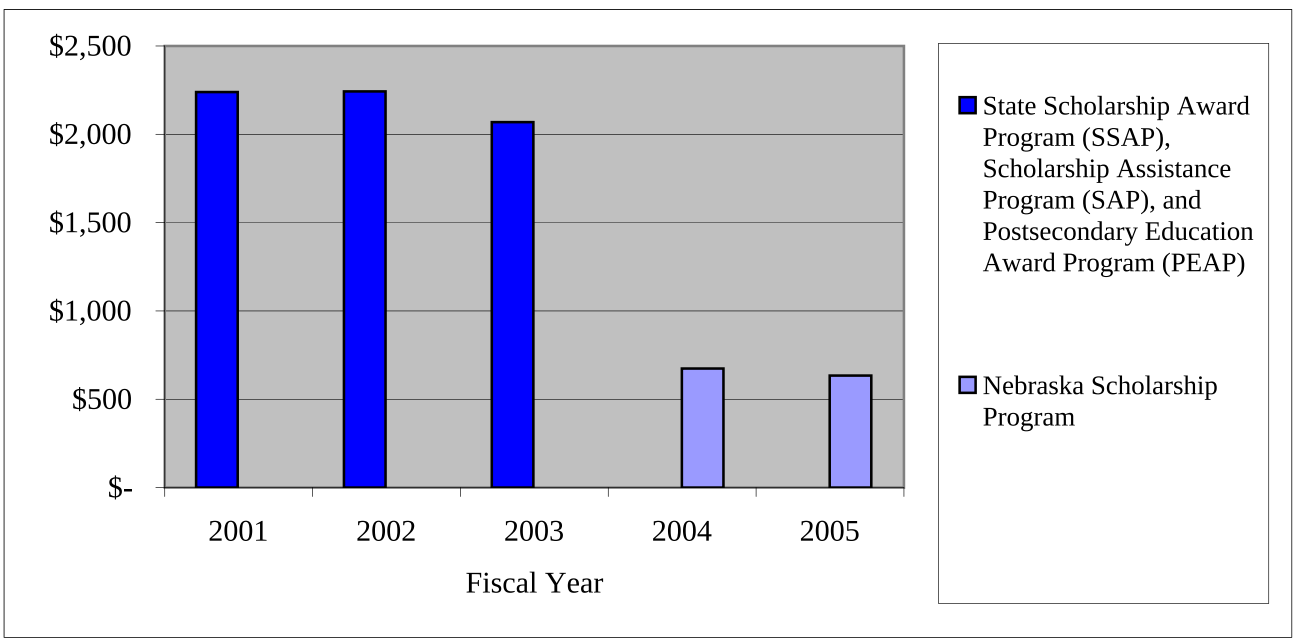
Independent Colleges: Bellevue University, Bryan School of Nursing, Clarkson College, College of Saint Mary, Concordia University, Creighton University, Dana College, Doane College, Grace University, Hastings College, Little Priest Tribal College, Midland Lutheran College, Nebraska Christian College, Nebraska Indian Community College, Nebraska Methodist College, Nebraska Wesleyan University, Union College, York College

NEBRASKA COORDINATING COMMISSION FOR
POSTSECONDARY EDUCATION

NUMBER OF STUDENTS AWARDED NEBRASKA SCHOLARSHIP GRANTS



AVERAGE NEBRASKA SCHOLARSHIP GRANT AWARD



Note: The SSAP, SAP, and PEAP programs were discontinued at the close of FY 2003 and effectively replaced by the Nebraska Scholarship Program. In addition, the Community Scholarship Foundation Program began in fiscal year 2005. During fiscal year 2005, 50 Community Scholarship Foundation grants were awarded with an average grant of $995.