

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS  
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

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**Issued on April 30, 2012**

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NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

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## NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

### BACKGROUND

The Department of Veterans' Affairs (Department), created in 1947, serves as the advocacy agency for Nebraska's veterans. The Department is led by a director who is appointed by the Governor and approved by the Legislature. The Director must reside in Nebraska five years prior to his or her appointment, be a U.S. citizen, and be an honorably discharged veteran during a period designated by Nebraska law. The Director's salary is paid partially by the Department of Veterans' Affairs and partially by the Department of Health and Human Services. The Veterans' Advisory Commission is the Department's oversight body.

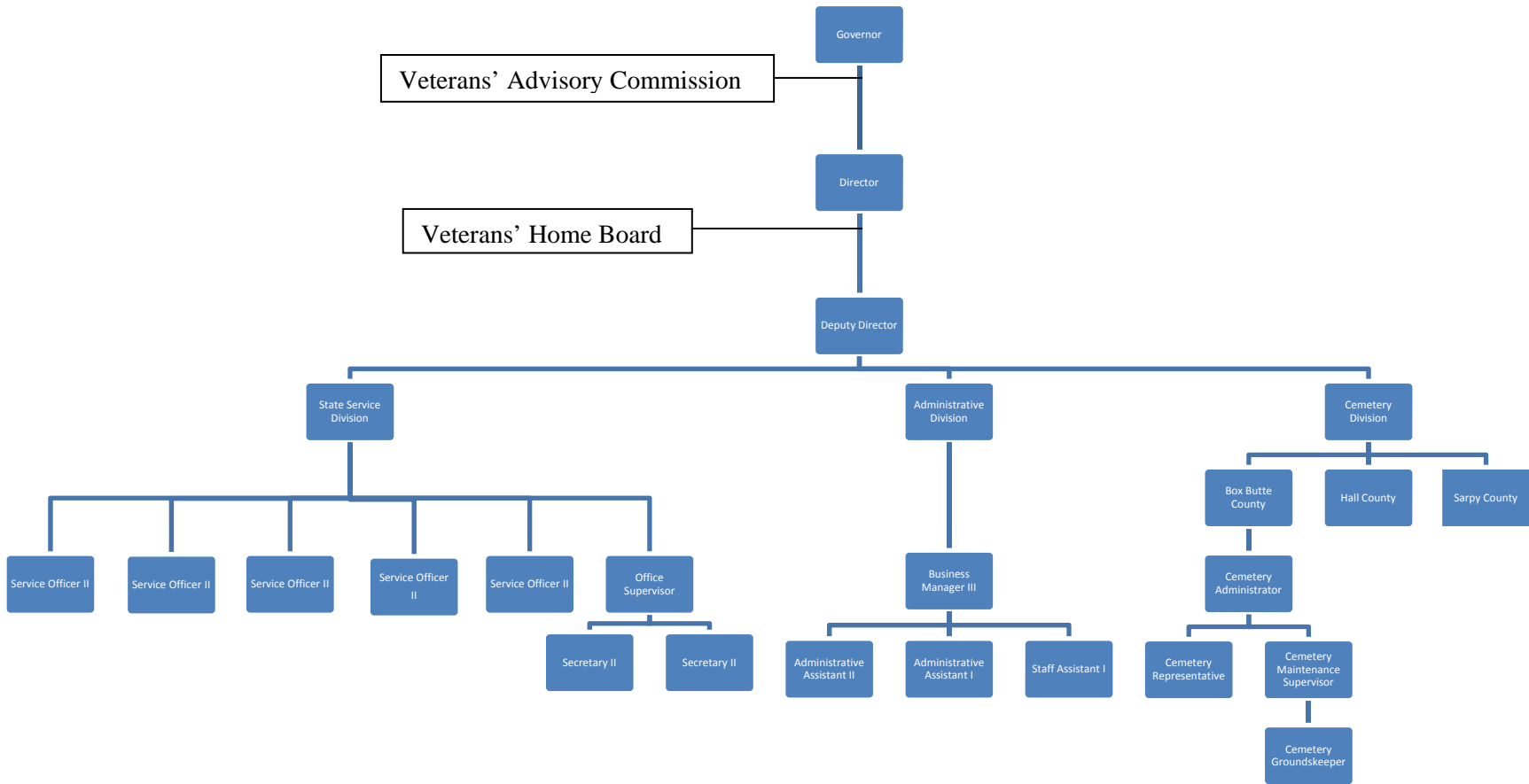
The Department is a depository for separation documents of discharged military personnel from Nebraska. Discharges are filed and requests are received for copies. The Department is the central administration for all divisions including the Nebraska Veterans' Service Office and the Nebraska Veterans Cemetery System. The Department's State veterans' service officers represent veterans and their dependents before the U.S. Department of Veterans' Affairs. Additionally, the Department administers the State's waiver of tuition and Active Selected Reserve Tuition Credit programs and serves as the State's custodian of grave registrations for all veterans buried in Nebraska.

The Director is also responsible for administrating the interest from the Nebraska Veterans' Aid Trust Fund to provide temporary assistance to needy veterans and their dependents. The Director administers the Nebraska Veterans' Aid Fund by determining the eligibility of applicants and the amount to be distributed to each from the interest earned on the fund. Temporary assistance to veterans may be used for food, shelter, fuel, wearing apparel, medical or surgical aid, and funeral expenses.

The Director may construct and operate State veterans cemeteries in Box Butte County, Sarpy County, and the Nebraska Veterans Memorial Cemetery in Hall County. The first cemetery, located in Box Butte County (the Nebraska Veterans Cemetery at Alliance), was dedicated in August 2010. The Director provides lots in the cemetery system for deceased veterans as defined by the National Cemetery Administration and for the veteran's spouse, minor children, and unmarried children who are physically or mentally disabled and incapable of self support. As Secretary of the Veterans Home Board, the Director determines the eligibility for veterans applying for admission to the Nebraska Veterans' Homes at Grand Island, Norfolk, Scottsbluff, and Bellevue.

# NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

## ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**EXIT CONFERENCE**

An exit conference was held April 13, 2012, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Veterans' Affairs were:

| <b>NAME</b>  | <b>TITLE</b>         |
|--------------|----------------------|
| John Hilgert | Director             |
| John McNally | Deputy Director      |
| Gary Maixner | Business Manager III |

## NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

### COMMENT AND RECOMMENDATION

During our examination of the Nebraska Department of Veterans' Affairs, we noted a certain deficiency in internal control that is presented here.

The comment and recommendation is intended to improve the internal control over financial reporting or result in operational efficiencies in the area as follows:

#### **Fixed Assets**

Sound accounting procedures and good business practices require fixed asset costs be adequately supported. Support for capitalized fixed asset costs should be retained for subsequent review. A good internal control plan requires that the correct fund of origination be recorded in the State's accounting system in order for the correct fund to receive the money when the item is surplused.

The Department could not provide support for the individual values of the three Veterans' Cemetery buildings on their fixed asset listing. These three buildings were valued individually at \$102,000; \$74,800; and \$1,300,000. Furthermore, per review of the Department's general ledger detail, total payments made to the construction company were \$1,796,655, a variance of \$319,855 from the \$1,476,800 capitalized by the Department. Additionally, we noted during our testing that these buildings, which were constructed using Federal funds, were shown as having the General Fund as their fund of origination. The total amount awarded for the Cemetery building construction by the U.S. Department of Veterans' Affairs, grant number NE-01-02-2, was \$2,551,910.

Cemetery building costs were added by the former Deputy Director. The current Business Manager was unsure where the support for these asset costs may have been filed by the former Deputy Director.

When amounts on the fixed asset listing are not adequately supported, there is an increased risk asset amounts will be misstated. In addition, an incorrect fund of origination in the State's accounting system may cause monies to be deposited into an incorrect fund when the item is surplused.

We recommend the Department ensure fixed asset supporting documentation be retained for subsequent review. Furthermore, we recommend the Department ensure amounts capitalized for their cemetery buildings are correct. We also recommend the Department implement procedures to ensure fixed assets are recorded to the proper fund of origination.

It should be noted that this report is critical in nature as it contains only our comment and recommendation on the areas noted for improvement and does not include our observations on any accounting strengths of the Department of Veterans' Affairs.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**COMMENT AND RECOMMENDATION**

(Continued)

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comment and recommendation included in this report. The Department declined to respond.





# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

### INDEPENDENT ACCOUNTANT'S REPORT

Department of Veterans' Affairs  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Veterans' Affairs (Department) for the calendar year ended December 31, 2011. 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 Department of Veterans' Affairs for the calendar year ended December 31, 2011, based on the accounting system and procedures prescribed by the State of Nebraska Director of the Department of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the schedule of revenues, expenditures and changes in fund balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the schedule of revenues, expenditures, and changes in fund balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the schedule of revenues, expenditures, and changes in fund balances or on compliance and other matters; accordingly we express no such opinions. Our examination disclosed no findings that are required to be reported under *Government Auditing Standards*.

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

Signed Original on File

April 13, 2012

Mike Foley  
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2011

|  | General<br>Fund 10000 | Veteran<br>Cemetery<br>Operations<br>Fund 22820 | Veteran<br>Cemetery<br>Construction<br>Fund 32280 | Federal<br>Fund 40000 | Veterans<br>Cemetery<br>Endowment<br>Fund 62800 | Veterans<br>Aid Income<br>Fund 63200 | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|--|-----------------------|---|---|-----------------------|---|--------------------------------------|---|
| <b>REVENUES:</b>   |                       |   |   |                       |   |                                      |   |
| Appropriations   | \$ 1,081,335          | \$ -  | \$ -  | \$ -                  | \$ -  | \$ -                                 | \$ 1,081,335                            |
| Intergovernmental  | -                     | 15,700  | -   | 554,586               | -   | -                                    | 570,286                                 |
| Sales & Charges  | -                     | 13,940  | -   | -                     | -   | -                                    | 13,940                                  |
| Miscellaneous  | 70                    | 1,112   | 2,391   | -                     | 35  | 104,243                              | 107,851                                 |
| <b>TOTAL REVENUES</b>  | <b>1,081,405</b>      | <b>30,752</b>                                   | <b>2,391</b>                                      | <b>554,586</b>        | <b>35</b>                                       | <b>104,243</b>                       | <b>1,773,412</b>                        |
| <b>EXPENDITURES:</b>   |                       |   |   |                       |   |                                      |   |
| Personal Services  | 881,787               | -   | -   | -                     | -   | -                                    | 881,787                                 |
| Operating  | 164,553               | 7,187   | -   | 44,119                | -   | -                                    | 215,859                                 |
| Travel   | 20,048                | 813   | -   | -                     | -   | -                                    | 20,861                                  |
| Capital Outlay   | 14,947                | -   | -   | 510,467               | -   | -                                    | 525,414                                 |
| Government Aid   | -                     | -   | -   | -                     | -   | 833,013                              | 833,013                                 |
| <b>TOTAL EXPENDITURES</b>                                    | <b>1,081,335</b>      | <b>8,000</b>                                    | <b>-</b>  | <b>554,586</b>        | <b>-</b>  | <b>833,013</b>                       | <b>2,476,934</b>                        |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures | 70                    | 22,752  | 2,391   | -                     | 35  | (728,770)                            | (703,522)                               |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                       |   |   |                       |   |                                      |   |
| Sales of Assets  | 12                    | -   | -   | -                     | -   | -                                    | 12                                      |
| Deposit to the State's General Fund                          | (82)                  | -   | -   | -                     | -   | -                                    | (82)                                    |
| Operating Transfers In                                       | -                     | -   | -   | -                     | -   | 995,321                              | 995,321                                 |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES)</b>              | <b>(70)</b>           | <b>-</b>  | <b>-</b>  | <b>-</b>              | <b>-</b>  | <b>995,321</b>                       | <b>995,251</b>                          |
| Net Change in Fund Balances                                  | -                     | 22,752  | 2,391   | -                     | 35  | 266,551                              | 291,729                                 |
| FUND BALANCES, January 1, 2011                               | 532                   | 14,530  | 84,904  | -                     | 4,623   | 3,725,617                            | 3,830,206                               |
| FUND BALANCES, December 31, 2011                             | <b>\$ 532</b>         | <b>\$ 37,282</b>                                | <b>\$ 87,295</b>                                  | <b>\$ -</b>           | <b>\$ 4,658</b>                                 | <b>\$ 3,992,168</b>                  | <b>\$ 4,121,935</b>                     |
| <b>FUND BALANCES CONSIST OF:</b>                             |                       |   |   |                       |   |                                      |   |
| General Cash   | \$ -                  | \$ 37,467                                       | \$ 87,295   | \$ -                  | \$ 4,658  | \$ 3,997,515                         | \$ 4,126,935                            |
| Deposits with Vendors  | 532                   | -   | -   | -                     | -   | -                                    | 532                                     |
| Due From Other Government                                    | -                     | (185)   | -   | -                     | -   | -                                    | (185)                                   |
| Due to Vendors   | -                     | -   | -   | -                     | -   | (5,347)                              | (5,347)                                 |
| <b>TOTAL FUND BALANCES</b>                                   | <b>\$ 532</b>         | <b>\$ 37,282</b>                                | <b>\$ 87,295</b>                                  | <b>\$ -</b>           | <b>\$ 4,658</b>                                 | <b>\$ 3,992,168</b>                  | <b>\$ 4,121,935</b>                     |

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**NOTES TO THE SCHEDULE**

For the Calendar Year Ended December 31, 2011

**1. Criteria**

The accounting policies of the Nebraska Department of Veterans' Affairs (Department) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the State of Nebraska Director of the Department 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."

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. 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 expenditures and related accounts payables recorded in the general ledger as of December 31, 2011, include only those payables posted in the general ledger before December 31, 2011, and not yet paid as of that date. The amount recorded as expenditures as of December 31, 2011, **does not** include amounts for goods and services received before December 31, 2011, which had not been posted to the general ledger as of December 31, 2011.

Other liabilities are recorded in the account titled Due to Vendors 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 December 31, 2011. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Department are:

**10000 – General Fund** – accounts for activities funded by general tax dollars and related expenditures and transfers.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**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** – accounts for the financial activities related to the receipt and disbursement of funds generated from the federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable federal requirements.

**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 account classifications established by State Accounting 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 account classifications established by State Accounting used by the Department are:

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

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

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

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

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

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

Other significant accounting classifications and procedures established by State Accounting and used by the Department include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are included in fund balance and are reported as recorded in the general ledger.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Department's funds at December 31, 2011, included amounts recorded in Due to Vendors. The activity of this account is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

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

**2. Reporting Entity**

The Department of Veterans' Affairs 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 included in the general ledger.

The Department of Veterans' Affairs 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.

**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**

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System.

For the CAFR, the State requires the Department to value 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 \$5,000 or more 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 are capitalized. Building improvements and renovations 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 are 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 in the CAFR using the straight-line method. The following estimated useful lives are used to compute depreciation:

|           |            |
|-----------|------------|
| Buildings | 40 years   |
| Equipment | 3-10 years |

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**NOTES TO THE SCHEDULE**

(Continued)

**5. Capital Assets (Concluded)**

Capital asset activity of the Department recorded in the State Accounting System for the calendar year ended December 31, 2011, was as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Capital Assets                            |                              |                  |                  |                           |
| Buildings                                 | \$ -                         | \$ 1,796,655     | \$ -             | \$ 1,796,655              |
| Land                                      | -                            | 5,712            | -                | 5,712                     |
| Equipment                                 | 5,671                        | 283,950          | -                | 289,621                   |
| Infrastructure                            | -                            | 2,745,813        | -                | 2,745,813                 |
| Construction in Progress                  | 4,148,165                    | 394,303          | 4,542,468        | -                         |
| Total                                     | <u>4,153,836</u>             | <u>5,226,433</u> | <u>4,542,468</u> | <u>4,837,801</u>          |
| Less accumulated depreciation* for:       |                              |                  |                  |                           |
| Buildings                                 |                              |                  |                  | 43,014                    |
| Equipment                                 |                              |                  |                  | 36,935                    |
| Total                                     |                              |                  |                  | <u>79,949</u>             |
| Total capital assets, net of depreciation |                              |                  |                  | <u>\$ 4,757,852</u>       |

\*Note: The accounting system generated depreciation noted in the table above was only through September 30, 2011. Depreciation for October through December was not run in the accounting system until the beginning of calendar year 2012.

Construction in progress and the significant increase in capital assets were related to the construction of a veterans cemetery in Alliance, Nebraska, which was constructed with funds from a Federal grant. The veterans cemetery in Alliance was dedicated and presented to the public on August 13, 2010.

**6. Transfers**

Operating transfers to the Veterans' Aid Income Fund (Fund 63200) included net investment income of \$995,321 received from the Nebraska Veterans' Aid Fund (Fund 63330) in accordance with Neb. Rev. Stat. § 80-401 (Reissue 2008). Also, per Neb. Rev. Stat. § 80-401 the Board of Educational Lands and Funds is responsible for managing the Nebraska Veterans' Aid Fund, except that the investment and reinvestment of such fund shall be the duty of the State Investment Officer. The investment and reinvestment of the Nebraska Veterans' Aid Fund is to be made in the same type of securities authorized for investment of funds by the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act. The fund balance of the Nebraska Veterans' Aid Fund as of December 31, 2011, was \$33,297,696. Since the Nebraska Veterans' Aid Fund is managed by the Board of Educational Lands and Funds, this fund is not reported on the Department's Schedule of Revenues, Expenditures, and Changes in Fund Balances.



NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**NOTES TO THE SCHEDULE**

(Continued)

**7. Director's Salary**

The Department's Director serves as Director to the Department and as Director of Veterans' Homes under the Department of Health and Human Services (DHHS). The Director's salary is therefore paid 75 percent by DHHS and 25 percent by the Department as designated by the Governor.

**8. Veterans State Cemetery at Alliance Foundation**

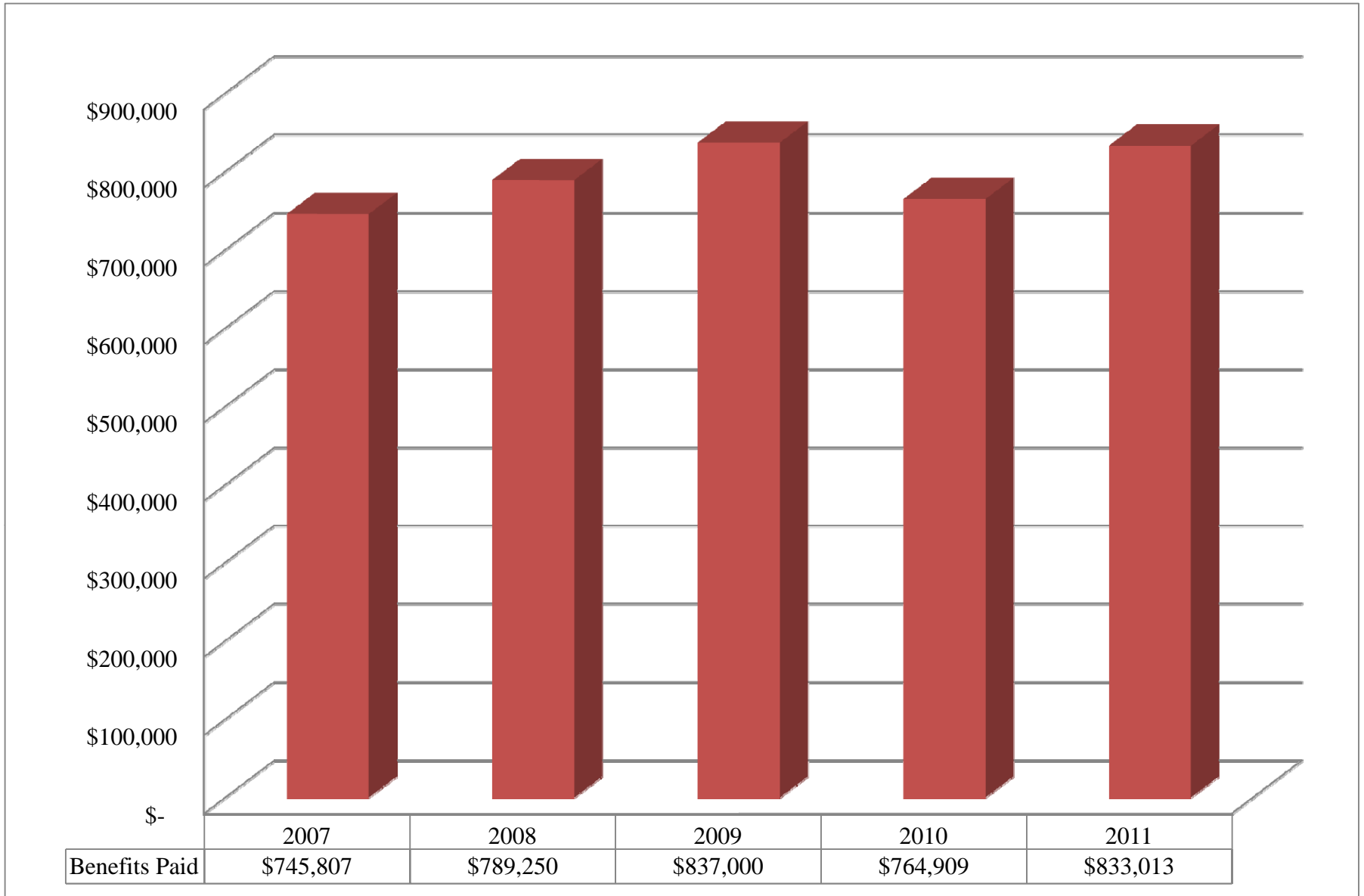
The Veterans State Cemetery at Alliance Foundation (Foundation) was organized for the exclusive benefit of the Nebraska Veterans Cemetery at Alliance. Articles of Incorporation were signed October 5, 2010. Per discussion with the Department, the Foundation did not contribute any funds toward the operations of the Nebraska Veterans Cemetery at Alliance during calendar year 2011.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

**SUPPLEMENTARY INFORMATION**

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

**NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS  
NEBRASKA VETERANS' AID BENEFITS PAID BY CALENDAR YEAR**



**NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS  
VETERANS' BENEFITS BY CATEGORY AND CALENDAR YEAR**

