ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
ECONOMIC DEVELOPMENT

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

Issued on August 2, 2016

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NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

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BACKGROUND

The Department of Economic Development (Department) was created in 1967. The Director is appointed by the Governor. According to *A Legislator's Guide to Nebraska State Agencies (December 2014)*, prepared by the Nebraska Legislative Fiscal Office, the Department administers the following programs:

Administration

"The Administration program generally serves the administrative, information, and field service programs of the Department. Functions that are covered in the program include the Department's Public Information Office, Personnel and Fiscal Office, and Information Technology staff. Each of these entities helps all divisions by providing a needed service including research, fiscal, personnel, information technology services, and overall management of the Department." (pg. 428)

Agricultural Products Research Fund/Aid

"The Agricultural Products Research Fund is establish in law to be used for the research and development of new, additional and improved uses for agricultural products and for the promotion of industrialization of products developed by the expenditure of the fund. Fund income is derived from the licensing or sale of patents on projects financed by the fund." (pg. 429)

Community and Rural Development/Operations

"The Community and Rural Development Division is organized to address the issues of job creation, infrastructure, and housing development finance. The division works to build the capacity of communities, improve local leadership and decision-making skills, and collaborates with partners in housing and community development. Programs and initiatives under Program 601 include: the Community Block Grant Program, the Nebraska Community Improvement Program (NCIP), the Affordable Housing Program, the Community Development Assistance Act (CDAA), and strategic planning assistance." (pg. 430)

Community and Rural Development/Aid

"The Community Development Block Grant program provides Nebraskans with appropriate, affordable and accessible housing and infrastructure; and quality jobs through financing new and expanding businesses and providing grants for community and economic development projects using federal funds. The Affordable Housing Trust Fund provides technical assistance, grants and loans for affordable housing. The Microenterprise Program provided technical and lending support to about 500 businesses annually. Beginning in FY2011-12, funding for microenterprise development was moved to Program 603, as a component of the Business Innovation Grant program." (pg. 431)

Business Development/Operations

"The Business Development Division includes the following program functions:

*---**The Business Recruitment program** is charged with planning and initiating activities to grow industries and businesses in order to increase economic opportunities for Nebraska citizens and communities. DED personnel work closely with existing businesses and the state's entrepreneurs in order to provide technical assistance with business development, job retention and expansion plans.*

*---**The Business Innovation and Start-Up program** provides technical support for Nebraska businesses with retention and expansion plans; assistance for start-up businesses and entrepreneurs; research and technical support for regional and community leaders regarding economic development and business issues, and operates the One Stop Business Assistance Center.*

BACKGROUND
(Concluded)

*---**The International Trade and Investment Program** works to expand international markets for Nebraska businesses, increase international investment in Nebraska and foster relationships that create jobs and partnerships. The program works with countries around the world but focuses on the targeted markets of Japan, China, Germany and Brazil.*

*---**The Field Service program** works to assist Nebraska communities and businesses with issues to strengthen economic development activities and create an environment that expands business development opportunities. Representatives live and work in locations across Nebraska to increase communications and access to Department resources and programs.*

*---**The Industry Cluster Team** helps support, organize and manage industry councils. Team members are also responsible for primary economic and market research to understand where particular market sectors stand in Nebraska."* (pg. 432)

Business Development/Aid

"The Department's job training funds are used to provide pre-employment training delivered through community colleges or other vendors. In addition, funds are used to help offset costs associated with on-the-job training for new hires and for retraining existing workers on new processes and equipment. The Intern Nebraska component of this program provides funding for internship opportunities in Nebraska businesses for college and university students.

The Business Innovation Act provides funding to help businesses develop new technologies that lead to quality job opportunities across the state. Competitive grants provide funding and technical assistance for research at Nebraska institutions, new product development and testing, and help expand small business and entrepreneur outreach efforts.

The Site and Building Development Fund provides financial assistance for industrial site and building development. Eligible activities include land and building acquisition; building construction or rehabilitation; site preparation; infrastructure development and improvements; engineering and design costs; technical assistance and planning; and other costs necessary for the development of industrial-ready sites and buildings." (pg. 433)

Civic and Community Center Financing/Aid/Operations

"The purpose of the Civic and Community Center Financing Fund is to support the development of civic, community, and recreational centers throughout Nebraska and to support projects that foster maintenance or growth of communities. The fund may be used for the construction of new civic and recreation centers or the renovation or expansion of existing civic, community, and recreation centers, which may include the conversion, rehabilitation, or reuse of historic buildings. The fund may also be used for preliminary planning related to the development or rehabilitation of eligible projects. A municipality must own or operate the center, directly or under contract, for which a grant is sought." (pg. 436)

"Legislation adopted in 2013 amended the use of the Civic and Community Center Fund to allow for staffing and administrative costs to be paid from the fund." (pg. 437)

KEY OFFICIALS AND DEPARTMENT CONTACT INFORMATION

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SUMMARY OF COMMENTS

During our examination of the Department of Economic Development (Department), we noted certain deficiencies and other operational matters that are presented here. The following comments are required to be reported in accordance with *Government Auditing Standards*: Comment Numbers 1 through 6, which are considered to be significant deficiencies.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Lack of Support for Contract Expenditures:*** During testing of contractual expenditures, we noted that four payments, totaling $132,912, did not have adequate supporting documentation, and some expenditures were not reasonable or allowable, including a $13 reimbursement for alcohol purchases.

2. ***Affordable Housing Trust Fund:*** The Department did not allocate at least 30% of the Affordable Housing Trust Fund grant to each congressional district, as required by law. Furthermore, there was a lack of monitoring procedures for the grant allocations.

3. ***Lack of Monitoring Procedures for the Commercialization Program:*** The Department did not have adequate monitoring procedures for the Program; instead, the Department relied on the contractor to ensure the Program was in accordance with regulations.

4. ***Community Development Block Grant Procedures:*** The Department did not perform monitoring procedures for 3 of 10 projects tested. It appears also that one project was funded improperly with new Federal monies instead of from the State's revolving fund.

5. ***Job Training Grant Program:*** The Department did not have written policies and procedures for the monitoring of recipients. Furthermore, there was a lack of such monitoring and missing information in the grant files.

6. ***Lack of Segregation of Duties Over Receipts:*** There was a lack of segregation of duties over the receipt process, as one individual opened mail and made deposits, and receipts were given to program staff prior to deposit.

7. ***Trade Mission Expenditures:*** The Department lacked formal written policies and detailed budgets for travel related to the Governor's trade missions. During the calendar year, the Department organized two separate trade missions.

8. ***Employee Travel Expenditure Issues:*** During testing, we noted improper and excessive meal reimbursements, lack of detailed receipts, incorrect conversion rates, excessive lodging, and lack of supervisory approvals.

9. ***Settlement Agreement:*** The Department entered into a settlement agreement with the previous Director for $14,286. The Department did not have documentation to support the necessity of that agreement.

SUMMARY OF COMMENTS
(Concluded)

10. ***HOME Program Monitoring:*** The Department did not have written policies regarding monitoring and lacked monitoring procedures for certain classifications of projects totaling $873,480 during the calendar year.

11. ***Payroll Issues:*** During testing of payroll, we noted that the Department lacked the following: secondary reviews of payroll reports; support for payroll exemptions; and adequately documented timesheets.

12. ***Receivables:*** Loan receivable balances were not tracked in the accounting system, activity was recorded inconsistently or improperly, amounts reported did not agree to the accounting system, and discontinued loans were not reported to State Accounting.

13. ***Lack of Segregation of Duties Over Capital Assets:*** We noted a lack of segregation of duties over capital assets, as one individual was able to add, delete, and make changes to asset information in the accounting system, and there were no separate reviews of reports.

14. ***Unidentified Payables:*** During testing, we noted that three expenditures, totaling $489,678, were not properly recorded as payables in the accounting system.

15. ***Coding Issues and Untimely Deposits:*** Coding errors, totaling $508,130, were noted during testing of transactions. Furthermore, 4 of 10 tested receipts were not deposited timely.

16. ***Progress Loan and Seed Program Federal Reporting:*** The third-quarter Federal report was inaccurate. The beginning balance was overstated by $250,000, and current quarter activity was understated by $250,000.

17. ***Contracts Not Properly Documented:*** Four of eight contracts tested, totaling $491,140, were not properly entered on the State's contract database and the State accounting system, as required by law.

18. ***Web Domain Waiver:*** The Department used a web domain other than "nebraska.gov" or "ne.gov" without obtaining an approved waiver from the Nebraska Office of the Chief Information Officer, as required by law.

More detailed information on the above items is provided hereinafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Department.

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

COMMENTS AND RECOMMENDATIONS

1. Lack of Support for Contractual Expenditures

During testing of contractual expenditures, we noted that the Department did not request supporting documentation or ensure contractual requirements were met for payments made. We also noted the following: 1) foreign receipts were not translated to determine whether expenditures were reasonable; 2) overpayments totaling $37 were made; 3) meal reimbursements were unreasonable, including alcohol reimbursements totaling $13; 4) there was lack of Department approval for contractor travel expenditures when required; and 5) there were unsubstantiated mileage reimbursements and excessive reimbursements for transportation.

We tested the following contractual service payments:

	Contract Period	Contract Amount	Payment Tested
JZW International Development, LLC	10/1/2014 - 3/31/2016	$ 68,760	$ 6,887
Shanghai Small & Medium Enterprise Center (SME Center)	2/11/2015 - 2/11/2016	$ 66,000	$ 4,794
University of Nebraska Medical Center (UNMC)	1/1/2015 - 12/31/2015	$ 50,000	$ 31,070
Department of Labor	5/19/2014 - 12/31/2014	$ 150,000	$ 90,161
Totals		**$ 334,760**	**$ 132,912**

JZW International Development, LLC

The Department contracted with JZW International (JZW) to assist in researching potential or current business partners and joint venture partners with Chinese businesses. Among other things, JZW arranged meetings with Chinese businesses, translated written materials and conversations, and assisted with negotiations. For these services, JZW charged the Department $47 per compensable hour and allowable expenses incurred.

During testing, we noted that JZW provided the Department with only a summary billing document that stated briefly the work performed and the individuals with whom the contractor met with. We selected one expense document for testing, for expenditures from April 1, 2015, through June 30, 2015, totaling $6,887. After being provided with the expense document and the receipts the Department had on file, the Auditor of Public Accounts (APA) requested support for approximately $3,470 in missing receipts. In turn, due to not having that additional support on file, the Department had to request it from JZW.

Without sufficient supporting documentation, it is unknown how the Department could ensure that expenses were "eligible and allowable," as provided by the following contractual provision:

> *All expenses which will be deemed eligible and allowable by the Department, and thus reimbursable to JZW, must meet the following tests:*
>
> - *All such expenses must meet the basic test of being necessary, reasonable, and customary, in the context within which JZW is operating and providing services on behalf of the Department . . . .*
> - *Payments to JZW from the Department for reimbursement of allowed, incurred expenses must be substantiated by adequate and sufficient documentation.*

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Lack of Support for Contractual Expenditures** (Continued)

The following additional concerns were noted during our review of the Department's quarterly JZW expense reimbursement:

- There was $1,957 in meal reimbursements. The following table summarizes the issues relating thereto:

Amount	Description
$ 403	A $403 reimbursement was made despite a lack of receipts to support the amounts claimed.
$ 318	For $318, there were no itemized receipts on file; only a credit card receipt with the total amount paid was provided.
$ 13	A $13 reimbursement was made for alcohol purchases on two receipts. There was a Moscow Mule for $8.75 on 5/3/2015 from the Kona Grill in Omaha and two margaritas totaling $3.98 on 4/16/2015 from an Omaha Applebee's. The APA was able to verify with the businesses that these were alcoholic drinks. Alcohol is not an allowable reimbursement. See **Exhibit A** for copies of the receipts.
$ 32	Excessive tips of 27% and 25% were noted on two receipts.
$ 6	An overpayment of $6 was noted, as the contractor claimed $37; however, including tip, the receipt totaled only $31.
$ 772	**Total Inappropriate or Unsubstantiated Reimbursements**

- Included with the support for the payment tested was an additional credit card receipt dated August 30, 2015, to the Ameristar Casino Hotel in Council Bluffs, Iowa, for $138. See **Exhibit B** for a copy of the receipt. The contractor claimed and received a $138 meal reimbursement. The following explanation was provided to support the claimed expense:

  > *Meeting with Mr. [X] who is visiting from China and looking for investment in NE. Round trip from 168th Center to downtown Omaha.*

  Clearly, the expenditure was not incurred in downtown Omaha. Furthermore, the receipt indicated that the purchase was made from the gift shop. Because no detailed receipt was on file with the Department, the APA asked that such support be obtained from JZW to ensure that the expense was allowable; however, the Department failed to respond to our request.

- The contractor was reimbursed $800 for lodging during travel to China to promote Nebraska. There were two rooms, at $100 per night each, for four evenings. According to the Department, the second room was for an additional JZW employee; however, no documentation was provided to support that two JZW employees had participated in the promotional event. The support from the contractor stated only the following:

  > *6/2-6/6 – Trip from Shanghai to Shandong promoting NE as well as potential investors.*

  Furthermore, the Department's contract with JZW contains the following provision:

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Lack of Support for Contractual Expenditures (Continued)

> *For expenses for airfare and for lodging JZW must have the prior approval of the Department, in writing (an e-mail of approval from the Department will suffice), to incur such expenses. Absent such prior approval, such expenses will not be eligible for reimbursement.*

JZW did not have documented prior approval. Rather, the Department explained that advanced planning for the trip had determined that the extra accommodation was unnecessary.

- Receipts provided by JZW to support $5,440 in claimed expenditures for travel in China were not translated from Chinese into English. According to the Department, if there were any concerns about a particular expense, the corresponding receipt would be translated; however, no documentation of the resulting translation was maintained. It is unknown how the Department would have any idea what expenditure was being reimbursed, much less have reason for concerns about it, if the accompanying receipt was not translated in the first place.

- JZW was reimbursed $3,434 for claimed transportation expenses arising from the travel to China. The Department obtained receipts for only $2,680, however, leaving $754 in unsubstantiated expenses. As noted above, none of the receipts were translated into English. Because the Department had only copies of relatively poor quality on file, moreover, many of those were difficult to read, and would be difficult to translate.

- The Department reimbursed JZW a total of $519 for 882 miles claimed traveled. The APA attempted to recalculate the mileage for the destinations noted on the request for reimbursement but was able to calculate only 769 miles, a variance of 113 miles or $65. The information provided was insufficient to allow for a determination of the actual locations or routes traveled.

- The Department failed to calculate properly the expense reimbursement document, causing an overpayment to JZW of $12.

SME Center
The SME Center provided services to the Department related to maintaining and operating the Nebraska Center – Shanghai (Trade Office), which is located in Shanghai, China. The Trade Office served as a physical, business-related presence for Nebraska in China. The Department paid the SME Center $3,000 per month for services provided, which included the following: 40 hours of services performed per week, office expenses, space in the SME Center to present marketing materials, and rent for the physical location of the Trade Office. The Department agreed also to reimburse SME up to $30,000 for allowable expenses incurred.

The APA tested one SME Center expense reimbursement for September 2015, totaling $4,794, arising from travel in China. During that testing, we noted the following:

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Lack of Support for Contractual Expenditures</u> (Continued)

- Lodging expenses, totaling $1,427, were reimbursed for a one-night stay in Omaha, Nebraska, and three nights in Beijing, China. This reimbursement amount exceeded by $520 the General Service Administration (GSA) and the U.S. Department of State per diem rates. There was no supporting documentation to substantiate the lodging chosen.

	Amount Paid (Average Room Rate)	Per Diem Amount	Excess of Per Diem	Total Excessive Payments
Omaha, Nebraska	$ 169	$ 102	$ 67	$ 67
Beijing, China	$ 409	$ 258	$ 151	$ 453
Total Excessive Payments above GSA				**$ 520**

Furthermore, the Department's contract with SME contains the following provision:

> *For expenses for <u>airfare</u> and for <u>lodging</u>, the SME Center must have the prior approval of the Department, in writing (an e-mail of approval from the Department will suffice), to incur such expenses. Absent such prior approval, such expenses will not be eligible for reimbursement.*

There was no documentation of the Department's prior approval for the claimed lodging. According to the Department, the SME Center travel to China was undertaken at the Department's request; therefore, the requirement for prior approval of lodging expenses was waived.

- SME was reimbursed for the purchase of train tickets for travel between Shanghai and Beijing, China. The individual paid $548 for roundtrip travel in business-class seating and $146 for one-way travel in first-class seating. The individual took the Chinese 'G-Train,' the fastest train in the country, which consists of second-class, first-class, and business-class seating options. According to "www.travelchinaguide.com," second-class seating cost only $87 for one-way travel. The first-class and business-class seating selections appear to have been unnecessary luxuries and, therefore, unreasonable expenditures for reimbursement.

- The receipts for a total of $3,694 in claimed travel expenditures in China were not translated into English.

- The Department failed to calculate properly the expense reimbursement document, causing an overpayment to SME of $19.

<u>UNMC</u>
The Department established the Nebraska Center (Center) in Japan to create a physical, business-related presence for Nebraska in that country. In addition to compensating the Executive Director of the Center for time worked through a separate agreement, the Department contracted with the University of Nebraska Medical Center (UNMC) to collect funding from sponsors of the Center and facilitate the making of payments to the Center for operating expenses. UNMC created the Nebraska Trade Center, LLC, to assist with that function.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Lack of Support for Contractual Expenditures (Continued)

UNMC made payments to the Center periodically for operating expenditures and then requested reimbursement from the Department. During the attestation, we tested a reimbursement to UNMC for $31,070. The only documentation on file to support the reimbursement was an invoice and a trial balance showing the amount paid by UNMC to the Center. The APA requested further documentation to substantiate the expenses, but the Department only provided a spreadsheet of the expenses. This was still not adequate to support the payment. During calendar year 2015, the Department reimbursed UNMC $76,650.

According to its contract with the Department, UNMC was required to obtain expense reports from the Center, including anticipated and actual expenses along with detailed invoices and related supporting documentation. UNMC would then provide documentation to the Department, as requested, including detailed invoices and supporting documentation. The contract states the following:

> *UNMC will provide documentation to the Department, as reasonably requested by the Department, regarding all of the following: (1) the anticipated and actual Operating Expenses of the Nebraska Center, including detailed invoices and supporting documentation; . . . .*

Despite this provision, our examination revealed that the Department did not obtain sufficient support from UNMC.

The APA asked why the Department had not requested supporting documentation to ensure that the reimbursement payments to UNMC were appropriate and reasonable. The Department provided the following explanation:

> *Since UNMC (another state agency) is the official entity with a contractual arrangement directly with the Nebraska Trade Center, actual copies of receipts are provided by the office in Japan to UNMC offices in Omaha. Those receipts are regularly reviewed and verified by UNMC who is subject to periodic audit by the State Auditor's Office.*

Regardless of the relationship between UNMC and the Nebraska Trade Center, the terms of the contract between the Department and UNMC require the latter to maintain support for expense reimbursements. It is reasonable, therefore, to expect the Department to review such support to ensure the propriety of its reimbursement payments to UNMC. The Department failed to do so, however.

Furthermore, audits performed by the APA should not be relied upon as control procedures by the Department, which is responsible for establishing and maintaining its own effective control environment.

Department of Labor
The Department contracted with the Nebraska Department of Labor (NDOL) to perform a labor availability study to be funded by a Federal Manufacturing Extension Partnership grant. We selected for testing a $90,161 payment to NDOL. The only documentation to support the payment was an invoice from NDOL and a general ledger summarizing the expenditures related to the request.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Lack of Support for Contractual Expenditures</u> (Continued)

Due to the lack of detailed support for the payment, the Department would be unable to ascertain whether the claimed expenditures were incurred for the availability study. Consequently, the Department would be unable also to determine the eligibility of those expenditures for the Federal grant.

Good internal controls require procedures to ensure that supporting documentation for contractual expenditures, including expense reimbursements, is obtained and reviewed to ensure that such costs are both reasonable and allowable.

Without such procedures, there is an increased risk that contractual payments will be made for unreasonable or unallowable costs, resulting in a misuse of State funds. Moreover, when documentation supporting the expenditure of Federal funds is not reviewed, there is an increased risk that unallowable costs could lead to Federal sanctions.

> We recommend the Department implement procedures to require the review of supporting documentation – including the translation of records into English, as needed – for all contractual expenditures to ensure that such costs are both reasonable and allowable and, when Federal grant money is involved, compliant with applicable regulatory mandates.

Department's Response: <u>JZW International Development, LLC</u>. The Department will give this finding full consideration and appropriate reforms will be implemented. Measures have been taken to train personnel and restructure control measures to ensure policies are followed. As a matter of clarification, DED did respond to the APA request that support be obtained from JZW concerning a non-itemized receipt. DED responded that there was no itemized receipt. The Department's international staff works closely with JZW staff and communicates with them multiple times each week. International staff is fully aware of work being done by JZW; however, DED agrees that more detailed documentation of the activities of contractors is appropriate.

APA Response: The Department's response to APA's request for the detailed receipt was as follows: "…the contract requires that requests for payment of expenses be supported by invoices detailing such expenses, along with adequate and sufficient substantiating documentation. DED agrees that credit card statements do not constitute adequate and sufficient substantiating documentation." The Department did not address the APA's request for the detailed receipt.

Department's Response: <u>SME Center</u>. In the case for the lodging in Omaha, SME staff accompanied a Chinese delegation of investors to the Berkshire Hathaway Annual Meeting event, to provide logistical service as well as technical services such as translation. The Berkshire Hathaway event draws thousands of people to Omaha each year. As a consequence, the surrounding area hotels were booked well in advance of the event which correlates with higher hotel rates.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Lack of Support for Contractual Expenditures</u> (Concluded)

In the case of three nights in Beijing, SME staff joined the Governor's Trade Mission and stayed in the hotel selected for the mission. Hotels are selected for security, logistics and amenities and services that best help conduct the mission. DED had directed SME staff to travel. However, DED is in the process of evaluating better documentation of the approval process for travel and expenses for contracted staff.

Regarding observation about the class of train travel in China, the individual agreed to take the 5-hour train ride instead of flying in order to reduce expenditures. First class train travel in China is equivalent to coach travel in the United States.

APA Response: The pictures observed online for second-class seating on this particular train appeared to be the equivalent to United States coach travel. Therefore, reimbursements for first-class and business-class travel were deemed to be excessive.

Department's Response: <u>Translation of receipts</u>. The Department has on staff an employee who is proficient in speaking and reading Mandarin and other Chinese dialects. However, DED will revise procedures to include printed translation with receipts, as needed.

<u>Nebraska Trade Center and UNMC</u>. The Department will give this finding full consideration and appropriate reforms will be implemented. DED will work with UNMC and the Nebraska Center Japan to obtain, review and file its own set of documentation for expenses incurred by the Nebraska Center Japan.

<u>Labor Availability Study, Nebraska Department of Labor</u>. The Research staff of the Department worked collaboratively with NDOL throughout this project and its design. The resulting report was received and is available on the DED website. The Department will continue to collaborate and monitor receivables.

2. <u>Affordable Housing Trust Fund</u>

Per Neb. Rev. Stat. § 58-702 (Cum. Supp. 2014), the Nebraska Affordable Housing Trust Fund (NAHTF) was created to assist "Nebraska communities in financing affordable housing projects and other projects which make the community safer for residents." During the calendar year ended December 31, 2015, the Department granted $9,351,431 in aid to communities for financially viable projects that served the lowest-income individuals.

<u>Congressional District Allocation</u>
In accordance with Neb. Rev. Stat. § 58-708(1) (Supp. 2015) the Department is required to allocate annually at least 30% of the funds available from the NAHTF to each of Nebraska's three congressional districts, as follows:

> *During each calendar year in which funds are available from the Affordable Housing Trust Fund for use by the Department of Economic Development, the department shall allocate a specific amount of funds, not less than thirty percent, to each congressional district.*

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Affordable Housing Trust Fund</u> (Continued)

The Department's Qualified Allocation Plan (QAP) granted a total of $8,500,000 for calendar year 2015. Therefore, at least $2,550,000 should have been allocated to each congressional district.

The Department received 43 grant applications and recommended 19 for an award. During our review of the allocations, we noted that District 2 received only 26% of the NAHTF money available, which was $325,000 less than required.

The following table provides a breakdown of the fund distributions by congressional district:

Congressional District	Amount Awarded	Percentage
1	$ 3,532,861	42%
2	$ 2,225,000	26%
3	$ 2,742,137	32%
Total	**$ 8,499,998**	**100%**

After being repeatedly questioned by the APA as to why the fund allocation to District 2 did not comply with the 30% minimum distribution requirement in § 58-708(1), the Department finally responded that the district did not have enough qualified projects to receive the full allotment; therefore, the Department chose to award less than the statutorily required amount. The Department acknowledged that no statutory or regulatory provisions allow this.

Without some legal authority upon which to rely when compliance with the 30% minimum distribution requirement in § 58-708(1) appears impractical, there is an increased risk that any responsive decision made by the Department will not only conflict with that clear statutory mandate but also give rise to concerns regarding possible official misconduct.

<u>Lack of Monitoring Procedures</u>
During testing of 15 NAHTF awards, totaling $7,313,707, we noted that the Department lacked policies and procedures for monitoring the allocation of funds. For 10 of the 15 projects tested, no monitoring procedures were performed to ensure that the payments made agreed to supporting documentation, adhered to the terms of the underlying contracts, and were reasonable and necessary.

Because the testing error rate was high, we asked the Department for a listing of all the affordable housing projects monitored during the calendar year. In response, the Department stated the following: "No Affordable Housing Trust Fund projects were monitored during the 2015 calendar year."

The Department did require grantees for rental housing and technical assistance projects to provide source documents, such as invoices, which the APA considered appropriate supporting documentation for reimbursement of expenditures. However, similar documentation was not required for other types of project awards.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Affordable Housing Trust Fund</u> (Continued)

During calendar year 2015, rental housing and technical assistance aid totaled $3,083,027, and all other aid totaled $6,268,404.

The following is a listing of the 10 projects tested for which the Department performed no monitoring procedures:

	Project Period	Amount Awarded	Amount Paid through 12/31/15
Project 1	10/9/2013 - 10/9/2016	$ 850,000	$ 643,116
Project 2	1/23/2012 - 1/23/2015	$ 617,000	$ 617,000
Project 3	8/22/2014 - 8/22/2017	$ 732,950	$ 499,470
Project 4	10/10/2012 - 10/10/2015	$ 445,000	$ 445,000
Project 5	11/28/2012 - 11/28/2015	$ 465,000	$ 430,118
Project 6	9/4/2014 - 9/4/2017	$ 442,252	$ 390,453
Project 7	1/20/2015 - 1/20/2018	$ 500,000	$ 380,000
Project 8	8/25/2013 - 8/25/2016	$ 444,600	$ 345,280
Project 9	10/23/2012 - 10/23/2015	$ 400,000	$ 318,585
Project 10	8/23/2013 - 8/23/2016	$ 300,000	$ 213,099
		$ 5,196,802	**$ 4,282,121**

Good internal controls require formal monitoring procedures to ensure that NAHTF grants are awarded and utilized as intended and in adherence with both contractual and statutory requirements. Without such procedures, there is an increased risk that monies awarded will be used improperly and not achieve the purpose of the program, resulting in a loss of State funds.

> We recommend the Department implement procedures to ensure compliance with statutory NAHTF award distribution requirements. For situations in which compliance with such distribution requirements appears impractical, we recommend the Department seek legislative redress. We also recommend the Department implement formal monitoring procedures for grant awards.

Department's Response: <u>Distributions</u>. DED will seek legislative or regulatory redress for instances where there are insufficient qualified projects to meet the statutory fund allocation amounts.

<u>Monitoring</u>. The Department utilizes monitoring policies and procedures for NAHTF projects that include monitoring checklists and a risk analysis for determining proper methods for onsite or desktop monitoring reviews. In addition, depending on the type of NAHTF projects funded, other forms of review are completed that include: rent and income reviews; draw down reviews;

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Affordable Housing Trust Fund</u> (Concluded)

and final financial reports. During the 2015 Calendar Year, no onsite monitoring reviews were completed for NAHTF projects. The Department is further evaluating its monitoring policies and procedures, and working with staff to ensure additional onsite and desktop monitoring reviews are conducted, in addition to the completion of other forms of review mentioned above.

3. <u>Lack of Monitoring Procedures for the Commercialization Program</u>

The Department contracted with Invest Nebraska Corporation (INC), a Nebraska non-profit 501(C)(3) corporation, to administer the Commercialization Program (Program). INC was incorporated in February 2002. The management personnel during the calendar year and current Board of Directors were as follows:

Mark Crawford, CEO	Dan Hoffman, COO
Dr. Michael Dixon, Board Chairman	Richard Baier, Board Secretary
Paul Eurek	Sylvester Orsi
Chris Roth, Board Treasurer	Dan Curran
Faith Larson	Jackie Ostrowicki

Testing two payments to INC for $500,000 and $450,000, we noted that the Department did not have written policies and procedures for the monitoring of the contract. Furthermore, the informal monitoring procedures upon which the Department relied were not adequately documented to ensure that INC was in compliance with both the contractual provisions and the objectives of the Program, as provided by State law.

The Business Innovation Act (Act) is set out at Neb. Rev. Stat. §§ 81-12,152 to 81-12,167 (Reissue 2014, Supp. 2015). The Act charges the Department with creating and administering various financial assistance programs to encourage innovation and support the development of new technology within the State of Nebraska.

Section 81-12,160(1) of the Act directs the Department to create the Program by doing the following:

> *[E]stablish a financial assistance program to provide financial assistance to businesses operating in Nebraska that . . . have a prototype of a product or process for the purposes of commercializing such product or process.*

The Department's administration contract with INC was for the period January 1, 2014, through December 31, 2015, and was funded by State general funds totaling $4,200,000 (consisting of $4,000,000 in Program funding and $200,000 for administrative expenditures).

Sections 81-12,160(3) & (4) of the Act provide the following requirements for the distribution of financial assistance under the Program:

> *(3) Funds shall be matched by nonstate funds equal to fifty percent of the funds requested. Matching funds may be from any nonstate source, including private foundations, federal or local government sources, quasi-governmental entities, or commercial lending institutions, or any other funds whose source does not include funds appropriated by the Legislature.*

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Lack of Monitoring Procedures for the Commercialization Program (Continued)

> *(4) The department shall not provide more than five hundred thousand dollars to any one project, and such financial assistance shall not exceed fifty percent of the cost of the project. The department shall not award more than two million dollars per year for financial assistance under this section.*

The APA requested documentation of monitoring procedures performed by the Department for the Program. In response, the Department replied that, under its administration contract with INC, that entity was responsible for ensuring compliance with the provisions of the agreement and, therefore, applicable State law.

When entering into service contracts, the Department should ensure that an adequate monitoring of services is being performed prior to payment. The APA reviewed specific contractual provisions for which documentation of such review is necessary:

- The APA requested documentation to support the Department's monitoring of the Act's matching funds requirement, as referenced in the Recitals Section, Part H, of the INC contract:

  > *The BIA requires that matching funds be provided for the various types of financial assistance provided under the Act. Details on the matching funds required under this contract (and other limitations) are provided in § 1.03 of this contract. Contractor will ensure that appropriate matching funds are contributed to each project for which financial assistance is provided (investments are made) through the Commercialization Program.*

  Section 1.03(4) of the INC contract states, in part, the following:

  > *Contractor will ensure that required matching funds are contributed to each project for which financial assistance is provided from the Commercialization Program. Because the financial assistance provided will occur in the form of an investment made by Contractor in the business receiving the financial assistance, all matching funds (from all sources) must be committed to be invested in the business for the commercialization project <u>before</u> the Department will disburse funds to Contractor to make the investment. Contractor must substantiate that required matching funds are committed to each project with documentation in a manner and form acceptable to the Department. Failure of Contractor to ensure that matching funds are committed to each commercialization project, and to adequately document same, will result in the Department not honoring requests for disbursement of Program Funds.*

  The Department lacked documentation to support that the monitoring procedures were adequate to ensure the statutory matching fund requirements had been met. The APA requested that the Department obtain this documentation from INC. The Department did so and INC compiled a list of investors and bank statements showing the matching dollars provided. However, the documentation did not include support that the matching investments were actually made, such as a promissory note between the private investor and the company. The APA requested this additional information from the Department, which was subsequently provided by INC. The Department's monitoring procedures were not adequate and should have included a documented review of support for the matching requirement, including documentation of investments actually made by the businesses.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Lack of Monitoring Procedures for the Commercialization Program (Continued)

- The APA requested documentation of the Department's monitoring of the agreements between INC and the businesses for the two payments tested, as outlined in § 1.04(a) of the contract. That provision states, in part, the following:

  > *When approved by the Department to provide financial assistance to a business (make an investment), Contractor will execute any necessary agreements with the business (and any others parties, as may be necessary) and prepare to make the investment via a stand-alone convertible note or as part of a minimum qualified round of financing. Contractor's agreement with the business must address all of the Commercialization Program requirements applicable the project, must include appropriate mechanisms for enforcing the Commercialization Program requirements, and must include reasonable penalties on the business for failure to complete the project.*

  The Department did not have documentation of the monitoring of this provision. During the attestation, the Department requested the documentation from INC, which provided the stand-alone convertible note for the two projects tested. However, there were no agreements between INC and the businesses that addressed all of the Program requirements applicable to the projects, appropriate mechanisms for enforcing the Program requirements, and reasonable penalties on the businesses for failure to complete the projects. The Department should have performed a documented review of support to ensure that INC had the necessary agreements with the businesses.

- The Department did not have documentation to show that Program funds disbursed to INC were invested in the businesses in a timely manner, as required by § 1.04(a) of the contract. That provision states, in part, the following:

  > *If Contractor does not make the investment within thirty (30) days from the date Program Funds were disbursed to Contractor for the investment, Contractor will return the Program Funds to the Department.*

  The Department should obtain and perform a documented review of support that INC was in compliance with the contractual requirement that investments be made in a timely manner.

- Section 1.04(d) of the contract requires INC to provide the Department with the following:

  > *[A] plan for the returned capital from the Commercialization Program, including profits, income and invested capital, from investments made with Commercialization Program funds.*

  INC provided the Department with a plan that stated, in part, the following:

  > *INC will serve as administrator of the returned capital funds and provide the Department quarterly reports. Such quarterly reports will describe the use of returned capital proceeds including program operational costs and administrative costs, total amount of returned capital deployed, total amount of returned capital, and any other information requested by the Department. Such reports will be received no later than ten (10) days after the end of each calendar quarter.*

COMMENTS AND RECOMMENDATIONS
(Continued)

3. **Lack of Monitoring Procedures for the Commercialization Program** (Continued)

The Department did not receive quarterly reports from INC, as outlined in the plan; therefore, the required monitoring of the use of returned capital proceeds could not have occurred. Furthermore, neither the contract with INC nor the plan addressed what would occur with the returned capital funds held by INC if the contract were to terminate. The following is a summary, provided by the Department, of the returned capital funds held by INC as of December 31, 2015:

	Amount
Money Market Bank Account	$ 959,030
Investments	$ 699,225
Total	**$ 1,658,255**

- The APA noted that both the CEO and COO for INC had accepted positions on the boards of companies that received financial assistance through the Program. One of the managers assumed that duty prior to awarding monies to the company and the other began soon after awards were made to the companies. Though not prohibited by law, such activity could give rise to the perception of a possible conflict of interest. In addition to causing concerns about the impartiality of the award process, any such perceived impropriety could cast a shadow upon the decision of the INC manager to serve on the company's board, especially if personal compensation is involved.

There are other sections of the contract that the Department should review and consider when implementing procedures for the adequate review of contractual services provided by INC. A lack of such procedures increases the risk for misuse of State funds.

In addition to the contract to administer the Program tested, the Department had several other contracts with INC. Reviewing the Department's monitoring of INC for the Nebraska Progress Loan and Seed Program, the APA noted that annual monitoring was required by the Federal program. The Department did comply with the Federal monitoring requirements.

While considering our suggested areas for improvement in monitoring the Commercialization Program contract, it may be necessary for the Department to examine whether adequate monitoring procedures are being performed for other programs administered by INC.

The following table outlines the Department's active contracts with INC, as of December 31, 2015:

Program	Contract Period	Total Contract Amount	Admin. Expenses (included in contract amount)	Funding Source	Matching Amount (provided by private sources)	Amount Paid to INC through 12/31/2015
Nebraska Operational Assistance Program and Business Innovation Act	11/1/11 to 6/30/16	$ 1,978,754	$ 824,445	General Fund 10000	$ 388,488	$ 1,352,376

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Lack of Monitoring Procedures for the Commercialization Program (Continued)

Program	Contract Period	Total Contract Amount	Admin. Expenses (included in contract amount)	Funding Source	Matching Amount (provided by private sources)	Amount Paid to INC through 12/31/2015
Business Innovation Act Commercialization Program	11/1/11 to 6/30/16	$ 7,900,000	$ 300,000	General Fund 10000	$ 7,600,000	$ 7,042,404
Nebraska Progress Loan and Seed Program	12/1/11 to 3/31/17	$ 3,840,000	$ 240,000	NE Progress Loan and Seed Fund 47250	$ 3,600,000	$ 2,390,847
Business Innovation Act Microenterprise Program	1/11/2013 to 11/7/2016	$ 400,000	$ 10,000	General Fund 10000	$ 140,000	$ 400,000
	Totals	**$14,118,754**	**$1,374,445**		**$11,728,488**	**$11,185,626**

Note: The contract period includes the initial contract and any amendments and/or renewals thereto.

According to the Department, the first contract with INC was competitively bid in 2007. However, all subsequent contracts were approved as a deviation from the contractual services bidding requirements, as the Department had determined INC to be a sole source provider due to the uniqueness of the services required.

The Department first remitted monies to INC in February 2004. From February 2004 until July 7, 2016, the Department had paid INC, $13,057,380. This consisted of programming funding and funding to INC for administrative costs. Funding sources consisted of general funds, cash funds, and Federal funds. The breakdown of expenditures by fiscal year is as follows:

Fiscal Year	Amount	Fiscal Year	Amount
Fiscal Year 2004	$ 50,000	Fiscal Year 2011	$ 259,307
Fiscal Year 2005	$ 100,000	Fiscal Year 2012	$ 289,021
Fiscal Year 2006	$ -	Fiscal Year 2013	$ 2,764,693
Fiscal Year 2007	$ 20,000	Fiscal Year 2014	$ 2,295,853
Fiscal Year 2008	$ 50,000	Fiscal Year 2015	$ 3,203,321
Fiscal Year 2009	$ 141,967	Fiscal Year 2016	$ 2,924,361
Fiscal Year 2010	$ 300,479	7/1/2016-7/7/2016	$ 658,378
		TOTAL	$ 13,057,380

Note: The difference between the total $13,057,380 paid to INC since inception and, as set out in the previous table, the total $11,185,626 for active contracts is the result of payments made after December 31, 2015, totaling $1,025,303 as well as payments on contracts no longer active at that date or non-contractual services provided from February 2004 through December 31, 2010, totaling $846,451.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Lack of Monitoring Procedures for the Commercialization Program</u> (Continued)

A good internal control plan requires the Department to develop written procedures to accomplish the following: 1) the monitoring of INC's performance under the contract to ensure compliance with both contractual and statutory requirements; 2) the avoidance of any perception of a possible conflict of interest that could arise from an INC manager's acceptance of a position on the board of a company that has received financial assistance through the Program; and 3) the periodic competitive bidding of contracts to ensure that the best possible vendor is selected to administer the programs.

Without such procedures, there is an increased risk that contractual and statutory requirements will not be met, and monies awarded will be misused and not achieve program objectives.

> We recommend the Department develop written procedures for monitoring INC's performance under the contract to ensure all contractual and statutory requirements are met. Such procedures should also seek to prevent any perception of a possible conflict of interest that could arise from an INC manager's acceptance of a position on the board of a company that has received financial assistance through the Program. The Department should also consider amending its agreement with INC to specify the disposition of returned capital funds upon termination of the contract between the two parties. Finally, the procedures should require the periodic competitive bidding of contracts to ensure that the best possible vendor is selected to administer the programs.

Department's Response: <u>Written monitoring procedures.</u> The Department contractually requires INC to provide the Department with representation on INC's Board of Directors and all standing Committees adhering to Industry standards and best practices. In addition, INC bylaws require the same. The Department also contractually requires, and has been provided, quarterly reports regarding INC's administration of the Commercialization program. Through the Department's INC Board and standing committee seats, INC provides the Department with monthly INC financials as well investment documentation ensuring compliance of the agreement and applicable state law, including statements substantiating that the matching funds are contributed.

For each investment approved by the Department, the Department requires an investment memo from INC which includes:

- *Confirmation applicable program requirements will be met*
- *Terms of the agreement between INC and the business*
- *Penalties (if applicable) for failure to complete projects or meet performance milestones.*

The Department provided the APA with Investment memos for the two tested payments. In light of the APA comment, the department will evaluate the need for additional procedures for further monitoring of INC's performance under the contract.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Lack of Monitoring Procedures for the Commercialization Program (Concluded)

Timing of proof of funds invested. Although the Department receives investment confirmation via INC monthly financials provided to board members, the Department will require INC to provide separate documentation confirming the date of investment within 30 days from the date program funds were disbursed.

Plan for returned capital and conflict of interest. The Department will amend the returned capital plan to address what would occur with the returned capital held by INC if the contract were to terminate.

INC is a private firm that functions as a venture development organization. In the case of early stage venture investment organization (VDO), INC has a responsibility to mitigate investor risk and promote the likelihood of success. Board representation is the only way for a VDO to uphold its responsibility to the investor and the company itself. Further, such seats are uncompensated and represent necessary access to portfolio companies as a mechanism to monitor their investment. INC also has a board approved conflict of Interest policy in place. Other noted board seats held by INC were required as terms of INC's investment and were also a result of the investment and resulting stewardship by INC.

RFP. The Department competitively bid for services performed in the INC contract in 2016. INC was the only bidder.

APA Response: During the APA's review of the Program there was an overall lack of control procedures to review documentation required in the contract. As stated, the Department should implement written policies and procedures for the review of certain key documentation to ensure INC is in compliance with both contractual requirements and State law for the Program.

4. Community Development Block Grant Procedures

The Community Development Block Grant (CDBG) is a Federal program designed to provide funding to develop viable communities through decent housing, suitable living environments, and expanded economic opportunities primarily for low- and moderate-income individuals. During our review of 10 payments made to local communities, totaling $1,869,102, we noted a lack of monitoring to ensure the funds were being paid in accordance with Federal regulations. Furthermore, we noted that one project was funded with new Federal monies instead of from the State's revolving fund in accordance with the State's plan approved by the Federal Housing and Urban Development (HUD) agency.

During calendar year 2015, the Department expended $7,507,075 in aid for the CDBG program.

Lack of Monitoring

For 3 of 10 payments tested, the Department did not perform monitoring procedures or obtain supporting documentation, such as invoices, to substantiate that expenditures requested for reimbursement were made in accordance with contractual provisions and State and Federal regulations.

4. Community Development Block Grant Procedures (Continued)

The following table summarizes the three payments tested:

	Contract Period	Contract Amount	Amount Paid Through 12/31/2015	Payment Amount Tested
Project 1	11/10/2014 - 2/10/2016	$ 150,000	$ 144,000	$ 125,733
Project 2	10/9/2013 - 1/9/2016	$ 322,200	$ 223,378	$ 170,680
Project 3	6/23/2014 - 10/23/2015	$ 250,000	$ 250,000	$ 82,822
Total		**$ 722,200**	**$ 617,378**	**$ 379,235**

For Project 2, on-site monitoring procedures were performed while the APA was conducting the attestation. For Project 3, supporting documentation, such as invoices, was on file; however, there was no documented review of the support.

OMB Circular A-133 § __.400(d) states, in relevant part, the following:

> *A pass through entity shall perform the following for the Federal awards it makes . . . (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

In accordance with OMB Circular A-133, the Department has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A good internal control plan requires that adequate documentation be maintained to support amounts claimed by and paid to subrecipients and that procedures be in place to ensure subrecipients are utilizing Federal funds passed through for authorized purposes and in compliance with all applicable regulations at least annually.

Without formal procedures for the monitoring of project activity, there is an increased risk for the misuse of Federal funds and non-compliance with Federal regulations, which could result in sanctions from the Federal awarding agency. A similar finding was noted during the Statewide Single Audit for the fiscal year ended June 30, 2015.

Use of Funding Stream
During testing, we reviewed projects to ensure that they were properly funded either with new Federal funds or from the CDBG State Revolving Loan Program in accordance with the Department's approved Annual Action Plan. One of the projects tested started during 2012 and had a maximum contract amount of $605,000. The project was funded from new Federal funds during 2012; however, it appears that the project should have been funded from the Revolving Loan Program.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Community Development Block Grant Procedures</u> (Continued)

24 CFR 570.489(f)(2) (April 1, 2015) states, in part, the following:

> *The State may establish one or more State revolving funds to distribute grants to units of general local government throughout a State or a region of the State to carry out specific, identified activities . . . . Program income in the revolving fund must be disbursed from the fund before additional grant funds are drawn from the Treasury for payments to units of general local government which could be funded from the revolving fund.*

The Department's 2012 Annual Action Plan (Plan) for Housing and Community Programs states the following:

> *The State is seeking to provide a policy for use of program income that coordinates local and State resources to the fullest extent possible. The State is responsible for ensuring that program income at the State and local levels is used in accordance with applicable federal laws and regulations. Federal regulations also allow the State to require the return of program income provided the local government has an opportunity to propose a reuse for the same activity, which is defined as:*
>
> *For economic development grantees, as any eligible Economic Development (ED) activity under Title I of the Housing and Community Development Act of 1974 (as amended) to an eligible business that will support the state's economic base, create or retain jobs, principally for the benefit of LMI persons, and meet a national CDBG objective.*

The Department was unable to provide support that the funding used was proper. During calendar year ended December 31, 2012, the State Revolving Loan Program had a fund balance of $5,861,347. By calendar year ended December 31, 2015, the balance had grown to $10,168,981. There is concern that the Department is not properly funding projects from the Revolving Loan Program when required, which depletes the amount of new Federal funding available for other types of projects. This has left a considerably large balance in the Revolving Loan Program.

> We recommend the Department implement policies and procedures to ensure project expenditures are reviewed annually for compliance with Federal regulations. These procedures should include obtaining supporting documentation for amounts claimed or performing subrecipient monitoring procedures that include a review of financial activity during the year. Furthermore, we recommend the Department implement policies and procedures to ensure Revolving Loan Program funds are used when required.

Department's Response: <u>Monitoring</u>. The Department will continue to review its procedures to ensure that project expenditures are reviewed annually for compliance with Federal regulations. The Department implemented CDBG Policy 15-01 Draw Down Source Documentation for CDBG Projects July 1, 2015 for source documentation submission with administration and non-administration CDBG draws. The Department also revised its CDBG Grant Administration Manual to include submission source documentation for: all Economic Development (ED) projects; requests $100,000 or greater; and equal 25% or greater CDBG amount awarded. The

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Community Development Block Grant Procedures (Concluded)

CDBG compliance monitoring procedures and checklists for desktop and on-site monitoring were revised to include the review for CDBG source documentation according to the policy. The CDBG financial component of the database for recordkeeping was updated for reporting the status of CDBG drawdowns according to the policy. The reports assist financial staff and program representatives in the request of source documentation for tracking and monitoring CDBG expenditures. The Department also set a procedure for the review of CDBG drawdowns for CDBG grants during each fiscal year that funds are drawn.

Funding Stream. The Department will continue to review its procedures to ensure that CDBG Economic Development Category projects are funded under the HUD CDBG allocation or the State Revolving Loan Fund (RLF) Program. The Department has made revisions to its policies and procedures since the 2012 Annual Action Plan (AAP), and has developed a State RLF policy for funding CDBG ED projects. The Appendix for the 2015-2019 Consolidated Plan and 2015 AAP and the 2016 AAP states that the RLF will be used for direct loans to businesses by communities for non-infrastructure related activities using business loans. The CDBG ED allocation will be used for ED infrastructure development projects, both public and private.

5. Job Training Grant Program

Per Neb. Rev. Stat. § 81-1202 (Reissue 2014) et seq., the Department administers the Job Training Grant Program, which provides employee training assistance to businesses that maintain, expand, and diversify the State's economic base while retaining and creating jobs for Nebraskans. Aid payments made from the Job Training Grant Program totaled $2,503,945 during calendar year 2015.

We tested five job training grants, with expenditures totaling $1,446,195 during calendar year 2015, and noted the following:

- The Department lacked written policies and procedures for monitoring recipients to ensure compliance with grant requirements prior to reimbursement of training costs. Two grants did not have monitoring procedures performed by the Department. The grant awards totaled $399,000 and $200,000. Furthermore, the remaining three grants had paystubs on file from the recipients; however, it was unclear what review procedures, if any, had been performed by the Department to ensure the requirements for reimbursement were met. These three grant awards totaled $1,150,500.

- In order to be eligible for a job training grant, the jobs created must meet the prevailing average wage, as mandated by Neb. Rev. Stat. § 81-1203(2)(a) (Reissue 2014). The Department had not updated the wage information since the third quarter of 2013. We obtained and compared the most recent wage information available for each of the five grants tested and noted no issues.

- One grant was not approved by the Deputy Director in accordance with the Department's procedures. The grant award totaled $471,000.

5. Job Training Grant Program (Concluded)

- One grant did not have a program schedule for the training project in accordance with Neb. Rev. Stat. § 81-1203(1)(d). The grant award totaled $200,000.
- Contrary to Neb. Rev. Stat. § 81-1203(5), one grant recipient did not submit to the Department the required annual report for 2014. The recipient's contract began in August 2013, but only the 2015 report was on file. The grant award totaled $407,500.

Good internal controls require formal procedures for ensuring that job training grants comply with State law, are properly approved by authorized personnel, and are adequately monitored to ensure reimbursements are proper and in accordance with the grant requirements. Without such procedures, there is an increased risk for abuse of State funds.

A similar finding was noted during the previous attestation examination.

> We recommend the Department implement monitoring procedures to ensure job training grants comply with State law, are properly approved by authorized personnel, and are adequately monitored to ensure reimbursements are proper and in accordance with the grant requirements.

Department's Response: Monitoring. The Department will give this finding full consideration and appropriate reforms will be implemented. Currently, the Department conducts at least one desktop monitoring of each grant. The Department monitors different aspects of the reimbursement request to ensure the awardee complies with the contract. When deemed necessary, the Department will conduct a site audit and review business records pertaining to the job-training project.

Update Form-Wage Information. The Department updated the wage information on the website on July 18th, 2016. The new data is from the first quarter of 2016.

Proof of Deputy Director Approval- One grant. It is the Department's procedure to request final approval from the Deputy Director and to add the approval to the file.

6. Lack of Segregation of Duties Over Receipts

We noted the following, which indicates a lack of segregation of duties over the receipt process: 1) only one individual opened the mail containing cash or checks; 2) that same individual prepared the deposit document; and 3) there was no initial listing of monies received. Additionally, program staff was given the monies to record the payments in their receivable ledgers, but finance personnel did not have procedures to ensure all monies were received back for depositing. Program staff also did not always reconcile their receivable ledgers to the State accounting system to ensure all payments received and logged were actually deposited.

6. Lack of Segregation of Duties Over Receipts (Concluded)

During calendar year 2015, the Department processed and deposited approximately $2.4 million in manual receipts.

A good internal control plan requires an adequate segregation of duties to ensure that no one individual is able both to perpetrate and to conceal errors or irregularities. Without an adequate segregation of duties, there is an increased risk for misuse or theft of State funds.

> We recommend the Department implement procedures to ensure an adequate segregation of duties exists, so individuals are not in a position both to perpetrate and to conceal errors and irregularities. The Department should consider having two individuals open the mail and document the monies received for the day. A separate individual should prepare the deposit document and reconcile monies received to the amount logged in by the individuals who open the mail. Furthermore, Program staff should avoid handling monies received and, after receipts are logged, should reconcile their separate ledgers to the State accounting system.

Department's Response: The Department will give this finding full consideration and appropriate reforms will be implemented. Department has implemented a procedure where two individuals open and distribute mail and prepare receipts for any checks received by the department. Checks will be placed in locked storage until a separate individual prepares the deposit at least two times per week.

7. Trade Mission Expenditures

During calendar year 2015, the Department organized two separate Governor's trade missions. The first took place in June 2015 to Italy, Belgium, and Denmark (European trade mission). The second occurred during September 2015 to China and Japan (Asian trade mission). We tested several travel expenditures related to the missions and noted that the Department lacked written, formal policies regarding trade mission expenditures, such as when other State agency staff or delegates from a private business would have expenditures paid by the Department with no reimbursement.

Furthermore, the Department was unable to provide a detailed budget of expected costs for each of the trade missions. During the examination, we tested $83,646 in expenditures related to the trade missions. As there was no detailed budget, and the Department did not account for the expenditures separately within the accounting system, the total cost of the trade missions to the State during the calendar year is unknown.

The following table shows the number of delegates who participated in the June 2015 European trade mission:

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Trade Mission Expenditures (Continued)

Delegate Members	Number of Members
Governor's Office	4
Department of Economic Development	3
Department of Agriculture	3
Nebraska Corn Board	1
Nebraska Ethanol Board	1
Nebraska Wheat Board	1
Nebraska Innovation Campus	2
Non-State Employees	19
Total Delegate Members	**34**

Additionally, two State Patrol officers were in attendance.

A listing of delegates was not included in the agenda for the September 2015 Asian trade mission. Nevertheless, each event or dinner had a separate listing of individuals. Based upon those documents, there appears to have been four Department staff, three Governor's Office staff, and two State Patrol staff.

According to discussions with Department representatives, the Department's informal policy was to pay directly all of the Governor's travel expenses for the trade missions. Travel-related expenses for staff from the Governor's office and other agencies were to be reimbursed to the Department for their travel-related expenditures.

During testing, we noted the following:

- The Department reimbursed one staff member for $198 spent on boxed meals for the delegate group that traveled on June 8th to the Inalca beef processing facility in Italy. According to the trade mission agenda, 29 delegates were in attendance. Of the 29 delegates only four were payable by the Department. On average, the boxed meals cost $7 per person. Therefore, the Department paid $175 in non-Department related meals.

- That same evening, a Department staff member paid and was reimbursed for a delegate dinner costing $1,222. According to the trade mission agenda, 21 delegates attended, and only 2 were Department staff. The Governor and Department Director were not present at the dinner. According to the receipt, there were 20 meals and the average meal cost $61; therefore, the Department incurred $1,098 in non-Department meals. Furthermore, the receipt was not detailed as to what items were purchased. Based on the receipt, it appears that reimbursements could have been made for the purchase of wine, beer, and liquor. It is unknown, however, what those charges might have been. According to the Department, alcohol was not part of the dinner. See receipt on **Exhibit C**.

7. Trade Mission Expenditures (Continued)

- On June 15th, the Department staff member paid and was reimbursed for a delegate breakfast costing $202. The breakfast was optional; therefore, it is unknown how many individuals attended. However, the meal included 21 coffees, 21 waters, 21 spring waters, and cake.

- The lodging costs incurred by staff in Copenhagen, Denmark, were in excess of the U.S. Department of State's foreign per diem rates of $227 each night. Staff incurred charges ranging on average from $370 to $385 each night for three to six nights. The Department provided an explanation for why the hotel was selected, which appeared reasonable; however, the Department was unable to provide documentation that this hotel was recommended by the U.S. Embassy in Copenhagen or provide detailed budgets supporting the reasonableness of the lodging accommodations.

- Two monthly purchase card transactions were reviewed in detail, and the following was noted:

  - The Department paid for 24 entrance tickets and 24 train tickets for delegate members to attend an Expo during the European trade mission. The expenses totaled $2,489. Only four individuals were payable by the Department. Therefore, the Department incurred $2,074 in non-Department related expenses. The APA asked if any of the expenditures had been reimbursed by attendees, and no response was received.

  - The Department incurred travel expenditures, such as plane tickets, visa application fees, etc., totaling $6,685 for the Governor's Office staff and $4,717 for the State Patrol. We asked if the expenditures had been reimbursed, as the original expenditure had been incurred in September 2015. The Department did not respond but instead requested reimbursement from the agencies in June 2016, after our inquiry into the matter. Furthermore, after our questioning of the travel expenses, the Department identified additional expenditures in a separate transaction paid in October 2015. Reimbursement was requested for $714 in Governor's office expenses and $1,429 in State Patrol expenses. The Department does not appear to have been following its informal policies for reimbursement of expenses from other State agencies.

- During the Asian trade mission, the Director paid for her travel expenses along with those of the Governor's staff and was later reimbursed by the Department. The reimbursement included the costs of lodging, food expenses, conference room rentals, mileage, fees, etc. The Governor's office incurred $1,046, which should have been reimbursed. However, the Department never billed the Governor's office. After it was brought to the Department's attention during the attestation, the Governor's office reimbursed the Department in April 2016.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. <u>Trade Mission Expenditures</u> (Concluded)

There was no documentation to support that the receipts provided during our testing had been reviewed in detail, as receipts in foreign languages were not translated to ensure that the costs being reimbursed were reasonable. According to the Department, if there were concerns about an expense, the receipt would be translated; however, the translation was not documented. It would likely be difficult to identify concerns regarding an expense if the receipts were not translated.

Good internal controls require adequate policies and procedures to ensure the following: 1) travel-related expenditures are reviewed in detail for reasonableness; 2) billable expenditures are appropriately billed; 3) written policies regarding trade missions are on file at the Department; 4) detailed budgets are established to ensure expenses are reasonable and proper; and 5) detailed receipts are on file in accordance with the State Accounting Manual published by the Department of Administrative Services (DAS). Policies – AM-005, Travel Policies, Section 8 of the manual contains the following:

> ***Receipts –*** *Detailed receipts are required as support for all expenditures except immaterial items identified by the Director of Administrative Services . . . . The requirement to provide detailed receipts includes, but is not limited to, food/meals, lodging, car rental, commercial travel, and registration fees. The requirement is an internal control feature to guard against duplicate payment of claims.*
>
> *Detailed receipt is defined as a receipt that shows a listing of each item purchased and the related cost. Detailed receipt does* ***not*** *include the receipt copy that only identifies an amount is being charged to the employee's credit card.*

Without adequate policies and procedures related to trade mission expenditures, there is an increased risk expenses will be inconsistently treated, reimbursements will not be obtained when required, and unreasonable reimbursements will be made.

> We recommend the Department establish written policies regarding trade missions, including detailed budgets to ensure expenditures are reasonable. Furthermore, we recommend the Department ensure expenditures incurred on behalf of non-Department staff are billed accordingly and in a timely manner, all receipts are reviewed and translated for reasonableness, and detailed receipts are on file in accordance with the State Accounting Manual.

Department's Response: The Department will give this finding full consideration and appropriate reforms will be implemented.

8. Employee Travel Expenditure Issues

We tested 12 travel expenditure documents. Ten were for employee travel, and one was a transportation service bureau document for vehicle rentals. The other was a Department of Aeronautics flight billing. During testing, we noted the following: 1) improper meal reimbursements; 2) lack of detailed receipts; 3) excessive meal reimbursements; 4) incorrect conversion rates; 5) expense reimbursement documents not completed in accordance with State statute; 6) excessive lodging costs, and 7) expense reimbursement documents not approved by supervisors.

For the calendar year ended December 31, 2015, the Department expended $386,334 in travel expenditures.

Meal Reimbursements
During testing, we noted that 8 of the 10 employee expense reimbursement documents had issues related to meal reimbursements, as follows:

- One employee had excessive meal reimbursements, totaling $184, when compared to the General Service Administration (GSA) per diem rates. The reason why the employee's meal costs exceeded the GSA rate was not documented. In August 2015, the employee traveled to New York and the surrounding states for meetings with prospective businesses. The average daily meal cost was $79, but the average GSA rate was only $72.

  The following table summarizes the five receipts responsible for the GSA rate being exceeded:

Date	Amount Reimbursed	GSA Amount Note	Amount in Excess of GSA
8/22/2015	$ 51	$ 36	$ 15
8/23/2015	$ 43	$ 12	$ 31
8/24/2015	$ 116	$ 54	$ 62
8/26/2015	$ 103	$ 45	$ 58
8/27/2015	$ 54	$ 36	$ 18
Totals	**$ 367**	**$ 183**	**$ 184**

Note: The meals on 8/24/2015 and 8/26/2015 included three individuals' meals; therefore, the APA multiplied the GSA rate by three.

Policies – AM-005, Travel Policies, Section 6 of the Accounting Manual published by DAS contains the following:

> *When requesting or approving food/meal costs, compare the average cost per day for the entire trip with the appropriate daily GSA rate. Exceeding the GSA daily rate by a small amount fits the State definition of reasonableness. Reasonableness in very limited cases may exceed such rates by larger amounts; however, the reasons must be fully documented.*

COMMENTS AND RECOMMENDATIONS
(Continued)

8. <u>Employee Travel Expenditure Issues</u> (Continued)

The same employee also arrived two days prior to the first scheduled meeting. One day was considered a travel day but there was no documentation as to why the extra travel day was necessary. The employee claimed $80 in meals and $199 in lodging on August 23rd, which appears to be unreasonable. We also noted the employee had four meals with excessive tips ranging from 22% to 28%, totaling $28.

Lastly, one employee claimed reimbursement for a lunch costing $30; however, the GSA rate was only $11. No documentation was provided to explain why the meal cost exceeded the GSA rate by $19.

- Five employees submitted reimbursement requests without detailed receipts. Policies – AM-005, Travel Policies, Section 8 of the DAS Accounting Manual states, in part, the following:

  Detailed receipts are required as support for all expenditures except immaterial items identified by the Director of Administrative Services . . . . The requirement to provide detailed receipts includes but is not limited to, food/meals, lodging, car rental, commercial travel, and registration fees.

	Number of Receipts	Amount Reimbursed
Employee 1 – Note	5	$ 140
Employee 2	1	$ 6
Employee 3	1	$ 51
Employee 4	3	$ 93
Employee 5	2	$ 41
Total	**12**	**$ 331**

Note: Three of the receipts were not listed on the employee's expense reimbursement form as meals; instead, they were combined with lodging costs, as these were room service and contained on the lodging billing. Meals should be detailed on the expense document.

- Two employees had meals that included alcohol. The employees properly reduced the cost of the alcohol from their reimbursement; however, they did not properly adjust the tax and tip. This caused overpayments totaling $7.

- One employee claimed reimbursement for a lunch costing $8; however, according to the DAS Accounting Manual, the employee was not eligible for reimbursement because her stop time for travel was prior to 2:00 p.m.

<u>Lodging Reimbursements</u>
For the employee discussed above with excessive meal reimbursements related to travel to New York and the surrounding states, we noted also that his lodging expenditures were unreasonable. The employee stayed in Manhattan; however, no meetings were scheduled there. According to the Department, Manhattan offered reliable and easy access to and from the hotel.

8. Employee Travel Expenditure Issues (Continued)

It was noted that the employee drove to the surrounding states for meetings and then back to the hotel each day. The GSA for Manhattan was $235 per day, and he paid on average $182 each day. However, if he had stayed in the cities where the meetings were held, the GSA rates would have been lower – between $83 and $155 or, on average, $131.

The APA re-routed the employee's travel and determined that he might have saved $306 in lodging costs if he had stayed elsewhere, as illustrated in the following table:

Date	Location Note	GSA	Rate Actually Paid (without taxes)	Amount Paid in Excess (Under) of GSA
8/22/2015	Lynnfield, MA	$ 83	$ 195	$ 112
8/23/2015	Lynnfield, MA	$ 83	$ 146	$ 63
8/24/2015	Franklin Lakes, NJ	$ 89	$ 181	$ 92
8/25/2015	New York City, NY	$ 235	$ 195	$ (40)
8/26/2015	Parsippany, NJ	$ 142	$ 195	$ 53
8/27/2015	Philadelphia, PA	$ 155	$ 181	$ 26
	Total	**$ 787**	**$ 1,093**	**$ 306**
	Average	**$ 131**	**$ 182**	**$ 51**

Note: Location represents the place meetings were held or the closest destination for a morning meeting.

It should be noted also that the employee had personal days until August 30, when he traveled back to Nebraska. As noted above, it also appears that the lodging on August 23 should have been a personal day.

Another employee stayed one night in an Omaha, Nebraska, hotel and wrongly paid $19 in lodging taxes. The Department should have direct billed the lodging establishment to avoid paying unnecessary taxes. Policies – AM-005, Travel Policies, Section 4 of the DAS Accounting Manual states, in part, the following:

> *Sales to the State of Nebraska and its agencies are exempt from Nebraska sales, use and lodging tax. Therefore, if in-state lodging expenses are directly billed to the agency, the agency should present a completed copy of Form 13 (Nebraska Resale or Exempt Sale Certificate) to the lodging establishment.*

Other Miscellaneous Travel Items
During testing, the following additional concerns were noted:

- Because three employee expense reimbursements contained foreign travel, some of the receipts provided were in a foreign language. The Department did not have documentation that the receipts were translated into English to ensure that the expenses

8. Employee Travel Expenditure Issues (Continued)

were reasonable and necessary. According to the Department, the receipts would have been translated had any concerns arisen regarding the propriety of the expenditures; however, documentation of the translation would not have been retained.

- One employee traveled with the Governor's European Trade Mission in June 2015. As documented on the credit card receipt, the employee did not use proper conversion rates. Finding the appropriate rates through OANDA.com, a Canadian-based foreign exchange company that provides online foreign currency transfers, the APA recalculated the expense reimbursements and determined that $113 had been overpaid.

- One employee's expense reimbursement was not properly calculated, causing an underpayment of $24.

- Three employees' expense reimbursement documents were not approved by a supervisor. The expenses reimbursed totaled $6,907. According to the DAS publication entitled *Expense Reimbursement Document "ERD" Guidelines*, the "ERD should be signed by an authorized person." In these cases, however, the expense reimbursement documents were signed by a member of the accounting staff. Being unfamiliar with the purpose of the travel being performed by Department staff, an accounting staff member would not qualify as an "authorized person" for purposes of approving expense reimbursement documents.

- One individual did not have a complete lodging bill on file. The Department had to request the billing from the lodging establishment after the document was requested by the APA. Lodging totaled $2,309. Without adequate support, it would be difficult for the Department to ensure that lodging reimbursements were proper. According to Policies – AM-005, Travel Policies, Section 8 of the DAS Accounting Manual, if lodging is "claimed on an expense reimbursement, detailed receipts for lodging are required to be filed with the claim."

- One employee requested a $17 reimbursement for the entrance fee to "Magic Entertainment." Only a credit card receipt was on file, and no detailed receipt was provided to verify that the charge was as noted on the expense reimbursement document.

- One employee's expense reimbursement document did not contain the purpose of the trip as required by Policy – AM-005, Travel Policies, Section 5, of the DAS Accounting Manual which states in part:

  > *To be reimbursed, the expense must be a necessary expense, incurred in the line of duty, reason/purpose of the expense must be clearly stated, all start/stop dates and times must be recorded, and the amount of the expense must be substantiated.*

8. <u>Employee Travel Expenditure Issues</u> (Continued)

Good internal controls require adequate procedures to ensure that meals, lodging, and other travel-related expenditures are properly supported, reasonable, adhere to State law and policies, and are calculated properly.

Without such procedures, there is an increased risk for abuse and loss of State funds.

> We recommend the Department implement procedures to ensure that meals, lodging, and other travel-related expenditures are properly supported, reasonable, adhere to State law and policies, are calculated properly, and are properly authorized for payment.

Department's Response: <u>Travel expenditure</u>. The Department will give this finding full consideration and appropriate reforms will be implemented. The Department recognizes that State Accounting policy recommends using federal maximum per diem rates as a guideline for reimbursement of meals expenses. Employees will be required to provide additional documentation if meal reimbursements for the day are more than the GSA per diem rates. The department policy will re-emphasize the need for employees to submit detailed receipts for all expenditures claimed on the reimbursement request. The department checklist used during review of expense reimbursement documents will be amended to emphasize items observed by the Auditor's Office.

<u>Meals</u>. The Department recognizes that State Accounting policy recommends using federal maximum per diem rates as a guideline for reimbursement of meals expenses. Employees will be required to provide additional documentation if meal reimbursements for the day are more than the GSA per diem rates. The department will re-emphasize the need for employees to submit detailed receipts for all expenditures claimed on the reimbursement request. For this reimbursement, many of the meals reimbursed were combined with meetings with business prospects and other Nebraska economic development professionals accompanying DED employee which limited choices. In future, employees will be asked to provide additional documentation.

<u>Employee Travel to New York</u>. The APA noted a perceived extra day of travel without work activity on August, 23, 2015. For August 23, 2015, the employee had scheduled a meeting with a representative from Koshii Maxelum America in Poughkeepsie, NY. The meeting was subsequently cancelled.

APA Response: The APA requested the daily itinerary for the travel, this narrative was not provided during the examination.

Department's Response: <u>Detailed receipts, miscalculated bill for $7, and ineligible lunch</u>. The Department will give the findings full consideration and appropriate reforms will be implemented.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Employee Travel Expenditure Issues (Concluded)

Direct Bill Hotel. The department encourages employees to request the government rate for lodging and request that the lodging establishment direct bill the cost to the department. This will be emphasized in revised department expense reimbursement policy.

Translation documentation. Documentation of the translation will be retained in the future.

Expense calculations including currency exchange. The Department will give this finding full consideration and appropriate reforms will be implemented. Exchange rates used by financial institutions and posted on websites vary depending on the type of transaction being conducted. Typically, the exchange rate posted on websites is used for bank to bank transfers. Rates used for credit card transactions normally include fees and a % adjustment resulting in a higher cost.

Lodging folio missing a page. The department acknowledges that one page of the lodging folio was not provided. However, the last page included sufficient detail that the department determined that only lodging costs for the nights of the stay were reimbursed. The department will require that all pages of the lodging folio are provided.

$17 Reimbursement. Because the department was unable to make arrangements for business meetings in Copenhagen on Sunday, the department was investigating possible options for members of the delegation that would be both entertaining and worthwhile. The admission to "Magic Entertainment" was actually for a street fair/farmers market in Copenhagen. Since a number of delegation members had agriculture/rural business ties, the department employee paid an entrance fee to the street fair/farmers market to see if it would be a viable option for delegation members.

Missing description of purpose for expense document. The Department will give this finding full consideration and appropriate reforms will be implemented. The department acknowledges that the employee did not specifically list the purpose for the trip. Because travel expenses reimbursed were associated with the employee's travel accompanying the governor on the trade mission, the department was aware of the purpose for the employee's trip.

9. Settlement Agreement

In October 2015, at the Governor's direction, the Department entered into a settlement agreement with the former Director of the Department for a payment totaling $14,286. The former Director started with the Department in February 2015 and terminated employment on October 1, 2015. The settlement amount was broken down into a lump sum payment of $10,000 plus $4,286 for estimated Federal and State income taxes.

The APA questioned both the necessity and the propriety of the agreement and inquired as to the nature of the claim(s) that the Director released to allow for the constitutionality of the settlement payment. Neither the Department nor the Governor's office were able to provide the APA with any documentation to support either the necessity or propriety of the agreement.

9. <u>Settlement Agreement</u> (Concluded)

According to discussions with the Legal Counsel for the Department of Administrative Services, the settlement agreement was determined to be necessary due to the former Director's detrimental reliance claim. In exchange for the settlement payment, the former Director agreed to resign her position and waive all claims – including that of detrimental reliance – against the Department. The settlement payment did not constitute, the Legal Counsel emphasized, compensation for prior services rendered.

Article III, Section 19, of the Nebraska Constitution prohibits gratuitous payments to public servants. That constitutional provision states, in part, the following:

> *The Legislature shall never grant any extra compensation to any public officer, agent, or servant after the services have been rendered nor to any contractor after the contract has been entered into . . . .*

The Nebraska Attorney General has explained the prohibition in Article III, Section 19, as follows:

> *[T]he purpose of state constitutional provisions such as Art. III, § 19 which prohibit extra compensation to public employee after services are rendered is to prevent payments in the nature of gratuities for past services.*

Op. Att'y Gen. No. 95063 (Aug. 9, 1995). Without adequate supporting documentation to substantiate the need for settlement agreements, there is an increased risk that such agreements will be negotiated in contravention of Article III, Section 19, and State funds will be spent unnecessarily.

> We recommend the Department ensure settlement agreements, such as that entered into with the previous Director, are adequately documented to support both the constitutionality and the necessity of the payments made.

Department's Response: The Department will give this finding full consideration and appropriate reforms will be implemented.

10. <u>HOME Program Monitoring</u>

The Department paid $2,924,020 during the calendar year ended December 31, 2015, in Federal aid to organizations through the Home Investment Partnerships (HOME) Program. The HOME program provides funding to communities to expand the supply of decent and affordable housing, particularly housing for low- and very low-income individuals.

For one of three HOME grants tested, no monitoring procedures had been performed for the grant period in compliance with Federal regulations. The grant was for a rehabilitation project and was not to exceed $450,000 for the period beginning August 2013 through December 2015. The Department had paid the entity $400,884 through December 31, 2015.

COMMENTS AND RECOMMENDATIONS
(Continued)

10. HOME Program Monitoring (Concluded)

The Department required source documents, such as supporting invoices, etc., from grantees for rental housing projects, but not for other types of projects, such as the rehabilitation project noted above. The additional two grants tested were rental housing projects. The APA asked the Department for a listing of the HOME projects monitored during calendar year 2015, and the following response was received from the Department:

> *During the 2015 Calendar Year, onsite monitoring visits were not conducted for HOME projects. However, other monitoring and compliance reviews for the HOME program were conducted that included: 1)Rent and Income Compliance Reports-Annually grantees provide this reporting and it is reviewed by the Department; and 2) HOME CHDO eligibility was reviewed prior to full application submittal during the HOME CHDO application cycle.*

OMB Circular A-133 § __.400(d) states, in part, the following:

> *A pass-through entity shall perform the following for the Federal awards it makes . . . (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

The Department did not have written policies and procedures regarding monitoring for the program and was unable to provide a reasonable explanation for why rental housing projects had source documentation for each payment, while other types of projects had not been monitored and no source documentation was obtained during the year tested. During calendar year 2015, the Department paid $2,050,540 in aid for rental housing projects and $873,480 for all other projects. The limited "monitoring and compliance reviews" that the Department referenced were inadequate to meet the Federal subrecipient monitoring requirements.

Good internal controls require policies and procedures to ensure that Federal grants administered by the Department are monitored appropriately. Without such policies and procedures, there is an increased risk for the misuse of Federal funds and non-compliance with Federal regulations, which could result in sanctions from the Federal awarding agency.

> We recommend the Department implement monitoring policies and procedures to ensure expenditures are for allowable activities in accordance with Federal regulations.

Department's Response: The Department utilizes monitoring policies and procedures for HOME projects that include monitoring checklists and a risk analysis for determining proper methods for onsite or desktop monitoring reviews. In addition, depending on the type of HOME projects funded, other forms of review are completed that include: rent and income reviews; draw down reviews; and final financial report review. During the 2015 Calendar Year, no onsite monitoring reviews were completed for HOME projects. The Department is further evaluating its monitoring policies and procedures, and working with staff to ensure additional onsite and desktop monitoring reviews are conducted, in addition to the completion of other forms of review mentioned above.

COMMENTS AND RECOMMENDATIONS
(Continued)

11. Payroll Issues

Lack of a Secondary Review of Payroll Reports
During our review of payroll procedures, we noted there was no secondary review of payroll reports by an individual without payroll access. Two individuals performed reviews of payroll to ensure accuracy prior to processing payments; however, these individuals were also able to make changes to payroll records. Consequently, there was a risk that changes to payroll could be made and remain undetected.

During calendar year 2015, the Department had approximately $4.6 million in payroll expenditures. Good internal controls require policies and procedures to ensure that no one individual is in a position both to perpetrate and to conceal errors or irregularities.

Lack of Support for Payroll Exemptions
During testing of three terminated employees' final paychecks, we noted that the Acting Director, who terminated employment in February 2015, had changed her W-4 status to Single with 99 exemptions for her final two paychecks. The Acting Director received net payments of $3,557 and $6,216 and had no Federal Income Tax (FIT) or State Income Tax (SIT) withheld. The Department received no substantiating documentation to support that the exemptions were reasonable in compliance with State law.

Neb. Rev. Stat. § 77-2753(1)(b) (Reissue 2009) provides, in relevant part, the following:

> *[E]very employer and payor employing twenty-five or more employees shall withhold at least one and one-half percent of the gross wages minus tax qualified deductions of each employee unless the employee provides satisfactory evidence that a lesser amount of withholding is justified in the employee's particular circumstances. Such satisfactory evidence may include birth certificates or social security information for dependents or other evidence that reasonably assures the employer that the employee is not improperly or fraudulently evading or defeating the income tax by reducing or eliminating withholding.*

We recalculated the SIT for both paychecks and determined that a 1.5% withholding would have totaled $58 and $101, respectively. Had the withholdings remained consistent with the original W-4, three withholdings and $55 in additional FIT, the paychecks would have been reduced by $935 and $1,940, respectively.

Without adequate policies and procedures to ensure payroll exemptions are proper, the Department could be at risk for a penalty assessed by the Department of Revenue in accordance with the 2013 Circular EN for Nebraska Income Tax Withholdings, Special Withholding Procedures, which states, "The employer may be subject to a penalty of up to $1,000 for each employee under-withheld if the employee's low withholding is not substantiated."

Lack of Documented Timesheets
During our testing of 13 employee timesheets, we noted that three timesheets were not properly completed, as follows:

- The Acting Director terminated employment in February 2015 and received a net payment of $6,216 for leave used, vacation payoff, and actual hours worked. The timesheet had a designated area for a supervisor approval; however, the timesheet had not been signed to document the final payout was accurate and complete.

11. Payroll Issues (Concluded)

- The Director, hired in February 2015, later terminated employment in October 2015 and received a net payment of $3,360 for actual hours worked and holiday pay on the final paycheck. However, there was no timesheet on file to support the hours worked and paid.
- The third employee was paid for work performed during two weeks in September 2015. She received a net payment of $1,673. Her timesheet had a designated area for the Director's approval; however, no such approval was documented. This individual was also responsible for processing payroll for the Department and, as noted above, could make changes to her payments in the system, and these changes would likely remain undetected due to the lack of secondary reviews.

Without adequate policies and procedures to ensure that employee timesheets are properly completed and supervisory reviews documented, there is an increased risk of excessive payment to employees for unsubstantiated time worked.

> We recommend the Department implement policies and procedures to ensure the following: 1) a separate individual without payroll access reviews payroll reports; 2) documentation is obtained to substantiate that payroll exemptions are reasonable in accordance with State law; and 3) employee timesheets are properly completed, and supervisory reviews are documented.

Department's Response: The Department will give this finding full consideration and appropriate reforms will be implemented.

12. Receivables

The Department had two loan programs, the Nebraska Progress Loan Program, which made loans to qualifying small businesses, generally representing existing and start-up businesses experiencing financing challenges, and the State Revolving Loan Program, which included program income earned from the Federal Community Development Block Grant (CDBG), which could be used to fund CDBG loan projects. Local governments could select to retain the program income earned from the loans and maintain their own revolving loan fund or return the funds to the Department.

During testing of the Department's loan programs, we noted that the Department did not track $7,965,371 in loan receivable balances in the State accounting system. Although no statewide policies required it, tracking these balances would have been useful for the Department staff to ensure accurate tracking of the activity in each of the loan programs.

Progress Loan Program

During testing, we noted that loan origination fees or program income were not consistently recorded in the State accounting system. For instance, one loan document tested had $8,000 in loan origination fees; however, those fees were not recorded in the accounting system. During the calendar year ended December 31, 2015, only $7,231 was recorded in the accounting system. The total amount of program income excluded was unknown.

12. Receivables (Continued)

During testing of the report for the quarter ended September 30, 2015, it was noted that the administrative expenses in the accounting system were overstated by $8,923. According to the Department, this was caused by miscodings of aid payments.

It was also noted that other fees associated with loans were either not recorded properly or recorded as Department administrative expenses. Closing costs retained by the Department to be paid to third parties were recorded as administrative expenses; these fees should have been recorded as liabilities in the system. Loan fees not recorded in the system, but reported on the quarterly report, totaled $25,900.

CDBG Revolving Loan Program
Certain local governments choose to discontinue their CDBG loan programs and have the Department account for all outstanding loans. In the past, the Department had not considered the balance due for these loans as receivables of the State. Thus, the Department had not reported the balance to the Department of Administrative Services for inclusion in the State of Nebraska Comprehensive Annual Financial Report (CAFR). The Department explained that the balances were not included because the loan agreements were still between the local government and the business. However, once the local government chose to discontinue the loan program and agreed to pay the balance of the loan fund and future loan payments to the State, they in fact designated the loans to the State, and thus, were accounts receivable. The loan balance as of December 31, 2015, identified as discontinued loans, was $1,502,124.

Furthermore, local governments unable to collect upon balances due from businesses were required to work with the Department to ensure that all possible procedures had been performed to collect upon the amounts due. The local governments worked with the Department prior to writing off any amounts determined to be uncollectible. During discussions with the APA, however, the Department, acknowledged being unaware of Neb. Rev. Stat. § 81-8,297 (Reissue 2014), which requires funds of the State that are determined to be uncollectible and, therefore, written off to be approved by the State Claims Board prior to write-off. It was unknown if there were any balances written off by local governments during the calendar year tested.

Good internal controls require policies and procedures to ensure financial activity is properly recorded in the accounting system and Federal grants are adequately tracked. Without adequate policies and procedures to ensure loans are properly recorded, there is an increased risk for incorrect financial reporting.

> We recommend the Department work with the Department of Administrative Services to ensure loan activity and balances are properly reflected in the CAFR and the accounting system for proper financial reporting. Furthermore, we recommend the Department ensure compliance with State law by submitting to the State Claims Board all requests for the write-off of loan accounts receivables.

COMMENTS AND RECOMMENDATIONS
(Continued)

12. <u>Receivables</u> (Concluded)

Department's Response: The Department will continue to review its policies and procedures to ensure CDBG program income is properly tracked and documented in relation to local CDBG revolving fund loan (RLF) accounts and any CDBG RLF accounts that may have been discontinued. In addition, DED will work closely with legal counsel to ensure that any CDBG funds received are properly reported. The Department will work with the Department of Administrative Services to ensure loan activity and balances are properly reflected in the CAFR and the accounting system for proper financial reporting.

13. <u>Lack of Segregation of Duties Over Capital Assets</u>

We noted that one individual was able to add assets, change asset information, and initiate the disposal of an asset in the accounting system. This same individual was also able to perform the annual physical inventory. There was no documented review of the Additions and Retirements Report by an individual without capital asset access to ensure all purchased items were appropriately added and only approved assets were removed from the records. Furthermore, according to the Department, the fixed asset integrity reports were only reviewed annually, but there was no documentation of the review.

The Department had $95,880 in capital assets at December 31, 2015. According to the Department's records, there were additions of $3,809 and no disposals during the calendar year.

A good internal control plan requires policies and procedures to ensure an adequate segregation of duties, so no one individual is able both to perpetrate and to conceal errors or irregularities. Without such policies and procedures, there is an increased risk for misuse or theft of State assets.

> We recommend the Department implement policies and procedures to ensure an adequate segregation of duties, so no one individual is in a position both to perpetrate and to conceal errors and irregularities. We recommend also an individual independent from the process of maintaining the assets periodically document his or her review of the Additions and Retirement Report and integrity reports.

Department's Response: The Department will give this finding full consideration and appropriate reforms will be implemented.

14. <u>Unidentified Payables</u>

During testing of five expenditures, we noted that two were not properly categorized as payables for the fiscal year ended June 30, 2015. A third expenditure did not have enough supporting documentation to ascertain with certainty that the expenditure should have been recorded as a payable; however, based on timing of the request for reimbursement, it appears this transaction should have been recorded also as a payable at fiscal year end.

14. Unidentified Payables (Concluded)

The expenditures totaled $489,678 and, due to the improper recording of the transactions in the accounting system, there was an understatement of expenditures and payables in the State of Nebraska Comprehensive Annual Financial Report as of June 30, 2015.

- The first transaction was a payment from the Job Training grant for $100,000 paid in July 2015. The support indicated the entity was requesting reimbursement for training costs covering the period ending July 1, 2015. According to the listing, the employees trained all had hire dates prior to June 30, 2015, with the last hire date in March 2015. Thus, it was evident from the support that the expenditures should have been recorded as a payable.

- The second transaction was a payment from the Site and Building Development fund for $109,158 paid in July 2015. According to discussions with the Department staff, the payment was a reimbursement of expenditures incurred by the entity for the period May 8, 2015, through June 29, 2015; therefore, it should have been recorded as a payable at fiscal year end.

- The last transaction was a payment from the Home Investment Partnerships (HOME) Program for $280,520 paid in July 2015. The entity requested reimbursement on July 6, 2015, but there was no documentation to support when the expenditures had been incurred. Based upon the official request for reimbursement, there were only three business days in July 2015; therefore, it appears reasonable that the majority, if not all, of the expenditures would have been incurred prior to June 30, 2015.

Good internal controls and sound accounting practices require policies and procedures to ensure that transactions are properly recorded in the State accounting system. Furthermore, good internal controls require adequate supporting documentation to be obtained in order to determine the proper accounting of transactions for financial statement impact.

> We recommend the Department implement policies and procedures to ensure transactions are properly recorded in the State accounting system, and adequate supporting documentation is obtained in order to determine the proper accounting of transactions for financial statement impact.

Department's Response: The Department records transactions in the State Accounting System when the Department receives a request for payment from a contractor or grantee, as it becomes an obligation of the Department to pay such request only after the request is received. The Department will evaluate processes to determine the necessity of a change to Department process.

COMMENTS AND RECOMMENDATIONS
(Continued)

15. Coding Issues and Untimely Deposits

During testing of 25 receipt transactions, we noted that 6 were miscoded for a total of $343,072. Furthermore, 4 of 10 receipts tested were not deposited with the Nebraska State Treasurer timely in accordance with Nev. Rev. Stat. § 84-710 (Reissue 2014). The deposits ranged from 1 to 9 days late.

We also reviewed expenditures recorded to the Business Innovation Act (BIA Program) and noted administrative expenses paid to INC were recorded as aid instead of operating expenses totaling $165,058.

Good internal controls require procedures to ensure that transactions are properly recorded in the State accounting system. The following table details the miscodings noted:

Miscoded Amount	Description of Transaction
$ 304,040	An ACH (automatic clearing house) document was created in December 2013, but no actual funds were received. The Department did not correct the outstanding document until February 2015, inappropriately reducing current year intergovernmental revenues. Instead, the Department should have recorded a prior year adjustment since the activity crossed multiple years. It is unknown why the ACH document was not identified more timely by the Department; but it appears they did not have procedures to identify activity such as this. An adjustment was made to the financial schedule to reflect properly the activity.
$ 165,058	INC contracted with the Department to administer parts of the BIA Program during the calendar year. These expenditures were recorded as aid instead of an operating expenditure, causing a miscoding in the financial schedule.
$ 18,743	The Department had an agreement with the Department of Agriculture (Agriculture) to pay half of the renovation costs of the reception area for the two agencies in the Nebraska State Office Building. Agriculture would then reimburse for half of the costs. Though originally recording one renovation billing as an expenditure, the Department recorded the reimbursement received for it as revenue. Because this was not a revenue of the Department, the proper recording should have been a negative expenditure to reduce the original costs recorded in the accounting system.
$ 13,950	The Department had an interagency agreement with the Department of Labor to receive pass-through Federal grant monies for reimbursement of expenditures in accordance with the agreement. The Department recorded the receipt as other miscellaneous revenues; however, the Federal monies should have been recorded as intergovernmental revenue.
$ 4,839	Two journal entries were prepared to move unallowable Federal expenditures from prior fiscal years to the general fund. The Department recorded expenditures to the general fund in the current year; however, because this activity took place in prior years, a prior year adjustment should have been recorded.
$ 1,500	The Department received a reimbursement from an entity for half the cost of a booth rental at an exposition. Despite originally recording the booth cost as an expenditure, the Department recorded the reimbursement as a revenue; however, it should have been a negative expenditure to reduce the original costs recorded in the accounting system.
$ 508,130	**Total Miscodings**

15. <u>Coding Issues and Untimely Deposits</u> (Concluded)

Section 84-710 states, in relevant part, the following:

> *It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state, including the State Racing Commission, to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.*

The following table details the untimely deposits noted:

Receipt Amount Tested	Total Deposit Amount	Date Receipted	Date Deposited	Days in Excess of Statute
$ 12,889	$ 26,330	10/27/2015	11/9/2015	9 days
$ 34,939	$ 60,309	7/20/2015	7/27/2015	2 days
$ 96,000	$ 98,619	4/20/2015	4/28/2015	2 days
$ 345,441	$ 354,559	1/20/2015	1/26/2015	1 day
$ 489,269	**$ 539,817**	**Total Untimely Deposits**		

Without adequate policies and procedures to ensure transactions are properly recorded and deposited timely in accordance with State statute, there is an increased risk for inaccurate financial reporting and misuse of State funds.

> We recommend the Department implement policies and procedures to ensure transactions are properly recorded in the accounting system and deposited timely in accordance with State statute.

Department's Response: The department will review procedures and consult with the State Accounting Office for the assistance in determining the correct object code for use in department transactions. Department Finance Office staff will schedule a deposit at least twice weekly.

16. <u>Progress Loan and Seed Program Federal Reporting</u>

The APA tested the quarter end September 30, 2015, State Small Business Credit Initiative (SSBCI) Federal reporting for the Progress Loan and Seed Program and noted two errors in the reporting. The beginning balance at June 30, 2015, was overstated by $250,000, and the current activity for the quarter was understated by $250,000.

The State entered into an agreement on October 4, 2011, with the United States Department of Treasury to create a program to increase the amount of capital made available by private lenders to small businesses. The State was allocated a total of $13,168,350 for the program, which expires March 31, 2017. According to the agreement, $9,240,980 was allocated for the Progress Loan program, a direct loan program, and $3,927,370 was allocated for the Seed program, a venture capital program that made seed-stage equity investments directly in eligible small businesses. Within the agreement, there were requirements for quarterly reporting, as follows:

16. Progress Loan and Seed Program Federal Reporting (Concluded)

> *A report on the use of Allocated Funds for each Approved State Program on both a quarterly and a cumulative basis, including the total amount of Allocated Funds used for direct and indirect administrative costs, the total amount of Allocated Funds used, the amount of Program Income generated, and the amount of charge-offs against the Federal contributions to the reserve funds set aside for any Approved State Capital Access Programs . . . .*

For the quarterly report tested, the contractor that worked with the Department to run the Seed program erroneously reported an obligated balance of $250,000 as of June 30, 2015; however, according to the documentation on file, the date of obligation was July 9, 2015. Furthermore, one $250,000 payment made on September 27, 2015, from the Seed program was not properly reported, causing the current quarterly amounts to be understated.

According to the Department, there was no documentation to support the obligated amount at June 30, 2015, and the payment made during September was erroneously excluded. Without adequate procedures to ensure amounts reported are proper, there is an increased risk of inaccurate reporting, which could lead to sanctions from the Federal agency.

> We recommend the Department ensure amounts reported are adequately documented as proper, and amounts paid during the reporting period are properly reflected in accordance with Federal guidelines.

Department's Response: The understated amounts have been subsequently corrected. The Department is undertaking efforts to ensure that amounts reported are adequately documented as proper, and amounts paid during the reporting period are properly reflected in accordance with Federal guidelines.

17. Contracts Not Properly Documented

For five of eight contracts tested, the Department had not properly entered the contract into the State's contract database in accordance with Neb. Rev. Stat. § 84-602.02 (Supp. 2015). Furthermore, one of the five contracts was also not entered in the State accounting system in accordance with Neb. Rev. Stat. § 73-503 (Cum. Supp. 2014).

Totaling $491,140, the five contracts were for construction, marketing, consulting, and database services. The one contract not contained within the State accounting system totaled $109,000.

Neb. Rev. Stat. § 84-602.02(3)(a)(i) (Supp. 2015), directs the State's database to include "a copy of each active contract that is a basis for an expenditure of state funds . . . ." That same subsection of statute adds the following:

> *All agencies, boards, commissions, and departments of the state shall provide to the Department of Administrative Services, in electronic form, copies of such contracts for inclusion in the data base beginning with contracts that are active on and after January 1, 2014[.]*

17. Contracts Not Properly Documented (Concluded)

Furthermore, Neb. Rev. Stat. § 73-503(1) (Cum. Supp. 2014) requires contracts to be entered in the State accounting system, as follows:

> *All state agencies shall process and document all contracts for services through the state accounting system . . . . State agency directors shall ensure that contracts for services are coded appropriately into the state accounting system.*

Good internal controls require policies and procedures to ensure that contracts are entered into the State's contract database or the State accounting system, as required by statute.

> We recommend the Department implement policies and procedures to ensure contracts are entered into the State's contract database or the State accounting system, as required by statute.

Department's Response: The Department will give this finding full consideration and appropriate reforms will be implemented.

18. Web Domain Waiver

The Department was using a web domain other than "nebraska.gov" or "ne.gov" without having obtained an approved waiver from the Nebraska Office of the Chief Information Officer (OCIO). The Department's website was www.neded.org and, in order to use this domain, the Department needed to obtain a waiver from the OCIO. However, according to the OCIO website of waivers, at "www.nitc.nebraska.gov/standards/1-rd-02," the Department was listed under the denied, expired, or revoked waivers heading.

According to the OCIO, discussions took place with the Department in 2014 regarding transitioning to an approved web domain name. The Department requested to wait on the final decision until a new Director had been appointed. The Director was appointed in February 2015; however, the final decision surrounding the web domain was not communicated to the OCIO and no changes had taken place.

The Nebraska Information Technology Commission (NITC) Standard 7-104, Web Domain Name Standard (April 19, 2013), provides the following:

> *The official Nebraska state government domain names are nebraska.gov and ne.gov. The State CIO may also allow other domain names using the .gov top level domain. All web domain name registrations, purchases, and renewals must be made by the Office of the CIO. Top level domain names other than .gov may be registered but cannot serve content or be publicly promoted. The purpose of this standard is to provide for consistent domain names for state government websites.*

Furthermore, the NITC Standard 1-103, Waiver Policy (March 4, 2008), states the following:

> *Some agencies may have special circumstances or requirements that justify non-compliance with a standard issued by the NITC. This document authorizes the Technical Panel to issue waivers relating to the requirements contained in any of the NITC Standards and Guidelines documents and establishes the*

COMMENTS AND RECOMMENDATIONS
(Concluded)

18. Web Domain Waiver (Concluded)

> *procedures for the submission and review of waiver requests. Upon a determination of good cause shown, the Technical Panel may grant a waiver from any requirement contained in any NITC Standards and Guidelines document. Section 3 establishes the procedures for the submission and review of waiver requests.*

When State agencies do not follow NITC standards, the State is unable to provide consistent domain names for State government websites. By failing to utilize the .gov domain, moreover, a State agency increases the risk that the public may either question the authenticity of the website or find it less accessible than those of other State agencies due to the unfamiliar domain.

> We recommend the Department work with the OCIO to determine a web domain that complies with NITC standards or obtain a waiver for the use of the current web domain.

Department's Response: The Department will work with the OCIO to determine a web domain that complies with NITC standards or obtain a waiver for the use of the current web domain.

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DEPARTMENT OF ECONOMIC DEVELOPMENT

INDEPENDENT ACCOUNTANT'S REPORT

Department of Economic Development
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Department of Economic Development (Department) for the calendar year ended December 31, 2015. 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 for the calendar year ended December 31, 2015, based on the accounting system and procedures prescribed by the State of Nebraska's 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 significant deficiencies and material weaknesses in internal control; instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. 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 certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, the Governor, others within the Department, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

C. J. Janssen

July 29, 2016

Charlie Janssen
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2015

	General Fund 10000	Nebraska Agricultural Products Research Fund 21830	Administrative Cash Fund 21860	Site and Building Development Fund 27215	Industrial Recovery Fund 27225	Job Training Cash Fund 27230	Lead-Based Paint Hazard Control Cash Fund 27235
REVENUES:							
Appropriations	$ 12,085,128	$ -	$ -	$ -	$ -	$ -	$ -
Taxes	-	-	-	2,575,824	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Sales & Charges	-	-	5,035	-	-	-	-
Miscellaneous							
Investment Interest	-	444	1,104	125,671	9,181	269,878	2,350
Other Miscellaneous	2,655	-	79,989	-	-	-	-
TOTAL REVENUES	12,087,783	444	86,128	2,701,495	9,181	269,878	2,350
EXPENDITURES:							
Personal Services	3,640,700	-	-	28,049	-	69,633	-
Operating	1,042,109	-	63,978	1,074	-	12,915	-
Travel	293,482	-	18,284	198	-	727	-
Capital Outlay	3,809	-	-	-	-	-	-
Government Aid	7,105,028	10,000	-	1,823,919	-	2,503,945	-
TOTAL EXPENDITURES	12,085,128	10,000	82,262	1,853,240	-	2,587,220	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,655	(9,556)	3,866	848,255	9,181	(2,317,342)	2,350
OTHER FINANCING SOURCES (USES):							
Sales of Assets	226	-	-	-	-	-	-
Adjustment to Fund Balance	-	-	-	-	-	-	-
Deposit to General Fund	(2,881)	-	-	-	-	-	-
Operating Transfers In (Note 6)	-	-	-	561,997	-	-	300,000
Operating Transfers Out (Note 6)	-	-	-	-	(1,123,994)	(650,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(2,655)	-	-	561,997	(1,123,994)	(650,000)	300,000
Net Change in Fund Balances	-	(9,556)	3,866	1,410,252	(1,114,813)	(2,967,342)	302,350
FUND BALANCES, JANUARY 1, 2015	19,437	27,205	70,155	5,173,386	1,114,813	17,018,595	-
FUND BALANCES, DECEMBER 31, 2015	$ 19,437	$ 17,649	$ 74,021	$ 6,583,638	$ -	$ 14,051,253	$ 302,350
FUND BALANCES CONSIST OF:							
General Cash	$ -	$ 17,624	$ 52,110	$ 6,583,676	$ -	$ 14,051,253	$ 302,350
NSF Items	-	-	3,338	-	-	-	-
Deposits with Vendors	19,574	25	1,534	-	-	-	-
Accounts Receivable Invoiced	-	-	17,403	-	-	-	-
Loans Receivable	13	-	-	-	-	-	-
Due to Vendors	-	-	-	(38)	-	-	-
Due to Fund	(150)	-	(364)	-	-	-	-
TOTAL FUND BALANCES	$ 19,437	$ 17,649	$ 74,021	$ 6,583,638	$ -	$ 14,051,253	$ 302,350

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2015

	Affordable Housing Trust Fund 27240	Civic and Community Center Financing Fund 27260	High Growth Business Development Cash Fund 27265	Rural Development Fund 40810	Community Development and Block Grant Fund 47210	107 Tech Assistance Fund 47220	HOME Fund 47230	Federal Miscellaneous Fund 47240
REVENUES:								
Appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Taxes	9,784,165	-	-	-	-	-	-	-
Intergovernmental	8,630	-	-	-	7,867,115	-	3,168,246	104,461
Sales & Charges	-	-	-	-	-	-	-	-
Miscellaneous								
Investment Interest	396,808	66,211	23	-	5,889	358	3,177	16,464
Other Miscellaneous	-	1,000	-	-	-	-	-	40,950
TOTAL REVENUES	10,189,603	67,211	23	-	7,873,004	358	3,171,423	161,875
EXPENDITURES:								
Personal Services	327,541	11,057	-	-	260,546	-	192,337	1,219
Operating	30,324	526	-	-	49,353	-	32,835	255,134
Travel	13,399	-	-	-	33,505	-	22,801	333
Capital Outlay	-	-	-	-	-	-	-	-
Government Aid	9,351,431	2,314,452	-	-	7,507,075	-	2,924,020	279,893
TOTAL EXPENDITURES	9,722,695	2,326,035	-	-	7,850,479	-	3,171,993	536,579
Excess (Deficiency) of Revenues Over (Under) Expenditures	466,908	(2,258,824)	23	-	22,525	358	(570)	(374,704)
OTHER FINANCING SOURCES (USES):								
Sales of Assets	-	-	-	-	-	-	-	-
Adjustment to Fund Balance	-	-	-	-	(304,040)	-	-	-
Deposit to General Fund	-	-	-	-	-	-	-	-
Operating Transfers In (Note 6)	561,997	4,848,419	-	-	-	-	-	-
Operating Transfers Out (Note 6)	-	(343,900)	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	561,997	4,504,519	-	-	(304,040)	-	-	-
Net Change in Fund Balances	1,028,905	2,245,695	23	-	(281,515)	358	(570)	(374,704)
FUND BALANCES, JANUARY 1, 2015	19,076,457	2,368,144	255	241	491,122	17,495	127,234	1,651,690
FUND BALANCES, DECEMBER 31, 2015	$ 20,105,362	$ 4,613,839	$ 278	$ 241	$ 209,607	$ 17,853	$ 126,664	$ 1,276,986
FUND BALANCES CONSIST OF:								
General Cash	$ 20,331,508	$ 4,613,839	$ 278	$ -	$ 405,625	$ 17,853	$ 127,858	$ 1,252,792
NSF Items	-	-	-	-	-	-	-	-
Deposits with Vendors	-	-	-	241	45	-	49	244
Accounts Receivable Invoiced	-	-	-	-	-	-	-	23,950
Loans Receivable	-	-	-	-	-	-	-	-
Due to Vendors	(226,146)	-	-	-	(196,050)	-	(1,243)	-
Due to Fund	-	-	-	-	(13)	-	-	-
TOTAL FUND BALANCES	$ 20,105,362	$ 4,613,839	$ 278	$ 241	$ 209,607	$ 17,853	$ 126,664	$ 1,276,986

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2015

	Nebraska Progress Loan And Seed Fund 47250	Nebraska Progress Loan Repayment Fund 47251	Administration Federal Fund 47280	EBAD Indirect Cost Fund 47290	Community Development and Block Grant/HOME Revolving Loan Fund 47300	**Totals (Memorandum Only)**
REVENUES:						
Appropriations	$ -	$ -	$ -	$ -	$ -	$ 12,085,128
Taxes	-	-	-	-	-	12,359,989
Intergovernmental	4,477,239	-	-	-	1,324,587	16,950,278
Sales & Charges	-	-	-	-	-	5,035
Miscellaneous						
Investment Interest	-	111,147	357	352	198,426	1,207,840
Other Miscellaneous	5,589	1,056,201	-	-	-	1,186,384
TOTAL REVENUES	4,482,828	1,167,348	357	352	1,523,013	$ 43,794,654
EXPENDITURES:						
Personal Services	22	58,590	-	-	11,176	4,600,870
Operating	46	7,090	-	-	10,289	1,505,673
Travel	-	3,605	-	-	-	386,334
Capital Outlay	-	-	-	-	-	3,809
Government Aid	2,309,458	-	-	-	604,500	36,733,721
TOTAL EXPENDITURES	2,309,526	69,285	-	-	625,965	43,230,407
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,173,302	1,098,063	357	352	897,048	564,247
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	226
Adjustment to Fund Balance	-	-	-	-	-	(304,040)
Deposit to General Fund	-	-	-	-	-	(2,881)
Operating Transfers In (Note 6)	-	-	-	-	-	6,272,413
Operating Transfers Out (Note 6)	-	-	-	-	-	(2,117,894)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	3,847,824
Net Change in Fund Balances	2,173,302	1,098,063	357	352	897,048	4,412,071
FUND BALANCES, JANUARY 1, 2015	1,542,905	874,787	17,550	17,226	9,271,933	58,880,630
FUND BALANCES, DECEMBER 31, 2015	$ 3,716,207	$ 1,972,850	$ 17,907	$ 17,578	$ 10,168,981	$ 63,292,701
FUND BALANCES CONSIST OF:						
General Cash	$ 3,716,207	$ 1,972,893	$ 17,818	$ 17,578	$ 10,173,481	$ 63,654,743
NSF Items	-	-	-	-	-	3,338
Deposits with Vendors	-	-	89	-	-	21,801
Accounts Receivable Invoiced	-	-	-	-	-	41,353
Loans Receivable	-	-	-	-	-	13
Due to Vendors	-	(43)	-	-	(4,500)	(428,020)
Due to Fund	-	-	-	-	-	(527)
TOTAL FUND BALANCES	$ 3,716,207	$ 1,972,850	$ 17,907	$ 17,578	$ 10,168,981	$ 63,292,701

The accompanying notes are an integral part of the schedule.

(Concluded)

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2015

1. Criteria

The accounting policies of the Department of Economic Development (Department) are on the basis of accounting, as prescribed by the State of Nebraska's Director of the Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the DAS 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 2014), 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, an accounting resource software, 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. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows. State Accounting does not require the Department to record all accounts receivable and related revenues in EnterpriseOne; as such, the Department's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of December 31, 2015, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2015, **does not** include amounts for goods and services received before December 31, 2015, which had not been posted to the general ledger as of December 31, 2015.

Other liabilities are recorded in accounts entitled Due to Fund and Due to Vendor 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 accounts receivable not included in the Schedule of $7,965,371 from the Nebraska Progress Loan Program and the Community Development Block Grant Revolving Loan Program, see further information in Note 7. State Accounting did not require the Department to record its receivables on the general ledger, and these amounts are not reflected in revenues or fund balances on the Schedule. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

NOTES TO THE SCHEDULE
(Continued)

1. **Criteria** (Continued)

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.

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 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.

The major revenue account classifications established by State Accounting and used by the Department are:

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

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consist of documentary stamp tax collected in accordance with Neb. Rev. Stat. § 76-903 (Cum. Supp. 2014).

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, loan repayments, rebates, and miscellaneous adjustments.

The major expenditure account classifications established by State Accounting and 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.

NOTES TO THE SCHEDULE
(Continued)

1. <u>Criteria</u> (Concluded)

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

Capital Outlay – Expenditures that 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, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded 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, 2015, included amounts recorded in Due to Fund and Due to Vendor. 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, proceeds of fixed asset dispositions, and long-term debt proceeds.

2. <u>Reporting Entity</u>

The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department included in the general ledger.

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

3. <u>Totals</u>

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, which 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, recording in the State Accounting System all equipment that has a cost of $1,500 or more at the date of acquisition.

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 more than one year is capitalized. 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.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of 3 to 10 years.

Capital asset activity of the Department recorded in the State Accounting System for the calendar year ended December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 92,071	$ 3,809	$ -	$ 95,880
Less accumulated depreciation for:				
Equipment				89,703
Total capital assets, net of depreciation				$ 6,177

NOTES TO THE SCHEDULE
(Concluded)

6. Transfers

There were two funds with significant transfer activity during the calendar year ended December 31, 2015. One was a transfer out of the Industrial Recovery fund. In accordance with 2015 Neb. Laws LB 457 § 2, the fund was terminated and the remaining balance was transferred at 50 percent to the Site and Building Development fund and 50 percent to the Affordable Housing Trust fund for a total of $1,123,994.

The second fund with significant transfers in, totaling $4,848,419, was the Civic and Community Center Financing fund. The activity was as follows:

- 2015 Neb. Laws LB 656 § 5 and 8, required transfers of $806,146 from the Sports Arena Facility Support fund and $1,723,382 from the Convention Center Support fund to the Civic and Community Center Financing fund.
- Neb. Rev. Stat. § 13-2610(4) (Supp. 2015), required a transfer from the Convention Center Support fund totaling $1,819,448.
- Neb. Rev. Stat. § 13-3108(9) (Supp. 2015), required quarterly transfers from the Sports Arena Facility Support fund. During calendar year ended December 31, 2015, transfers from this fund totaled $499,443.

7. Loan Receivable Balances

The Nebraska Progress Loan Program was funded by the State Small Business Credit Initiative Act of 2010. The United States Congress appropriated funds to be allocated and disbursed to States that created programs to increase the amount of capital made available by private lenders to small businesses. The agreement between the State and the United States Department of Treasury was dated October 4, 2011, and allocated $9,240,980 for the loan program.

The Community Development Block Grant (CDBG) Revolving Loan Program provides funding to businesses for economic development. The State Revolving loan fund includes program income earned from the Federal CDBG program, which can be used to fund CDBG loan projects. Local governments can select to retain the program income earned from the CDBG loans and maintain their own revolving loan fund or return the funds to the Department.

The loan program activity was as follows at December 31, 2015:

Loan Program	Balance January 1, 2015	Increase	Decrease	Balance December 31, 2015
Nebraska Progress Loan	$ 5,203,250	$ 1,723,156	$ 1,053,502	$ 5,872,904
CDBG Revolving Loan	2,451,188	550,000	908,721	2,092,467
TOTAL	$ 7,654,438	$ 2,273,156	$ 1,962,223	$ 7,965,371

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 ECONOMIC DEVELOPMENT

EXHIBIT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2015 and Calendar Year Ended December 31, 2015

	July 1, 2014 through December 31, 2014	January 1, 2015 through June 30, 2015	Total Fiscal Year Ended June 30, 2015	July 1, 2015 through December 31, 2015	Total Calendar Year Ended December 31, 2015
REVENUES:					
Appropriations	$ 5,937,869	$ 5,874,657	$ 11,812,526	$ 6,210,471	$ 12,085,128
Taxes	5,458,247	5,505,170	10,963,417	6,854,819	12,359,989
Intergovernmental	8,370,609	9,283,487	17,654,096	7,666,791	16,950,278
Sales & Charges	915	3,985	4,900	1,050	5,035
Miscellaneous					
Investment Interest	518,310	564,853	1,083,163	642,987	1,207,840
Other Miscellaneous	460,555	313,506	774,061	872,878	1,186,384
TOTAL REVENUES	20,746,505	21,545,658	42,292,163	22,248,996	43,794,654
EXPENDITURES:					
Personal Services	2,208,223	2,260,841	4,469,064	2,340,029	4,600,870
Operating	769,334	700,745	1,470,079	804,928	1,505,673
Travel	192,718	198,653	391,371	187,681	386,334
Capital Outlay	-	-	-	3,809	3,809
Government Aid	19,084,468	16,012,312	35,096,780	20,721,409	36,733,721
TOTAL EXPENDITURES	22,254,743	19,172,551	41,427,294	24,057,856	43,230,407
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,508,238)	2,373,107	864,869	(1,808,860)	564,247
OTHER FINANCING SOURCES (USES):					
Sales of Assets	8,210	-	8,210	226	226
Adjustment to Fund Balance	-	-	-	(304,040)	(304,040)
Deposit to General Fund	(9,374)	(873)	(10,247)	(2,008)	(2,881)
Operating Transfers In	11,300,000	3,653,522	14,953,522	2,618,891	6,272,413
Operating Transfers Out	(293,900)	(1,123,994)	(1,417,894)	(993,900)	(2,117,894)
TOTAL OTHER FINANCING SOURCES (USES)	11,004,936	2,528,655	13,533,591	1,319,169	3,847,824
Net Change in Fund Balances	9,496,698	4,901,762	14,398,460	(489,691)	4,412,071
BEGINNING FUND BALANCES	49,383,932	58,880,630	49,383,932	63,782,392	58,880,630
ENDING FUND BALANCES	$ 58,880,630	$ 63,782,392	$ 63,782,392	$ 63,292,701	$ 63,292,701
FUND BALANCES CONSIST OF:					
General Cash	$ 58,806,689	$ 63,764,152	63,764,152	$ 63,654,743	63,654,743
Petty Cash	25	-	-	-	-
NSF Items	3,337	3,337	3,337	3,338	3,338
Deposits with Vendors	21,801	21,801	21,801	21,801	21,801
Accounts Receivable Invoiced	307,104	3,000	3,000	41,353	41,353
Loans Receivable	13	13	13	13	13
Due to Vendors	(257,812)	(9,384)	(9,384)	(428,020)	(428,020)
Due to Fund	(527)	(527)	(527)	(527)	(527)
TOTAL FUND BALANCES	$ 58,880,630	$ 63,782,392	$ 63,782,392	$ 63,292,701	$ 63,292,701

Source: Information obtained from the State accounting system, EnterpriseOne.

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

COMPARATIVE STATISTICS BY STATE

Calendar Year Ended December 31, 2015

	2015 PERSONAL INCOME (MILLIONS)	2015 PERSONAL INCOME RANK	2015 PERSONAL INCOME PER CAPITA	2015 PER CAPITA RANK	2014 GROSS DOMESTIC PRODUCT (MILLIONS)	2014 REAL GDP PER CAPITA	2014 GDP PER CAPITA RANK
Alabama	$ 189,357	25	$ 38,965	46	$ 200,414	$ 37,643	45
Alaska	41,312	47	55,940	7	56,647	65,946	3
Arizona	266,756	20	39,060	43	286,554	39,129	41
Arkansas	116,485	34	39,107	42	120,035	36,989	47
California	2,061,337	1	52,651	11	2,305,921	54,196	11
Colorado	275,107	18	50,410	15	305,871	52,167	16
Connecticut	240,519	23	66,972	2	250,569	63,642	5
Delaware	45,093	45	47,662	22	63,404	60,806	8
District of Columbia	48,070	44	71,496	1	116,378	160,582	1
Florida	894,190	4	44,101	29	838,939	38,664	43
Georgia	414,274	12	40,551	41	474,696	42,959	34
Hawaii	68,373	39	47,753	21	76,171	48,914	22
Idaho	62,083	41	37,509	49	63,235	35,081	50
Illinois	636,281	5	49,471	17	736,285	51,968	17
Indiana	271,426	19	40,998	39	318,085	43,694	31
Iowa	140,501	30	44,971	27	169,707	49,099	20
Kansas	133,591	31	45,876	24	144,407	44,974	29
Kentucky	172,550	29	38,989	45	187,788	38,726	42
Louisiana	202,048	24	43,252	31	251,672	46,084	27
Maine	55,941	42	42,077	36	54,324	37,339	46
Maryland	337,174	15	56,127	6	346,857	53,454	13
Massachusetts	414,724	11	61,032	3	455,732	62,122	7
Michigan	421,044	10	42,427	34	448,243	41,788	38
Minnesota	277,483	17	50,541	14	317,237	52,970	14
Mississippi	106,075	35	35,444	51	104,753	31,607	51
Missouri	260,123	22	42,752	33	279,835	42,069	36
Montana	42,647	46	41,280	38	44,135	38,435	44
Nebraska	**91,040**	**36**	**48,006**	**19**	**111,007**	**52,508**	**15**
Nevada	121,973	32	42,185	35	135,038	43,571	32
New Hampshire	72,948	38	54,817	9	70,358	49,006	21
New Jersey	535,604	7	59,782	4	551,828	56,498	9
New Mexico	80,201	37	38,457	47	91,885	39,711	40
New York	1,142,485	3	57,705	5	1,395,488	63,633	6
North Carolina	408,364	13	40,656	40	481,876	44,017	30
North Dakota	41,166	48	54,376	10	55,978	66,910	2
Ohio	504,993	8	43,478	30	576,056	45,131	28
Oklahoma	173,187	27	44,272	28	183,174	41,884	37
Oregon	173,170	28	42,974	32	212,807	50,568	19
Pennsylvania	629,710	6	49,180	18	658,290	47,215	25
Rhode Island	52,905	43	50,080	16	54,492	47,335	24
South Carolina	186,286	26	38,041	48	189,278	35,898	49
South Dakota	38,637	49	45,002	26	46,169	47,517	23
Tennessee	277,707	16	42,069	37	297,159	41,577	39
Texas	1,284,262	2	46,745	23	1,641,044	54,055	12
Utah	116,992	33	39,045	44	140,031	43,007	33
Vermont	29,968	51	47,864	20	29,312	42,957	35
Virginia	437,111	9	52,136	12	462,861	51,223	18
Washington	366,790	14	51,146	13	422,877	54,710	10
West Virginia	68,329	40	37,047	50	74,296	36,350	48
Wisconsin	263,301	21	45,617	25	289,616	46,114	26
Wyoming	32,417	50	55,303	8	43,800	64,402	4

Source: U.S. Bureau of Economic Analysis. Most current statistics available was reported.

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

COMPARATIVE STATISTICS BY STATE

Calendar Year Ended December 31, 2015

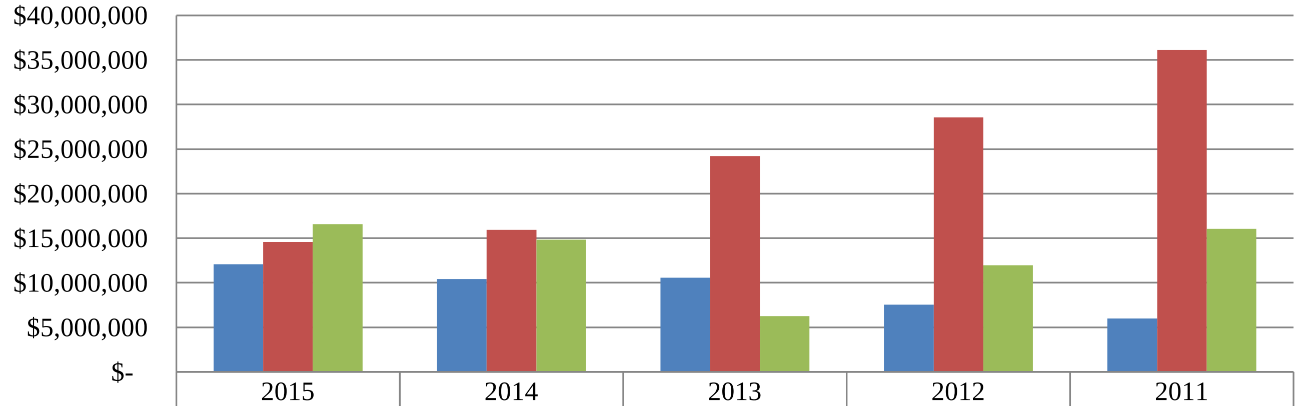
	% CHANGE IN EMPLOYMENT 2014-2015	% CHANGE RANK	AVERAGE HOURLY EARNINGS	HOURLY EARNINGS RANK	AVERAGE WEEKLY EARNINGS	WEEKLY EARNINGS RANK
Alabama	1.0%	44	$ 21.02	45	$ 746.21	40
Alaska	-0.1	45	27.88	7	967.44	7
Arizona	2.5	8	23.13	27	802.61	24
Arkansas	1.6	24	19.51	51	673.10	51
California	2.9	4	28.04	6	970.18	6
Colorado	1.9	18	26.85	10	912.90	11
Connecticut	1.3	34	29.15	4	976.53	4
Delaware	1.7	22	22.63	30	751.32	37
District of Columbia	1.4	30	38.29	1	1,363.12	1
Florida	2.9	5	22.63	31	776.21	31
Georgia	2.2	11	23.84	23	836.78	17
Hawaii	2.5	9	24.63	17	820.18	22
Idaho	4.4	1	22.08	38	737.47	44
Illinois	-0.1	46	25.98	13	891.11	12
Indiana	1.9	19	22.86	28	797.81	27
Iowa	1.6	25	22.55	33	782.49	30
Kansas	0.5	40	22.57	32	774.15	33
Kentucky	2.1	13	21.08	44	744.12	41
Louisiana	-0.9	48	22.20	35	796.98	28
Maine	1.4	31	21.85	41	749.46	38
Maryland	2.1	14	27.31	9	936.73	9
Massachusetts	2.1	15	30.44	2	1,019.74	2
Michigan	1.9	20	24.06	21	827.66	19
Minnesota	1.5	27	26.06	12	886.04	14
Mississippi	0.9	35	19.71	50	685.91	50
Missouri	0.9	36	22.10	37	749.19	39
Montana	0.5	41	22.05	39	718.83	47
Nebraska	**1.4**	**32**	**22.18**	**36**	**756.34**	**35**
Nevada	2.0	17	21.95	40	737.52	43
New Hampshire	0.5	42	24.90	16	836.64	18
New Jersey	1.6	26	27.78	8	938.96	8
New Mexico	0.3	43	20.47	49	700.07	49
New York	1.7	23	28.79	5	970.22	5
North Carolina	2.1	16	22.30	34	769.35	34
North Dakota	-4.0	51	25.28	14	887.33	13
Ohio	1.5	28	22.68	29	775.66	32
Oklahoma	-0.5	47	21.79	42	756.11	36
Oregon	2.7	7	23.53	24	800.02	26
Pennsylvania	0.7	39	24.20	19	822.80	21
Rhode Island	1.8	21	24.94	15	825.51	20
South Carolina	3.3	2	21.42	43	743.27	42
South Dakota	2.2	12	20.98	46	713.32	48
Tennessee	2.3	10	20.90	47	735.68	45
Texas	1.4	33	24.46	18	883.01	15
Utah	3.2	3	24.17	20	841.12	16
Vermont	0.8	38	24.06	22	801.20	25
Virginia	1.5	29	26.14	11	917.51	10
Washington	2.8	6	29.63	3	1,019.27	3
West Virginia	-1.5	49	20.74	48	719.68	46
Wisconsin	0.9	37	23.46	25	790.60	29
Wyoming	-2.2	50	23.17	26	813.27	23

Source: U.S. Bureau of Labor Statistics

EXPENDITURES BY FUND TYPE AND BY PROGRAM

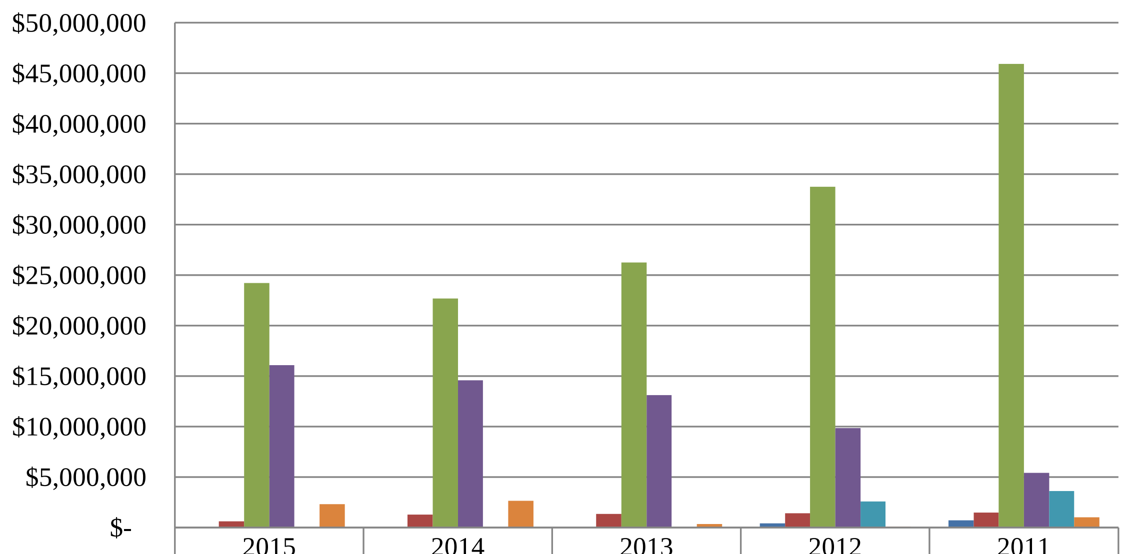
For the Calendar Years Ended December 31, 2011 through 2015

Expenditures by Fund Type



	2015	2014	2013	2012	2011
General	$12,085,128	$10,429,800	$10,571,373	$7,532,980	$5,988,069
Federal	$14,563,827	$15,922,865	$24,217,095	$28,547,330	$36,097,114
Cash	$16,581,452	$14,849,133	$6,260,476	$11,946,295	$16,042,262

Expenditures by Program



	2015	2014	2013	2012	2011
134- Rural Development	$-	$-	$-	$402,285	$704,047
600- Administration	$617,074	$1,287,472	$1,339,491	$1,393,388	$1,484,462
601- Community Affairs	$24,204,526	$22,696,065	$26,263,774	$33,743,616	$45,915,910
603- Industry Recruitment	$16,082,772	$14,571,098	$13,109,826	$9,844,793	$5,403,317
618- Tourism Promotion	$-	$-	$-	$2,574,236	$3,613,427
655- Local Finance	$2,326,035	$2,647,163	$335,853	$68,286	$1,006,282

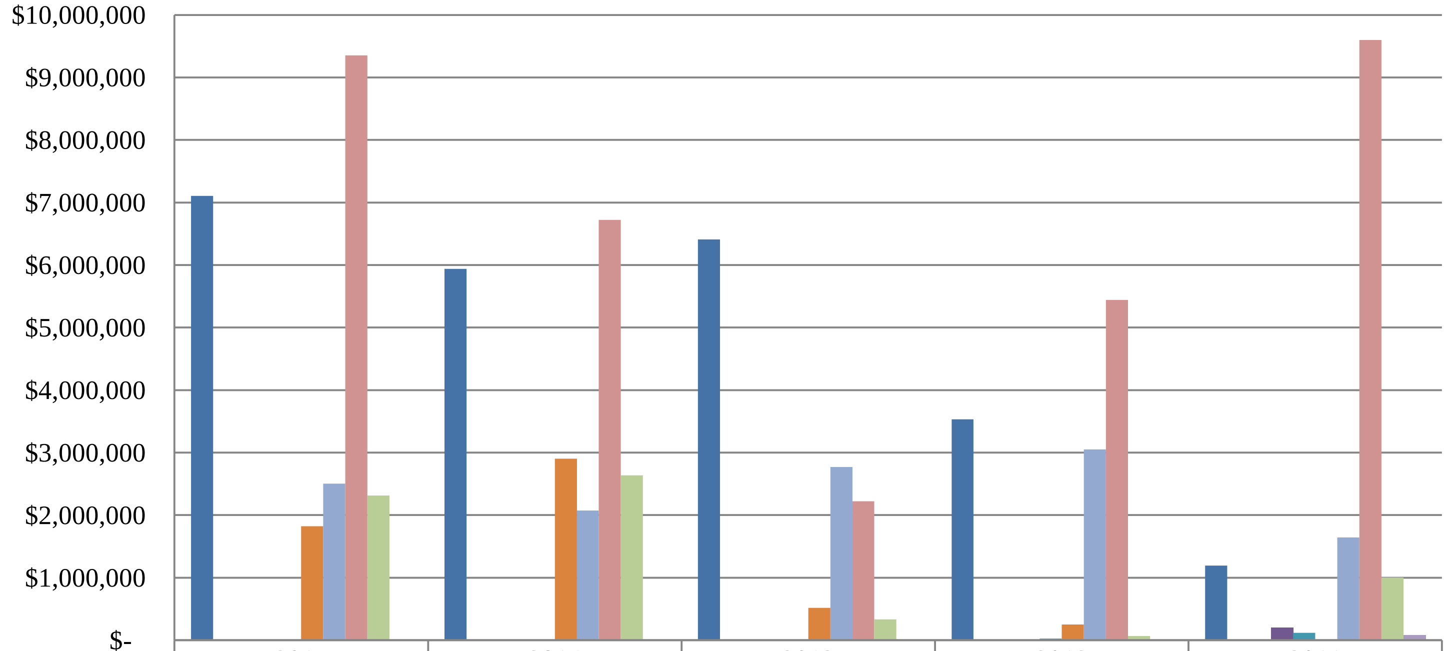
Source: State Accounting System, EnterpriseOne

Note: There were no disbursements for Program 618 in 2013-2015 because the Tourism Commission was created as a separate State agency in July 2012.

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

STATE AID EXPENDITURES

For the Calendar Year Ended December 31, 2011 through 2015



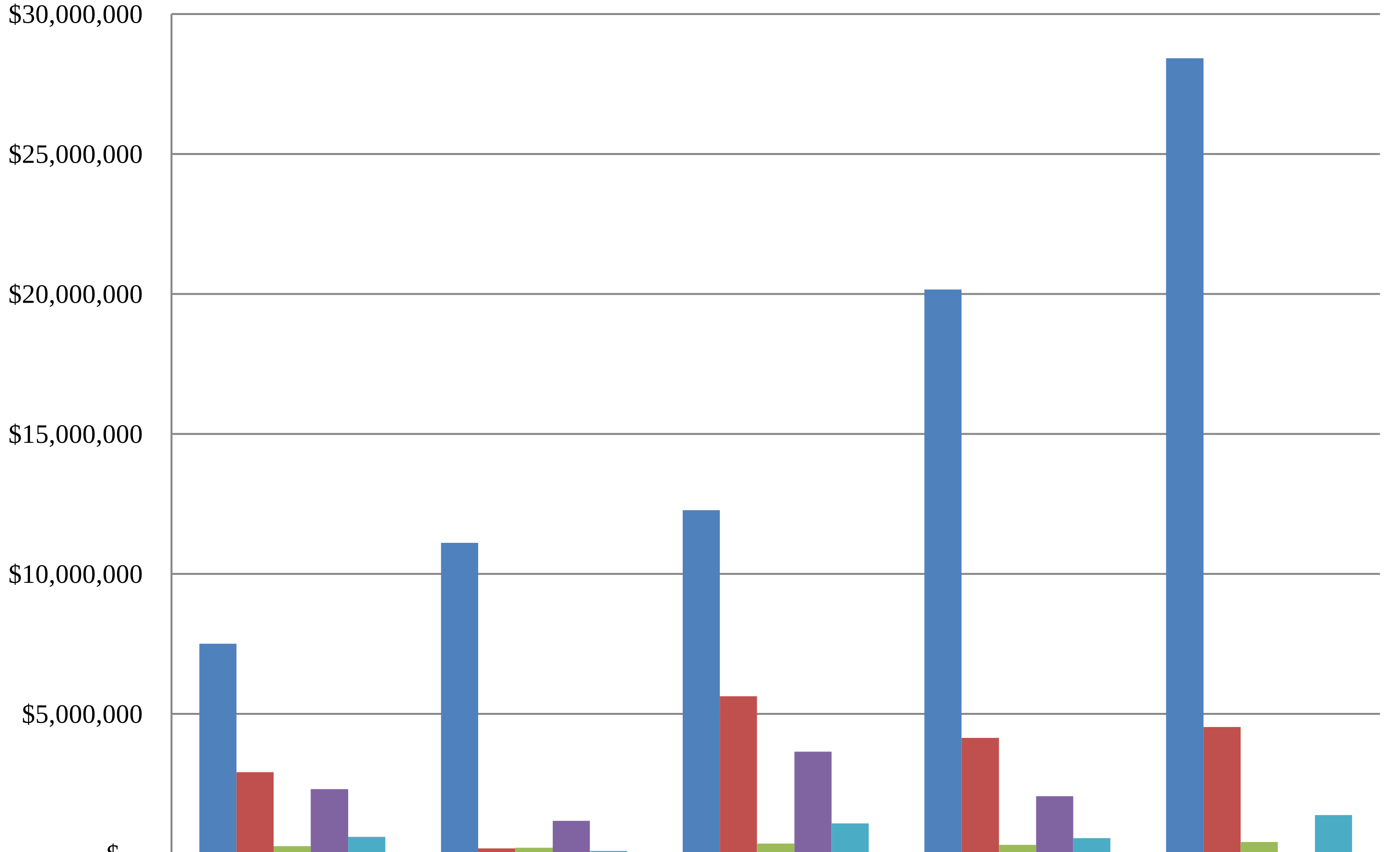
	2015	2014	2013	2012	2011
General Funds	$7,105,028	$5,936,499	$6,410,786	$3,532,977	$1,191,689
Nebraska Agricultural Products Research	$10,000	$10,000	$10,000	$10,000	$5,000
Administrative Cash	$-	$-	$-	$6,713	$200
Nebraska Healthcare	$-	$-	$-	$-	$200,000
Visitors Promotion	$-	$-	$-	$24,964	$118,834
Site and Building Development	$1,823,919	$2,901,670	$519,497	$250,000	$-
Job Training	$2,503,945	$2,073,504	$2,769,645	$3,051,566	$1,641,592
Affordable Housing	$9,351,431	$6,723,475	$2,223,308	$5,442,569	$9,600,957
Civic and Community Center Financing	$2,314,452	$2,637,500	$334,931	$68,286	$1,006,282
Building Entrepreneurial Comm	$-	$-	$-	$-	$81,433

Source: State Accounting System, EnterpriseOne

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

FEDERAL AID EXPENDITURES

For the Calendar Years Ended December 31, 2011 through 2015



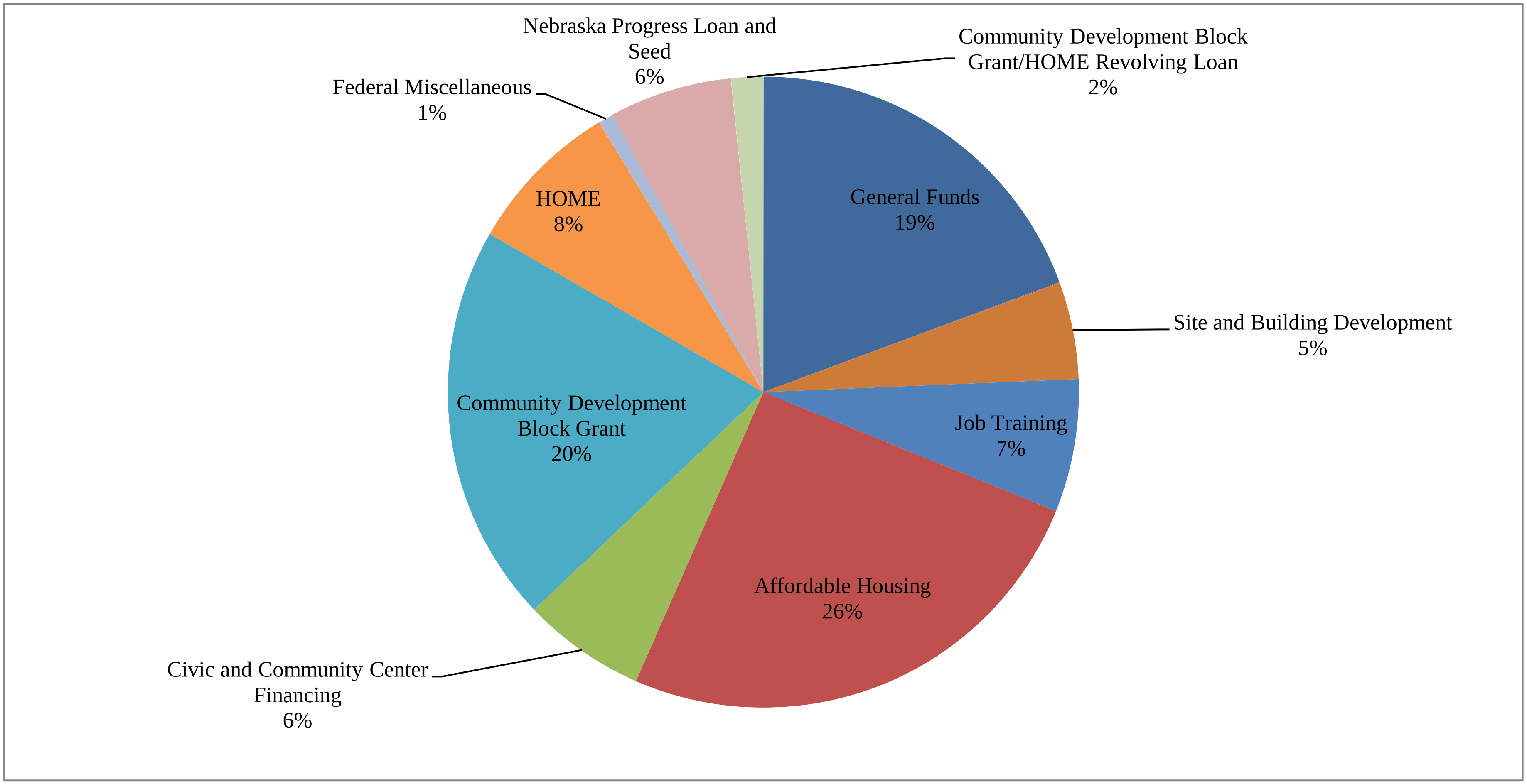
	2015	2014	2013	2012	2011
Community Development Block Grant	$7,507,075	$11,109,894	$12,273,674	$20,153,144	$28,422,837
HOME	$2,924,020	$200,154	$5,627,102	$4,140,944	$4,532,901
Federal Miscellaneous	$279,893	$217,408	$372,325	$317,197	$426,766
Nebraska Progress Loan and Seed	$2,309,458	$1,176,646	$3,654,971	$2,060,361	$-
Community Development Block Grant/HOME Revolving Loan	$604,500	$98,867	$1,082,904	$563,807	$1,386,438

Source: State Accounting System, EnterpriseOne

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

GOVERNMENT AID EXPENDITURES BY PROGRAM

For the Calendar Year Ended December 31, 2015



Source: State Accounting System, EnterpriseOne

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT **EXHIBIT A**

Alcohol Receipts

Report Comment Number 1

5-3-15 $26.60 PRE TIP

Kona Grill Omaha
290 N. 170th St.
Omaha, NE 68118
(402) 779-2900

Server: Courtney U	05/03/2015
Table 102/1	3:10 PM
Guests: 2	10033
BBQ Chicken Flatbread	12.75
Moscow Mule	8.75
Iced Tea	2.75
Subtotal	24.25
Tax	1.74
Occupation Tax	0.61
Total	26.60
Balance Due	26.60

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Quick Guide
(20%) = 4.85
(18%) = 4.37
(15%) = 3.64
Make your Reservations at Konagrill.com

DETAIL 4-16-15

Applebee's

APPLEBEE'S
NEIGHBORHOOD GRILL & BAR
3350 S. 143rd Plaza
Omaha, NE 68144
(402) 697-0712

KALIEGHA H TB#55
DATE: 04-16-15 TIME: 03:26 PM GUESTS: 2
Check #:8723-701928

1	BYS CHOOSE 3	13.00
	BRK NACHS H.F	
	SRIRCHA SHRP 5	
	POT STICKER 8	
	CHX QUESA 2	
1	WATER	0.00
1	BREW HOUSE #X	1.99
1	BREW HOUSE #X	1.99
1	WATER	0.00

****
We want to
See You Tomorrow,
so tell us
how we did!!!

Take Applebee's
GUEST EXPERIENCE SURVEY

Go online to:
applebees.com/survey

receive 10 CHANCES to
WIN $1,000 DAILY
PLUS you can INSTANTLY WIN
other GREAT PRIZES
valued at $1500 WEEKLY!

No purchase/survey required to r
See website for complete r
eligibility Sweepstakes per
previous winners. Sweepstakes spon d
by Empathica Inc, across multiple
international clients. Winners drawn
from combined pool, not from
separate Applebee's pool. Void where
prohibited. Must be of legal age.
Canadian winners subject to skills
testing requirements.
****
* Serial Number: 048723685 *
****

Check TOTAL: 16.98
Tax: 1.63
Total Due: 18.61

Ameristar Casino Receipt

Report Comment Number 1

08/30/15 13:33
SALES DRAFT

Ameristar Casino Hotel
2200 River Road
Council Bluffs, Iowa 51501
(712) 328-8888

MERCH ID: 3144602455
CASHIER: Kali
TERMINAL: 192 Gift Shop

American Exp

NAME:
NUMBER: XXXXXXxxxxxxxxxx
AUTH: 508774
AMOUNT: 118.24

CHECK: 1929966
TABLE:

TOTAL: 118.24
20

X
SIGNATURE

$138.24
(07)

Customer Copy

Most items may be returned for
or exchange within 30 days of
accompanied with original rece
tags. Items purchased with com
eligible for exchange only. V
ID required for all refunds. A
final for clearance, food, hol
jewelry, medicinal, swimwear
and tobacco items

Trade Mission Receipt

Report Comment Number 7

A Bologna
dove vive l'eredità dei grandi cuochi rinascimentali

Ristorante
Franco Rossi s.n.c.

Domicilio fiscale, ubicazione esercizio, luogo e conservazione documenti fiscali
Via Goito, 3 - Tel. e Fax 23.88.18 - 40121 BOLOGNA
Cod. Fisc. e P. IVA 01222710376

Dati identificativi del cliente ....

Quantità	Natura e qualità dei beni o servizi	Importo
20	COPERTI – covered	1100,00
	VINO - BIRRA – wine - beer	
	ACQUA MINERALE – mineral water	
	ANTIPASTI – appetizer	
	PRIMI PIATTI – entrée	
	SECONDI PIATTI – meat dish	
	CONTORNI – side dish	
	FORMAGGI – cheese	
	DOLCI - DESSERT – sweet - dessert	
	CAFFÉ - LIQUORI – coffee - liquor	

$1,222.01
U.S. Dollars

DETTAGLIO IVA		
Aliq. .... %	CORRISPETTIVO PAGATO	
Imponibile		
Imposta	TOTALE DOCUMENTO	1100,00

Data 08/06/15 N. | Corrispettivo non pagato

☐ RICEVUTA FISCALE - ☐ FATTURA (Legge 30/12/1991, n. 413)

XLF 0013242 /2015

COPIA PER IL CLIENTE

M.G. di Borgonzoni Giuliano e C. s.a.s. - Via Marzabotto, 20 - Tel. 051.86.27.02 - Fax 051.86.38.48 - 40050 FUNO DI ARGELATO (BO) - P. IVA 00624061206 - Aut. Min. N. 010649 del 2/6/1988