

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF TRANSPORTATION
JULY 1, 2017, THROUGH DECEMBER 31, 2018**

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Issued on August 9, 2019

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NEBRASKA DEPARTMENT OF TRANSPORTATION

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NEBRASKA DEPARTMENT OF TRANSPORTATION

BACKGROUND

In 2017, the Department of Aeronautics merged with the Department of Roads to become the Nebraska Department of Transportation (Department). The Department is responsible for the planning, development, design, construction, maintenance, and administration of the State highway system. The goals of the Department are to preserve the billions of dollars Nebraskans have invested in their State highway system, making the highways safe and efficient, and accomplishing this in a timely and cost-effective manner.

The Department oversees and maintains an infrastructure network that includes the following:

- Nearly 10,000 miles of public roads
- More than 3,500 bridges
- 599 buildings in 119 locations
- A fleet of over 2,100 cars, pickups, trucks, and graders

The State highway system carries 63.5% of all vehicle miles traveled in Nebraska. Municipal streets carry 25.6%, and the county road network carries 10.9%. In addition, about 83.7% of heavy truck travel in Nebraska is on the State highway system.

The Department uses a Pavement Management System to evaluate all State highway pavements. Each section of highway is inspected and rated annually based on smoothness and the amount of cracking, rutting, or faulting. These ratings are used to determine the timing and type of work necessary to keep the highway system in good repair. With pavement having a life span of 15 to 30 years, the Department must resurface 500 miles per year to keep the State highway system in good condition.

Budget expenditures per fiscal year are as follows:

- Maintenance Program (patching, snow removal, striping, etc.) – approximately \$150 million
- Construction Program (preservation/construction/reconstruction/resurfacing) – over \$600 million
- Support Services and Administration – approximately \$50 million
- Other Programs (public transportation assistance, rail planning, capital facilities, highway safety, and highway planning and research) – approximately \$35 million

Nebraska's state highway system is paid for by highway user taxes and fees. The three major sources of revenue are (1) motor fuel tax, (2) motor vehicle registrations and related fees, and (3) sales tax on motor vehicles, trailers, and semi-trailers. Nebraska's major highway user revenue is shared between the State, counties, and cities.

The following are the annual motor fuel receipts (numbers may vary slightly each year):

- \$0.163 fixed tax effective January 1, 2019 (\$0.095 to the Department and \$0.068 to cities and counties)
- 5% wholesale gasoline tax (66% to the Department and 17% each to cities and counties)
- Variable fuel tax (100% to the Department)
- Motor vehicle registration fees and vehicle sales tax (53.3% to the Department and 23.3% each to cities and counties)

NEBRASKA DEPARTMENT OF TRANSPORTATION

BACKGROUND

(Concluded)

The Build Nebraska Act (BNA), enacted in 2011, dedicated one-fourth of one percent of sales tax receipts for expansion of the expressway system, Federally designated high-priority corridors, and preservation of the existing transportation system.

The Transportation Innovation Act (TIA), enacted in April 2016, provided the Department with new revenue, programs, and tools to increase mobility, freight, economic growth, and safety in Nebraska. The purpose of TIA is to accelerate highway capital improvement, promote innovative solutions for deficient county bridges, and help finance transportation improvements that connect new and growing businesses.

The Nebraska Highway Commission consists of eight private citizens. One member must always be appointed from each of the eight highway districts. Each commissioner is appointed by the Governor and approved by the Legislature to serve a six-year term. The Department Director is an ex-officio member of the Commission. In addition to advising the Director in establishing policies and programs for the Department, the Highway Commission assists in conducting public hearings, investigations, and studies related to providing an adequate and safe highway system for the State.

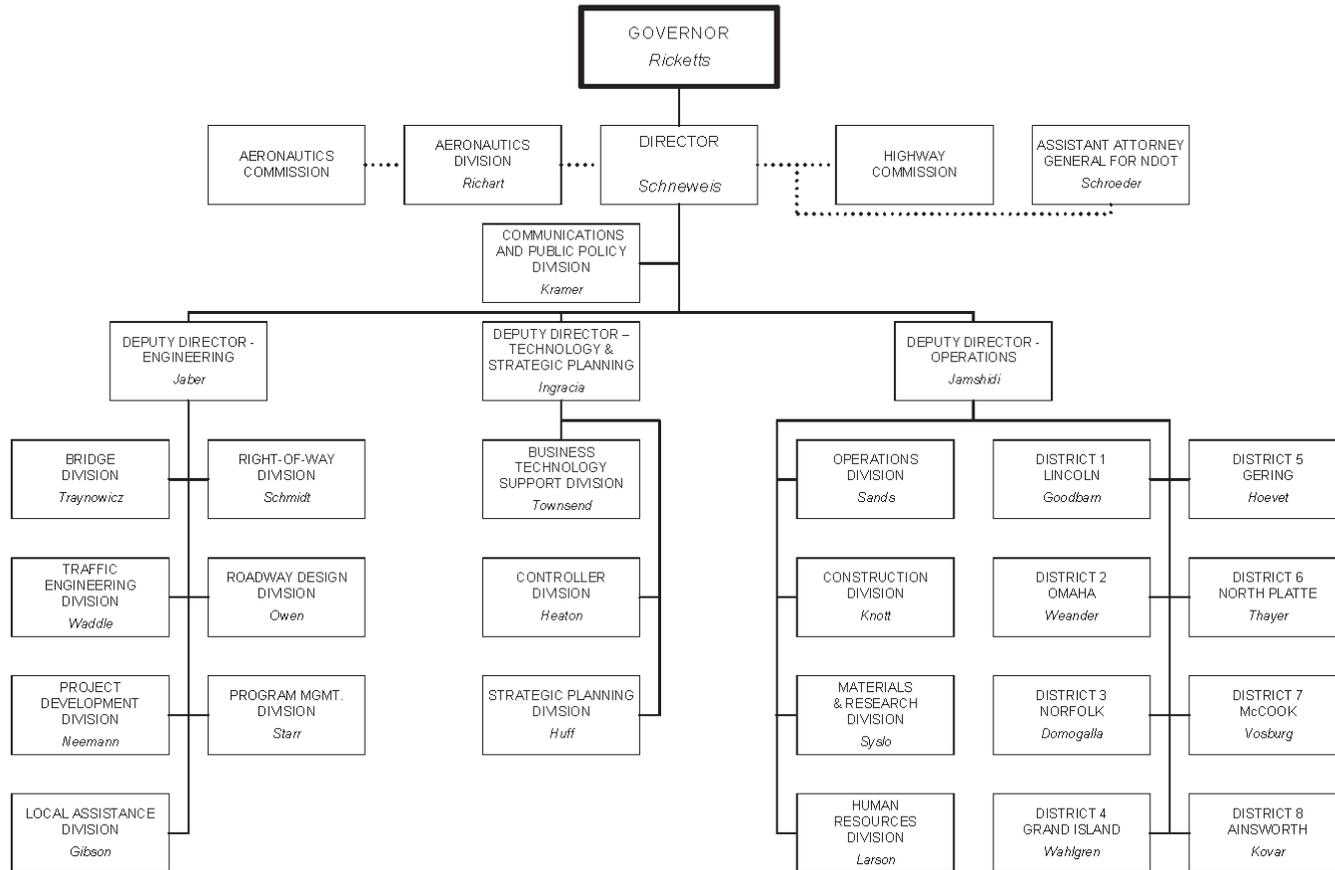
The Aeronautics Division is committed to developing strategic plans and problem-solving processes that address statewide aviation issues, coordinating and managing aviation-related legislative issues, participating in multi-modal transportation coordination, and providing outreach to aviation constituents and airport sponsors and users throughout the State of Nebraska.

The Nebraska Aeronautics Commission consists of five members who are appointed by the Governor. The Aeronautics Commission advises the Director-State Engineer on the appointment of the Director of Aeronautics, acts in an advisory capacity to the Director of Aeronautics and Director-State Engineer, and assists the Director of Aeronautics in formulating regulations and policies to be carried out by the Aeronautics Division under the terms of the State Aeronautics Act.

NEBRASKA DEPARTMENT OF TRANSPORTATION

ORGANIZATIONAL CHART

Lincoln Headquarters



NEBRASKA DEPARTMENT OF TRANSPORTATION

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Nebraska State Highway Commission

Name	District
Mary K Gerdes	District 1
E.J. Militti, Jr.	District 2
David E. Copple	District 3
James H. Kindig	District 4
Doug Leafgreen	District 5
Jim Hawks	District 6
Greg Wolford	District 7
Jerome A. Fagerland	District 8

Nebraska State Aeronautics Commission

Name	Title
Tom Trumble	Chairperson
Diana Smith	Commissioner
Michael Cook	Commissioner
Terri Wachter	Commissioner
Dick Trail	Commissioner

**Nebraska Department of Transportation
Executive Management**

Name	Title
Kyle Schneweis	Director
Ann Richart	Aeronautics Director
Lyn Heaton	Chief Financial Officer
Becky Fleming	Highway Budget and Finance Manager

Nebraska Department of Transportation
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Lincoln, NE 68502
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NEBRASKA DEPARTMENT OF TRANSPORTATION

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Transportation (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 #2, "Pay In Excess of 40 Hours," #3, "State Property Damage Invoicing," #4, "Incorrect Capital Asset Records," #5, "Review of Capital Asset Reports," #6, "Lack of Evaluations for Professional Services," #7, "Lack of Equipment Usage Review and Redistribution of Costs," and #9, "Project Extra Mile," which are considered to be significant deficiencies, and Comment #1, "Noncompliance with State Accounting Policies," which is considered to constitute material noncompliance and be a material weakness.

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

1. ***Noncompliance with State Accounting Policies:*** The Department recorded \$562,881,031 in Federal expenditures and \$556,257,866 in Federal receipts that were not in accordance with the Department of Administrative Services State Accounting Policies. Additionally, the Department did not adjust the State's accounting system for engineering service expenditures that should have been capitalized and road construction expenditures that should not have been capitalized. The Department maintains this information in separate information systems and does not periodically perform an adjustment to the State's accounting system so that its data complies with State Accounting Policies. Due to this, the Independent Accountant's Report opinion was modified.
2. ***Pay in Excess of 40 Hours:*** Department employees were allowed to earn an excess of \$700,000 in regular pay, holiday leave, and vacation and sick leave taken. Department employees were allowed to use vacation and sick leave so that, in combination with the regular hours worked and holiday leave paid, the employees were paid for more than 40 hours in a week.
3. ***State Property Damage Invoicing:*** The Department lacked adequate policies and procedures to ensure State Property Damage invoicing was accurate and proper. Total State Property Damage invoices amounted to \$1,891,709.
4. ***Incorrect Capital Asset Records:*** Five of 10 capital asset additions tested either did not have the correct value or did not have documentation to support the value of the asset added to the capital asset records.
5. ***Review of Capital Asset Reports:*** The Department either did not document its review of capital asset reports or did not run capital asset reports required by a good internal control plan to ensure the Department's capital asset records were complete and accurate.
6. ***Lack of Evaluations for Professional Services:*** The Department did not have procedures in place to ensure a final consultant evaluation was performed at the conclusion of the project; as a result, 12 of 13 finalized professional service agreements tested did not have a final Consultant Evaluation Form, NDOT Form 54, completed by the project coordinator.
7. ***Lack of Equipment Usage Review and Redistribution of Costs:*** During testing of the Department's \$5,465,286 equipment cost allocation, we noted a number of control weaknesses and inaccurate data that was used in the Department's monthly equipment cost allocation. The control weaknesses included no documented review of equipment usage during the period to ensure that all costs were allocated to the correct budgetary program. Additionally, equipment usage was redistributed to programs using outdated rates and inaccurate data.

NEBRASKA DEPARTMENT OF TRANSPORTATION

SUMMARY OF COMMENTS

(Concluded)

8. ***Non-Construction Contract Issues:*** During testing of the Department's operating expenditures, it was noted that 6 of 13 contracts were not reviewed by the Department's legal counsel. It was also noted that 4 of the 13 contracts did not follow State compliance requirements.
9. ***Project Extra Mile:*** The Department did not have adequate documentation to support that the November 2017 and February 2018 payments made to Project Extra Mile were for allowable activities and in accordance with allowable cost principles. The Department paid the subrecipient Project Extra Mile \$408,567 during the examination period.
10. ***Communication with Subrecipients:*** The Department did not notify subrecipients of the dollar amount and CFDA number for each disbursement of Federal funds, nor did it have adequate procedures to ensure all subrecipients were audited, as required by Federal law.
11. ***Improper Coding of Federal Funds Purchase Program Expenses:*** The Department incorrectly recorded \$24,339,570 as Operating expenditures when they should have been recorded as Government Aid.
12. ***Fuel Inventories:*** The Department did not keep reliable, accurate, and legible records from aviation fuel pumps to ensure the amounts billed for the fuel were correct. Fuel receipts of \$49,293 were deposited during the period July 1, 2017, through December 31, 2018.

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.

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

1. Noncompliance with State Accounting Policies

In preparation of the Nebraska Department of Transportation's (Department) financial schedule, the APA noted numerous deviations from State Accounting Policies established by the Director of the Department of Administrative Services (DAS).

Due to the deviation amounts and because the Department was not able to prepare the information necessary to make the adjustments in a timely manner, the Independent Accountant's Report opinion on the financial schedule was modified.

Federal Activity Recorded in Cash Funds

Vendor payments are recorded into the Department's Payment System (RPS), which then interfaces with the State's Accounting System to record the transactions and create payments to those vendors. When the Department records vendor payments for construction projects, those cost records are sent to the Department's Project Finance System (PFS), which is used to track road construction projects. PFS then allocates the project costs to the different funding sources (e.g., State funds, local funds, Federal funds). The allocation performed by PFS is then used to request Federal reimbursement.

The funding source for the expenditures is only maintained on PFS and is not recorded or maintained on the State's Accounting System. As a result, the State's Accounting System reflects these expenditures as Cash fund expenditures rather than Federal fund expenditures, as required by the DAS State Accounting Manual, Application of Principles – Section AM-003, which includes the following fund types used in the State Accounting System:

- 40000 – Federal Funds – accounts for all federal grants and contracts received by the State.
- 20000 – Cash Funds – accounts for revenues generated by specific activities from sources outside of state government and the expenditures directly related to the generation of revenues.

During the period July 1, 2017, through December 31, 2018, the Department recorded \$531,865,545 in Federal expenditures and \$525,362,752 in Federal receipts in the State Accounting System's Roads Operations Cash Fund (22700). This activity should have been recorded in a Federal fund on the State's Accounting System.

The Aeronautics Division also recorded \$31,015,486 of Federal expenditures and \$30,895,114 of Federal receipts within the State Accounting System's Aeronautics Cash Fund (21710). This activity should have also been recorded in a Federal fund.

Engineering Costs

The Department records its payments to vendors for engineering services to object account 542500, Engineering and Architecture Services. These payments are primarily for Preliminary or Construction Engineering. Object Account 542500 is recorded as an Operating Expenditure on the Schedule of Revenues, Expenditures, and Changes in Fund Balances but Engineering Services should be capitalized in accordance with Governmental Accounting Standards Board (GASB) Codification 1400 Reporting Capital Assets, Paragraph 102, which states:

Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees.

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Noncompliance with State Accounting Policies** (Continued)

During the period July 1, 2017, through December 31, 2018, the Department recorded \$48,270,186 to Engineering and Architecture Services. The Department did not perform adjusting entries within the State's Accounting System to properly reflect the engineering services as capital outlay as required by GASB Codification 1400 Reporting Capital Assets, Paragraph 107, which states, in part:

Additions and improvements to eligible infrastructure assets should be capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets

The Department does have a year-end process where they identify the engineering costs that need to be capitalized and those costs are capitalized on the State's Comprehensive Annual Financial Report (CAFR); however, that adjustment was not recorded in the State's Accounting System.

Road Construction Capital Outlay

The Department records its payments to vendors for road construction and maintenance to object account 587521, Highway and Bridge Contracts. Object Account 587521 is recorded as Capital Outlay on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. However, not all of the construction costs increased the capacity or efficiency of infrastructure assets as required by GASB Codification 1400 Reporting Capital Assets, Paragraph 107.

During the period July 1, 2017, through December 31, 2018, the Department recorded \$686,376,508 to Highway and Bridge Contracts. The Department did not perform adjusting entries to the State's Accounting System to record the expenditures that did not increase the capacity or efficiency of infrastructure assets, as operating expenditures.

Again, the Department does have a year-end process where they identify the expenditures made on construction projects that did increase capacity or efficiency and capitalize only those; however, that adjustment is not recorded in the State's Accounting System.

The Department is not recording its activity in accordance with State Accounting policies, causing the Department's financial schedule to be materially misstated, leading to the Auditor of Public Accounts' modified opinion. While the Department is capable of obtaining this information, and in some instances, it is prepared annually for the CAFR, the information systems used by the Department cannot easily and quickly produce this data.

We recommend the Department implement procedures to ensure the Department is following State Accounting Policies.

Department Response: NDOT's recording of federal reimbursement as a revenue in the State's Accounting System to a cash fund following the expenditure of state funds is a long-standing practice done with the knowledge of DAS State Accounting. Specific, unique revenue object codes have been created in the State's Accounting System and are used to separately account for federal reimbursement.

With respect to the recording of engineering services expenses and highway and bridge contract payments, NDOT utilizes an accounting methodology which represents the most efficient mechanism to record and track these costs given the current limitations of NDOT's financial systems and the State's

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Noncompliance with State Accounting Policies** (Concluded)

Accounting System. For example, NDOT may incur engineering services expenses many years before a project is categorized as an addition or improvement which increases the capacity or efficiency of an infrastructure asset. Likewise, an expense that originates as an asset preservation may later be re-categorized as an addition or improvement.

2. **Pay in Excess of 40 Hours**

During testing of the Department’s payroll expenditures, we noted the following issue:

Department employees were allowed to use vacation and sick leave so that, in combination with the regular hours worked and holiday leave paid, the employees were paid for more than 40 hours in a week. For 3 of 25 employees tested, time was not adjusted down when regular hours worked and leave used resulted in more than 40 hours being paid for the week, as detailed in the following table:

Employee Number	Work Period	Regular Hours	Holiday Hours	Leave Hours Paid	Total Hours Paid	Leave Paid in Excess of 40	Hourly Rate	Total Extra Hours Paid
1	11/12/18 to 11/18/18	32.0	8.0	5.0	45.0	5.0	\$ 23.32	\$ 116.60
2	11/19/18 to 11/25/18	24.0	16.0	20.0	60.0	20.0	\$ 21.66	\$ 433.16
3	5/28/18 to 6/3/18	28.5	8.0	10.0	46.5	6.5	\$ 21.67	\$ 140.86
3	6/4/18 to 6/10/18	40.0	0.0	2.0	42.0	2.0	\$ 21.67	\$ 43.34
TOTAL								\$ 733.93

As a result of the observations above, the Auditor of Public Accounts (APA) reviewed the payroll data for the Department during the period July 1, 2017, through December 31, 2018, in order to determine if any other Department employees could be identified who were paid in excess of 40 hours a week when accounting for regular hours worked, holiday leave paid, and vacation and sick leave taken. That review revealed that the Department paid out approximately \$700,000 in excess vacation and sick leave when the employees’ leave taken could have been reduced and those funds not paid out.

Below are the 10 Department employees who were paid the most hours in excess of 40 during the period July 1, 2017, through December 31, 2018:

Job Title	Excess Hours Paid	Excess Amount Paid*
Highway Maintenance Superintendent	256	\$ 8,042
Highway Maintenance Supervisor	203	\$ 4,452
Highway Maintenance Supervisor	186	\$ 4,468
Highway Maintenance Supervisor	181	\$ 4,023
Highway Construction Technician III	179	\$ 4,191
Highway Maintenance Supervisor	173	\$ 4,081
Highway Maintenance Superintendent	156	\$ 4,630

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Pay in Excess of 40 Hours (Concluded)

Job Title	Excess Hours Paid	Excess Amount Paid*
Highway Maintenance Supervisor	148	\$ 3,366
Senior Highway Maintenance Worker	146	\$ 2,387
Highway Project Manager	140	\$ 4,420

*The Excess Amount Paid was calculated using the employees' rate of pay as of February 2019, as that information was readily available, and the employees' rate of pay could have fluctuated throughout the attestation period due to promotion and cost-of-living increases.

The Department's payroll expenditures for the period totaled \$215,728,880.

A good internal control plan and sound business practice require procedures to ensure leave is not paid during a week in which 40 or more hours are worked. Without such procedures, there is an increased risk employees will be paid unnecessary excess pay.

We recommend the Department implement procedures to ensure employees are not paid leave during a week in which their regular hours worked and any holiday leave taken total 40 hours or more.

Department Response: The nature of NDOT employees' work doesn't always allow them the time to utilize their leave in the course of the year. Their work involves responding to emergencies 24/7 with little notice and in all kinds of weather, whether it be flooding, snow removal, accidents etc. This is a necessary, long-standing practice at NDOT which aids us in being able to respond to emergency situations quickly and better ensure public safety.

3. State Property Damage Invoicing

During the period July 1, 2017, through December 31, 2018, the Department collected \$1,891,709 from motorists for damage to State property caused by accidents. Testing of eight State Property Damage (SPD) receipts revealed the following:

Pay Rates Used Not Supported

The Department does not have a formal policy or procedure to update periodically its labor rates for Department staff who work to repair damage done to the State's property. As a result, for the eight SPD receipts tested, the Department underbilled motorists by \$6,338.

The Department explained that the rates used are the average of the labor rates identified in the Nebraska Association of Public Employees (NAPE) contract or the State of Nebraska Classified System Personnel Rules and Regulations plus a Federally approved additive; however, what was billed did not agree to those averaged rates. The table below identifies the differences between the rates billed and the correct rates:

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. State Property Damage Invoicing (Continued)

Position	Number of Hours	Rate of Pay per SPD	Cost per SPD	APA Calculated Rate of Pay per NAPE or Personnel Rules and Regulations	APA Calculated Cost	Under Invoiced
Area Superintendent	202.5	\$ 44.42	\$ 8,995	\$ 55.73	\$ 11,285	\$ 2,290
Area Superintendent	48.0	\$ 44.42	\$ 2,132	\$ 55.09	\$ 2,644	\$ 512
Highway Construction Technician III	374.0	\$ 30.17	\$ 11,284	\$ 36.76	\$ 13,748	\$ 2,464
Highway Construction Technician III	33.0	\$ 30.17	\$ 996	\$ 36.33	\$ 1,199	\$ 203
Highway Construction Technician IV	8.0	\$ 34.52	\$ 276	\$ 46.20	\$ 370	\$ 94
Highway Maintenance Worker/Senior	66.0	\$ 25.65	\$ 1,693	\$ 32.77	\$ 2,163	\$ 470
Highway Maintenance Worker/Senior	46.0	\$ 25.65	\$ 1,180	\$ 31.69	\$ 1,458	\$ 278
Signal Technician	3.0	\$ 28.79	\$ 86	\$ 37.59	\$ 113	\$ 27
TOTAL						\$ 6,338

According to Department staff, the cause of the discrepancy noted was the failure, over a number of years, to update the labor rates used to bill staff time.

Equipment Rates Used Not Supported or Billed Consistently

The Department did not have a formal policy that identified how the cost of equipment used to work on State property damage was to be billed. As a result, it was not possible to conclude whether the \$5,083 in equipment expenses tested was reasonable and proper.

Employees used the Department’s equipment, such as trucks and trailers, to fix damage to State property. The Department’s informal practice has been to charge for the use of this equipment by using Federal Emergency Management Agency (FEMA) rates for similar equipment. However, six of eight property damage invoices that included billing for equipment usage charged equipment rates that did not agree to the FEMA rates.

Description	Rate Charged	FEMA Rate	Variance	Hours	Over/(Under) Billing
1 Ton Crew Cab	\$ 25.00	\$ 26.00	\$ (1.00)	4	\$ (4.00)
1 Ton Truck	\$ 25.00	\$ 22.85	\$ 2.15	3	\$ 6.45
1 Ton Crew Cab Dump	\$ 26.00	\$ 22.85	\$ 3.15	9	\$ 28.35
1/2 Ton Pickup	\$ 24.00	\$ 12.30	\$ 11.70	2	\$ 23.40
1/2 Ton Pickup	\$ 19.00	\$ 12.30	\$ 6.70	2	\$ 13.40
1/2 Ton Pickup Club Cab	\$ 19.45	\$ 12.30	\$ 7.15	4	\$ 28.60
1/2 Ton Pickup Club Cab	\$ 19.00	\$ 12.30	\$ 6.70	4	\$ 28.60
3/4 Ton Pickup Club Cab	\$ 26.00	\$ 13.40	\$ 12.60	9	\$ 113.40
Arrow Board	\$ 3.20	\$ 3.50	\$ (0.30)	4	\$ (1.20)
Broom	\$ 19.00	\$ 22.00	\$ (3.00)	1	\$ (3.00)

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. State Property Damage Invoicing (Continued)

Description	Rate Charged	FEMA Rate	Variance	Hours	Over/(Under) Billing
Dump Truck	\$ 26.00	\$ 48.90	\$ (22.90)	3	\$ (68.70)
Sign Truck	\$ 24.00	\$ 27.50	\$ (3.50)	2	\$ (7.00)
Sign Truck	\$ 30.75	\$ 27.50	\$ 3.25	5	\$ 16.25
Trailer	\$ 8.00	\$ 9.00	\$ (1.00)	7	\$ (7.00)
Truck Tandem Dump	\$ 56.50	\$ 60.77	\$ (4.27)	9	\$ (38.43)

Additionally, due to the lack of a formal policy, equipment was sometimes billed based on the hours the equipment was in service, the hours the employee worked, or mileage.

The Department tracks the employees, employee hours, equipment, and equipment mileage or hours on Maintenance Crew Cards. These crew cards are used to create the property damage invoices. On some invoices, the equipment usage was billed based upon the employee hours and on some the equipment hours used. Below is a table that identifies the differences between what was billed using employee hours and the equipment hours recorded on the crew cards.

Property Damage Invoice	Equipment Type	Employee Hours	Rate	Amount Charged	Equipment Usage Hours
4	1/2 Ton Pickup	2	\$ 19.00	\$ 38.00	0
5	Truck Tandem Dump	9	\$ 56.50	\$ 508.50	7
5	1 Ton Crew Cab Dump Truck	9	\$ 26.00	\$ 234.00	11
5	3/4 Ton Pickup Truck	5	\$ 26.00	\$ 130.00	0
5	3/4 Ton Pickup Truck	4	\$ 26.00	\$ 104.00	0
5	1/2 Ton Pickup Club Cab	4*	\$ 19.45	\$ 77.80	2

*This property damage invoice billed 4 hours, but based on the supporting documentation, only 2 hours could have been used as the employee only worked 2 hours that day.

Additionally, there were also pickup trucks used that were billed based upon mileage, yet the Department could not provide documentation to support why these vehicles were billed based upon mileage whereas similar vehicles were billed based upon employee hours or equipment usage hours.

Without a formal billing policy, there is an increased risk that invoices for repairing damage to State property will not include the proper cost of equipment usage. Additionally, a good internal control plan requires procedures for periodically updating the equipment rates so that the cost of equipment usage is reflected accurately in the State property damage billing.

Material Costs Not Supported

Department employees use the Department's existing supplies and materials to fix State property damage, and the cost of those supplies and materials are included on the State property damage invoice. One State property damage invoice tested charged \$8,586 for materials. We noted the following issues with this charge:

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **State Property Damage Invoicing** (Continued)

- The Department charged \$271 for the use of several materials from its existing supplies, but the Department was unable to provide support for the amount charged.
- The Department overcharged \$101, as it included the purchase of two one-inch clamps, when only one was used.
- The Department overcharged \$13, as a \$67 surge protector was invoiced for \$80. It appears staff read the wrong line item on the invoice.
- The Department charged \$11 for PVC cement, but the actual price per the receipt was only \$5, resulting in an overcharge of \$6. Similar to the item above, it appears staff read the wrong line item on the receipt.
- The Department overcharged \$4, as it invoiced for two reducer washers but could support the purchase of only one.

Other Issues Noted

- Included on one State property damage invoice was a \$3,058 charge that was never actually paid by the Department. Since the Department never paid the bill, those costs should not have been included on the invoice.
- The Department did not have documentation to support \$412 in personnel costs and \$249 in equipment charges for one invoice. For this invoice, the Department did not maintain “crew cards” that are used to support charges for personnel and mileage used to fix State property damage.
- Two State property damage invoices did not agree to the supporting documentation. One invoice was undercharged \$91 and the other was overcharged \$69 because the hours on the crew cards did not agree to what was billed.
- The Department explained that the State property damage invoices were approved by the District Office Maintenance Manager; however, the Department did not retain documentation of this approval for two invoices tested.

Untimely Deposits

Several SPD deposits were not made in a timely manner, as follows:

Case #	Amount Paid	Date Received	Date Should Have Been Deposited	Date Deposited	Calendar Days Late
1	\$ 269,605	12/28/2018	1/3/2019	1/8/2019	5
3*	\$ 26,924	1/8/2018	1/11/2018	2/9/2018	29
8	\$ 4,664	12/6/2018	12/11/2018	12/13/2018	2

*The check was held because it was not for the entire amount due. The Department deposited the check upon receiving the remainder due. Neb. Rev. Stat. § 84-710 (Reissue 2014) requires funds received by a State agency to be to be paid 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.” That statute also requires written permission to be received from the State Treasurer in order to deviate from these requirements.

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. State Property Damage Invoicing (Concluded)

Eight district offices across Nebraska are responsible for repairing damage to State property and documenting the costs billed for such repairs. After being calculated and approved at the district level, property damage costs are forwarded to the State Property Damage Coordinator at the central office for billing and collection. The Department has not implemented formal policies or procedures to guide district staff in how to create State property damage invoices so that the districts are consistent in how repair costs are determined.

A good internal control plan and sound business practice require formal policies and procedures for creating State property damage invoices so that the repairs are calculated consistently, and the amounts charged are adequate to recover costs incurred. A good internal control plan also requires State property damage invoices to be reviewed and approved by district staff to ensure all expenses incurred are included on the invoice.

A similar finding was noted previously in our 2007 report.

We recommend the Department implement formal policies and procedures for creating State property damage invoices. The policies and procedures should include what costs are to be included, how those costs will be calculated, and how the review and approval of the invoices will be documented.

Department Response: NDOT is currently developing a new State Property Damage processing system. This system will allow uploads of support documentation, automated rates for employees and equipment and certification that all work is complete before an SPD is invoiced. The current procedures manual will be updated for the new system and a policy manual will be developed.

4. Incorrect Capital Asset Records

During testing of the Department’s capitalization of assets, we noted the following issues:

- Five of 10 capital asset additions tested were capitalized with an incorrect amount, or the Department was unable to support the amount capitalized:

Asset Description	Amount Capitalized	Correct Amount	Amount Over/ (Under) Capitalized
On-Base Version 16	\$ 1,019,479	\$ 52,914	\$ 966,565
Fabric Structure	\$ 138,710	\$ 140,310	\$ (1,600)
Thunderstorm Detector	\$ 9,880	\$ 9,902	\$ (22)
Roads Billing System*	\$ 370,531	\$ 142,388	\$ 228,143
Cash Flow Reporting*	\$ 850,012	\$ 832,623	\$ 17,389

*The Department changed its method of tracking software development costs for significant project changes in January 2015. Consequently, the Department was unable to support the costs it capitalized for these projects prior to that time.

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Incorrect Capital Asset Records (Concluded)

- Since On-Base Version 16 cost less than \$100,000, it should not have been added to the capital asset records per the Department of Administrative Services' (DAS) State Accounting Manual, Policies – AM-005, General Policies, Section 28 (“Capital Outlay”), which says, “[C]omputer software that is internally developed or substantively modified, shall be capitalized as a separate asset if the acquisition value is One Hundred Thousand Dollars (\$100,000) or more and has a life greater than one year.”
- The Passed Transaction Report identifies capital asset purchases that were not added to the capital asset records. One of seven transactions tested from the Passed Transaction Report was not properly capitalized. This transaction included purchases of 215 pieces of equipment, totaling \$439,355, that were never added to the Department’s fixed asset records. We also noted a similar transaction in which 215 pieces of equipment were purchased, but 22 of the 215 pieces were never added to the capital asset records. The cost of those 22 assets was \$42,254. The Department relies upon whoever receives the capital assets to notify the Controller Division to add the assets to the capital asset records. If the individual who receives the capital assets fails to notify the Controller Division, the assets will not be added to the capital asset records.

A good internal control plan requires procedures to ensure capital asset records are complete, accurate, and compliant with State policies. Without such procedures, there is an increased risk the capital asset records may be misstated or incomplete.

A similar finding was noted previously in our 2007 report.

We recommend the Department strengthen its procedures to ensure its capital asset records are complete and accurate.

Department Response: NDOT concurs and will be reviewing the procedures used for capitalizing fixed assets to insure that records are complete and accurate.

5. Review of Capital Asset Reports

During our review of capital assets, we noted there is an inadequate review of capital asset reports:

- The Additions and Retirements report identifies all capital assets that were added or removed from the capital asset listing, and the Capital Asset Integrity Report refers to the State’s Accounting System reports that identify inconsistencies in capital asset records. Neither report had a documented review.
- The Unposted Fixed Asset Report identifies assets recorded as capital outlay purchases but not added to the capital asset records. The No Cost Integrity report identifies capital assets that have no value associated with them. These reports are reviewed by one employee with no secondary review by someone else. Furthermore, during testing of the No Cost Integrity Report, both assets tested, a \$2,090 laptop and an \$87,346 building, were added without an associated cost.

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Review of Capital Asset Reports (Concluded)

A good internal control plan requires procedures to ensure capital asset reports are reviewed periodically, including a secondary review by a different individual, and any exceptions noted are properly pursued. Additionally, a good internal control plan requires the review and follow up to be formally documented. Without such procedures, there is an increased risk the capital asset records will not be complete and accurate.

We recommend the Department strengthen procedures to ensure capital asset reports are reviewed periodically, including a secondary review by a different individual, and any exceptions noted are properly pursued. Additionally, such procedures should ensure that the review and follow up are formally documented.

Department Response: NDOT concurs and will be reviewing the procedures used for fixed assets to insure that reports are reviewed and any follow up is properly documented.

6. Lack of Evaluations for Professional Services

The Department did not have procedures in place to ensure a final consultant evaluation was performed at the conclusion of its projects; as a result, 12 of 13 finalized professional service agreements tested did not have a final Consultant Evaluation Form, NDOT Form 54, completed by the project coordinator.

During the period July 1, 2017, through December 31, 2018, 261 professional service agreements, totaling \$37,896,631 in expenditures, were finalized.

The Department entered into agreements for professional services that included architectural, engineering, landscaping, and surveying services. An agreement was considered finalized when the services had been completed, reviewed, and audited, and all final payments had been made to the vendor. The Nebraska Department of Roads' Policies and Procedures for the Procurement of Professional Services (January 2016), Section 10.8, states, in relevant part, "A final evaluation is required after all services are accepted or after the termination of an agreement, when applicable." The Department explained that it lacked a system to track whether a final consultant evaluation was performed.

By failing to follow its own policy requiring a consultant evaluation at the conclusion of a project, the Department is increasing the risk the work performed will not be properly reviewed.

We recommend the Department follow its own policy for requiring a final review of all projects, documented by a Consultant Evaluation Form, when a project has been completed.

Department Response: NDOT is currently evaluating this agency policy to determine future applicability and need. In all cases, consultants used by the Department have proven histories of success in completing the survey and design assignments for which they have been selected. More consultants are interested in providing services than NDOT can utilize. With this in mind, the consultants who regularly provide services to the Department have performed satisfactorily and successfully.

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. **Lack of Equipment Usage Review and Redistribution of Costs**

During testing, we noted a number of control weaknesses and inaccurate data that was used in the Department’s monthly equipment cost allocation. The control weaknesses included no documented review of equipment usage during the period to ensure that all costs were allocated to the correct budgetary program. Additionally, equipment usage was redistributed to programs using outdated rates and inaccurate data.

The Department originally records equipment costs to its Maintenance Program, program 574, and then allocates monthly the cost of using the equipment to the Department’s other budgetary programs. During the period July 1, 2017, through December 31, 2018, the Department allocated \$5,465,286 from its Maintenance Program to its other programs, as follows:

Budgetary Program	Expenditures Allocated
568 – Highway Administration	\$ 194,074
569 – Construction	\$ 3,839,463
572 – Services and Support	\$ 1,431,749
574 – Maintenance	\$ (5,465,286)

Control Weaknesses

Department employees fill out their timesheets in Kronos, the Department’s timekeeping system. That system also records their use of any equipment, which is then sent to Lucity, the Department’s asset management system. At the end of each month, Lucity accumulates all the equipment activity, which the Department uses to perform a journal entry to allocate the equipment costs to the appropriate budgetary programs. However, the Department’s procedures are not adequate to ensure the underlying Lucity data is accurate. During our analysis of the Department’s process for reviewing equipment usage, we noted the following deficiencies:

- Once a year the Department performs an annual inventory that includes physically observing all vehicle and equipment odometers. The Department does not perform a documented comparison between the odometer readings and the mileage data in Lucity to ensure they agree. The Department explained that using the odometer readings in this analysis would be difficult because the readings are done at any point between March and June. The Department could require the district employees to document the date they performed the odometer readings, so an analysis would be possible. As a result, the Department’s allocation may be inaccurate, as it relies upon unverified data to allocate expenses.
- The Department does not perform any review of the Lucity data to ensure the data is complete and accurate.

Equipment Data Inaccuracies

During testing of equipment usage, the following inaccuracies were identified:

- In testing 10 vehicles with reported usage below 5,000 miles during the period July 1, 2017, through June 30, 2018, two vehicles identified had incorrect mileage reported:

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Lack of Equipment Usage Review and Redistribution of Costs (Concluded)

Vehicle Description	Lucity Reported Miles	Actual Miles
3/4 Ton Crewcab Pickup	721	8,591
3/4 Ton Clubcab Pickup	400	3,315

- While inquiring about six pieces of equipment with low usage in August 2018, it was discovered that a mower’s usage in Lucity was underreported by 20 hours.

Incorrect Equipment Usage Costs

The Department uses rates established by the Federal Emergency Management Agency (FEMA) to determine equipment usage costs. During testing of the August 2018 equipment usage allocation, the Department was found to be using outdated FEMA rates for its equipment. The FEMA rates changed in September 2017, but they were not updated in Lucity until November 2018. As a result, the Department used incorrect rates for over a year when calculating its equipment usage cost allocation.

The following incorrect rates were identified when testing three pieces of equipment used on the August 2018 allocation:

Equipment Number	Description	Rate Used	Correct FEMA Rate	Rate Variance	Hours Used	Cost Over/ (Under) Stated
92555	Laydown Machine	\$ 135.00	\$ 95.10	\$ 39.90	12	\$ 478.80
22542	Truck Tandem Dump Heavy Duty	\$ 71.50	\$ 77.80	\$ (6.30)	21	\$ (132.30)
95234	Laydown Machine	\$ 135.00	\$ 95.10	\$ 39.90	11	\$ 438.90

A good internal control plan requires procedures to ensure equipment usage is accurately tracked and recorded in the Department’s information system, and all costs are allocated using the correct rates. Without such procedures, there is an increased risk that costs will be incorrect and not accurately recorded to the proper budgetary program.

A similar finding was noted previously in our 2007 report.

We recommend the Department implement procedures to ensure all equipment usage is accurately tracked and recorded in the Department’s information system, and all costs are allocated using the correct rates.

Department Response: NDOT Fleet Management will develop procedure(s) to address equipment usage reporting and the accuracy of meter readings in Lucity on a routine basis. Procedures will also be developed to address the updating of FEMA rates in a timely manner for accurate cost allocations.

8. Non-Construction Contract Issues

As part of its normal course of business, the Department enters into many contracts that are not associated with the construction or maintenance of roads. We tested 13 of these contracts and noted 6 had no documented review by legal counsel:

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Non-Construction Contract Issues (Concluded)

Vendor	Value
University of Nebraska-Kearney	\$ 5,813,730
IMG College LLC	\$ 3,917,080
INRIX Inc	\$ 1,473,876
City of Lincoln	\$ 1,041,673
Eberl Plumbing & Drain	\$ 194,885
Allover Media	\$ 86,370

During review of these contracts, it was found that some did not meet all State compliance requirements. The following was noted:

- The Department’s contracts with IMG College LLC and Allover Media were not bid, and the Department did not maintain documentation to support exemptions from Neb. Rev. Stat. § 73-504(2) (Reissue 2018), which requires State agency service contracts in excess of \$50,000 to be competitively bid. Neb. Rev. Stat § 73-507 (Reissue 2018) allows for certain exceptions to the bidding requirements in § 73-504(2); however, the Department did not obtain such approvals from DAS.
- Neb. Rev. Stat. § 84-602.04(4)(a)(i) (Reissue 2014) requires any contract that serves as “a basis for an expenditure” of State funds to be uploaded to a central database maintained by DAS. The Department’s contracts with the University of Nebraska-Kearney and Eberl Plumbing and Drain were not included on the State contracts database. The Eberl Plumbing and Drain contract was not included because that agreement was never memorialized in writing after bids had been received and the project awarded. The \$194,885 paid to Eberl Plumbing and Drain was the amount bid for the project.

A good internal control plan requires procedures to ensure that the Department’s contracts are reviewed by legal counsel for compliance with laws pertaining to State contracts for goods or services. Without such procedures, there is an increased risk of noncompliance with those laws.

We recommend the Department implement procedures requiring its contracts to be reviewed by legal counsel to ensure compliance with laws pertaining to State contracts for goods or services.

Department Response: NDOT will continue to review the policies and procedures in place for procuring non-construction goods and services. Over the last few years NDOT has worked to centralize procurement and contract drafting and is making progress towards consistent and uniform contracts. The Department has a diverse need in terms of contractual arrangements and will continue to evaluate how best to deal with the unusual circumstances that arise. Templates are utilized for the majority of NDOT’s contracts and agreements. These templates are reviewed by the legal counsel when they are initially created and when modifications are made.

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

9. Project Extra Mile

During the period examined, the Department paid the subrecipient, Project Extra Mile, \$408,567 from the National Priority Safety Programs, a Federal grant. The Department lacked documentation to support that the November 2017 and February 2018 payments were for allowable activities and in accordance with Federal allowable cost principles. The following was noted during review of the \$18,304 November 2017 and the \$21,439 February 2018 monthly payments:

- Project Extra Mile did not maintain time records in accordance with Federal requirements, as it did not account for all the activities of its employees. Three of five employees charged only a portion, 65% to 70%, of their time to the grant; however, their timesheets reflected only the hours attributable daily to the grant. When an employee works partially on a Federal grant, the Federal government requires him or her to track both the time spent on the Federal grant and the time spent on non-Federal grant work. Therefore, we questioned all the payroll charges, totaling \$20,502, for these employees.
- Project Extra Mile billed \$546 for an employee's retirement benefit; however, the employee's paystubs did not identify this benefit as having been paid to the employee.
- Operating costs were not allocated in accordance with the relative benefits received. Although some staff were not charged 100% to the grant, many related costs were charged 100%, including rent, payroll processing, benefits administration, copies, postage, internet, and telephone charges. We calculated questioned costs of \$1,137.

2 CFR § 200.331(d) (January 1, 2018) requires all pass-through entities to do the following:

Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Per 2 CFR § 200.403(g) (January 1, 2018) allowable costs must be adequately documented.

2 CFR § 200.405(a) (January 1, 2018) states the following, in relevant part:

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

* * * *

(2) Benefits both the Federal award and other work on the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods[.]

2 CFR § 200.430(i)(1) (January 1, 2018) requires that records for salaries and wages must:

* * * *

(iii) Reasonably reflect the total activity for which the employee is compensated . . . ;

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

9. **Project Extra Mile** (Concluded)

* * * *

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award . . .

A good internal control plan requires procedures to ensure adequate documentation is maintained to support amounts paid to subrecipients in order to ensure subrecipients utilize Federal funds for authorized purposes and in compliance with all applicable regulations. Without such procedures, there is an increased risk for unallowable charges to the Federal grant.

We recommend the Department strengthen its procedures to ensure subrecipient expenditures are allowable and in accordance with Federal regulations.

Department Response: NDOT concurs and will be reviewing the current process in order to strengthen the internal invoice review and to follow the federal process of procurement. Recent changes in Highway Safety Office program administration allow for a renewed focus in this area.

10. **Communication with Subrecipients**

The Department does not notify subrecipients of the dollar amount and CFDA number for each disbursement of Federal funds, nor does it have adequate procedures to ensure all subrecipients are audited, as required by Federal regulations.

Department staff believe noncompliance is low-risk, as they claim to understand their subrecipients, who are informed in advance of the CFDA number, which does not change later.

2 CFR § 200.331 (January 1, 2018) provides, in relevant part, the following:

All pass-through entities must:

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

(1) Federal Award Identification.

* * * *

*(xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number **at time of disbursement**;*

* * * *

*(f) **Verify that every subrecipient is audited as required by Subpart F** – Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.*

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

10. Communication with Subrecipients (Concluded)

(Emphasis added.) The Department is not following these Federal regulations. Additionally, when the Department does not report the necessary data to subrecipients, there is an increased risk that the financial statements of those subrecipients could be misstated.

We recommend the Department implement procedures to ensure Federal regulations are followed.

Department Response: NDOT concurs and will be reviewing procedures to ensure the Federal regulations are followed.

11. Improper Coding of Federal Funds Purchase Program Expenses

For the period July 1, 2017, through December 31, 2018, the Department expended \$24,339,570 for its Federal Funds Purchase Program (FFPP), which is authorized under Neb. Rev. Stat. § 39-1307 (Reissue 2016). That statute permits the Department to enter into an agreement with a political subdivision whereby the Department uses State funds to purchase the Federal transportation funds made available to such entity.

Section § 39-1307 specifies the following regarding the FFPP agreements:

Such agreements shall provide that the funds obtained from such sale by the political or governmental subdivision or public corporation be expended for cost of construction, reconstruction, maintenance, and repair of public highways, streets, roads, or bridges and facilities, appurtenances, and structures deemed necessary in connection therewith.

The Department records FFPP expenditures as Operating expenditures, but they should be recorded instead as Government Aid expenditures. The Department of Administrative Services defines “government aid” as 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.

Because of this miscoding, the Department’s Operating expenditures are overstated by \$24,339,570, and its Government Aid expenditures are understated by that same amount. The financial schedule was not adjusted for this misstatement.

A good internal control plan and sound accounting practice require procedures to ensure that transactions are recorded properly in the accounting system so that financial reporting is complete and accurate. Without such procedures, there is an increased risk for material misstatement of the financial schedule.

We recommend the Department make the adjustments needed to correct the past miscoding of FFPP expenditures. Additionally, we recommend the Department implement procedures to ensure all future transactions, including FFPP expenditures, are recorded appropriately in the accounting system.

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Continued)

11. Improper Coding of Federal Funds Purchase Program Expenses (Concluded)

Department Response: NDOT's interpretation of this program is that it is an operating expense for the agency. State Statute 39-1307 has provided NDOT the authority to enter into agreements for the purchase of federal aid transportation funds at a discount rate. This program was established to provide a way for NDOT to purchase the federal fund authority from local agencies in exchange for a payment of state funds. State dollars allow the local agencies to tailor their projects to better meet their local highway and bridge needs and is considered a nationwide best practice.

12. Fuel Inventories

The Department does not keep accurate, reliable, and legible records from aviation fuel pumps to ensure the amounts billed for the fuel are correct.

The Department has maintained aviation fuel storage at the three State-owned airfields: Fairmont, Scribner, and Harvard. As of May 2018, however, Scribner is no longer selling fuel because its fuel pump does not work. The fuel is stored in above-ground locked tanks, which are controlled by secured meters attached to the fuel pumps. An individualized key is required to activate the pumps, and the system records the number of gallons dispensed by each key.

Fuel receipts of \$49,293 were deposited during the period July 1, 2017, through December 31, 2018.

A monthly report used to be printed from the fuel meters, detailing the number of gallons dispensed by each key used. The report was sent to the Lincoln office. Due to the age of the system, though, the reports were no longer accurate, reliable, or legible. In place of the reports, the airfield managers or their tenants record the sale of fuel on a piece of paper that identifies the date of purchase, the name of purchaser, and the number of gallons dispensed. These sheets of paper are sent to the Lincoln office at the end of each month and are used to bill the tenants who used fuel.

The Department did have a procedure that compared each month's beginning fuel balance, purchases, sales, and ending balance to a physical inventory; however, the allowable variance of this monthly comparison, along with the control weaknesses caused by the manual process, provided ample opportunity for errors to go unnoticed.

Additionally, we noted a Facility Manager at one airfield collected cash for fuel purchases, deposited the funds into his or her personal bank account, and then mailed a personal check to the Aeronautics Division.

A good internal control plan requires procedures to ensure accurate, reliable, and legible records of aviation fuel purchases are kept, so the Department can account for all funds due to it from such transactions. Additionally, the procedures should ensure those revenues are deposited directly into a State bank account. Without such procedures, there is an increased risk for loss of State funds due not only to the potential failure to bill properly for all fuel sales but also the possible misappropriation of fuel sale proceeds.

NEBRASKA DEPARTMENT OF TRANSPORTATION

COMMENTS AND RECOMMENDATIONS

(Concluded)

12. Fuel Inventories (Concluded)

We recommend the Department implement procedures, including the possible upgrading of its fuel pumps, to ensure that accurate, reliable, and legible records are available for aviation fuel sales. Those procedures should ensure also that money due to the Department from aviation fuel sales is deposited into a State bank account.

Department Response: The Division of Aeronautics acknowledges that parts of the aviation fuel systems are inoperable and require replacing. This will be accomplished as soon as practicable.

In reference to the airfield manager accepting payments in cash: there is a de minimis amount of cash at issue. The division will explore alternatives to the current process of managers writing a personal check in lieu of sending cash through the mail to division headquarters.



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NEBRASKA DEPARTMENT OF TRANSPORTATION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Transportation
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Department of Transportation (Department) for the period July 1, 2017, through December 31, 2018. The Department's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

Our examination disclosed a number of deviations that the Department made from State Accounting Policies, which are explained further in Comment #1, Noncompliance with State Accounting Policies. The Department did not record its \$562,915,633 in Federal expenditures and its \$556,257,866 in Federal receipts in a Federal fund, as required by State Accounting Policies. Additionally, the Department neither made adjustments to capitalize a portion of its engineering service expenses nor expensed a portion of its road construction expenses, as required by State Accounting Policies. The adjustment amount for the Department engineering services and the road construction was not determined at this time.

In our opinion, except for the deviation from the criteria described in the preceding paragraph, the Schedule of Revenues, Expenditures, and Changes in Fund Balances for the period July 1, 2017, through December 31, 2018, is based on the accounting system and procedures prescribed by the State of Nebraska's Director of Administrative Services, as set forth in Note 1, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Schedule of Revenues, Expenditures, and Changes in Fund Balances; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, 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 and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. 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.

The purpose of this report is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances, as described in paragraph one above. Accordingly, this report is not suitable for any other purpose. This report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink, appearing to read "C. J. Janssen", with a long horizontal flourish extending to the right.

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska

August 1, 2019

NEBRASKA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2017, through December 31, 2018

	Aeronautics Cash Fund 21710	Roads Operations Cash Fund 22700	Highway Cash Fund 22710	State Highway Capital Improvement Fund 22740	Transportation Infrastructure Bank Fund 22750	Grade Crossing Protection Fund 26710	State Recreation Road Fund 26720	Aeronautics Trust Fund 61700	State Aid Bridge Fund 77570	Totals (Memorandum Only)
REVENUES:										
Taxes	\$ 2,539,023	\$ -	\$ -	\$ 99,632,418	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,171,441
Intergovernmental	31,498,201	586,950,443	-	-	-	-	-	-	-	618,448,644
Sales & Charges	507,901	6,909,019	1,049,096	-	-	-	5,488,913	-	-	13,954,929
Miscellaneous	1,125,534	7,317,810	186,093	467,598	2,191,296	177,312	264,531	(56,250)	-	11,673,924
TOTAL REVENUES	35,670,659	601,177,272	1,235,189	100,100,016	2,191,296	177,312	5,753,444	(56,250)	-	746,248,938
EXPENDITURES:										
Personal Services	1,922,292	213,806,588	-	-	-	-	-	-	-	215,728,880
Operating	927,419	239,680,084	-	-	-	-	-	1,054	-	240,608,557
Travel	76,928	1,079,335	-	-	-	-	-	-	-	1,156,263
Capital Outlay	28,478	580,923,363	-	134,241,080	9,718,006	6,179,164	7,160,440	-	-	738,250,531
Government Aid	31,762,720	133,005,706	-	-	-	-	-	-	-	164,768,426
TOTAL EXPENDITURES	34,717,837	1,168,495,076	-	134,241,080	9,718,006	6,179,164	7,160,440	1,054	-	1,360,512,657
Excess (Deficiency) of Revenues Over (Under) Expenditures	952,822	(567,317,804)	1,235,189	(34,141,064)	(7,526,710)	(6,001,852)	(1,406,996)	(57,304)	-	(614,263,719)
OTHER FINANCING SOURCES (USES):										
Sales of Assets	652	2,858,944	-	-	-	-	-	-	-	2,859,596
Deposit to/from Common Fund	-	-	-	-	-	3,873,881	-	-	-	3,873,881
Operating Transfers In	253,425	645,444,132	643,067,714	-	26,275,043	540,000	-	-	-	1,315,580,314
Operating Transfers Out	-	(47,127,947)	(645,321,934)	-	-	-	-	(253,425)	-	(692,703,306)
TOTAL OTHER FINANCING SOURCES (USES)	254,077	601,175,129	(2,254,220)	-	26,275,043	4,413,881	-	(253,425)	-	629,610,485
Net Change in Fund Balances	1,206,899	33,857,325	(1,019,031)	(34,141,064)	18,748,333	(1,587,971)	(1,406,996)	(310,729)	-	15,346,766
FUND BALANCES, July 1, 2017	6,773,515	38,864,852	35,695,512	39,661,171	59,045,630	7,194,908	10,267,770	6,595,707	-	204,099,065
FUND BALANCES, December 31, 2018	\$ 7,980,414	\$ 72,722,177	\$ 34,676,481	\$ 5,520,107	\$ 77,793,963	\$ 5,606,937	\$ 8,860,774	\$ 6,284,978	\$ -	\$ 219,445,831
FUND BALANCES CONSIST OF:										
General Cash	\$ 7,858,087	\$ 100,455,143	\$ 34,676,481	\$ 5,520,107	\$ 77,793,963	\$ 5,606,937	\$ 8,860,774	\$ -	\$ 64,039	\$ 240,835,531
Petty Cash	-	1,850	-	-	-	-	-	-	-	1,850
Deposits with Vendors	3,002	2,525	-	-	-	-	-	-	-	5,527
Accounts Receivable Invoiced	260,882	482,348	-	-	-	-	-	-	-	743,230
Long-Term Investments	-	-	-	-	-	-	-	6,284,978	-	6,284,978
Due to Vendors	(141,557)	(5,239,328)	-	-	-	-	-	-	-	(5,380,885)
Deposits	-	(22,978,316)	-	-	-	-	-	-	-	(22,978,316)
Due to Government	-	(2,045)	-	-	-	-	-	-	(64,039)	(66,084)
TOTAL FUND BALANCES	\$ 7,980,414	\$ 72,722,177	\$ 34,676,481	\$ 5,520,107	\$ 77,793,963	\$ 5,606,937	\$ 8,860,774	\$ 6,284,978	\$ -	\$ 219,445,831

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF TRANSPORTATION

NOTES TO THE SCHEDULE

For the Period July 1, 2017, through December 31, 2018

1. Criteria

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) include the following:

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 Nebraska Department of Transportation (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, 2018, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2018, **does not** include amounts for goods and services received before December 31, 2018, which had not been posted to the general ledger as of December 31, 2018.

Other liabilities (primarily in the Distributive Fund Type) are recorded in accounts titled Due to Government for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to other funds. The recording of those liabilities reduces the fund balance/equity. For further information of the activity recorded to those accounts for the period July 1, 2017, through December 31, 2018, see Note 9, Changes in State Aid Bridge Fund 77570.

The Department had accounts receivable of \$27,724,232, which were not included in the Schedule. Those amounts were primarily from road construction projects for which funds had been expended, and the Department was due reimbursement from Federal or local governments. Also included was \$1,715,132 in loan payments due to the Aeronautics Division for its Hangar and Fuel Loan program. These receivable amounts are as of June 30, 2018, as these amounts are determined only at the fiscal year end for the State's Comprehensive Annual Financial Report. 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.

NEBRASKA DEPARTMENT OF TRANSPORTATION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

The following fund types are established by the State and used by the Department:

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.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

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

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 a percentage of sales and use taxes as identified by Neb. Rev. Stat. § 77-27,132 (Reissue 2018).

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, State Property Damage, and Hangar Loan Repayments.

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

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

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

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

Capital Outlay – Expenditures 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.

NEBRASKA DEPARTMENT OF TRANSPORTATION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and long-term investments. 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. Long-term investments (investments) are stated at fair value, based on quoted market prices. Law or legal instruments may restrict these investments. Investments are under the control of the State Treasurer or other administrative bodies, as determined by law.

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, 2018, included amounts recorded in Due to Vendors, Deposits, and Due to Government.

Other Financing Sources – Operating transfers, proceeds of fixed asset dispositions, and Deposits from Common Fund. The Deposits from Common Fund are excise taxes levied on each railroad transporting freight in the State of Nebraska. These funds were collected by the Nebraska Department of Revenue and deposited into the Grade Crossing Protection Fund.

2. Reporting Entity

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. Totals

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

4. 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.

NEBRASKA DEPARTMENT OF TRANSPORTATION

NOTES TO THE SCHEDULE

(Continued)

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, and all computers.

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. Substantially, all initial building costs, land, and land improvements are capitalized. Building improvements and renovations are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

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

Buildings:	20 to 40 Years
Equipment:	3 to 20 Years

Capital asset activity of the Department recorded in the State Accounting System for the period July 1, 2017, through December 31, 2018, was as follows:

NEBRASKA DEPARTMENT OF TRANSPORTATION

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Land	\$ 519,277,404	\$ 4,572,083	\$ 70,845	\$ 523,778,642
Infrastructure	7,460,186,976	102,670,921	-	7,562,857,898
Buildings	81,576,416	12,374,451	115,420	93,835,447
Equipment	260,911,647	31,116,277	13,060,350	278,967,574
Construction in Progress	185,221,221	89,563,620	35,860,130	238,924,711
Total	<u>\$ 8,507,173,664</u>	<u>\$ 240,297,352</u>	<u>\$ 49,106,745</u>	<u>\$ 8,698,364,272</u>
Less accumulated depreciation for:				
Buildings				43,608,100
Equipment				204,393,983
Total				<u>248,002,083</u>
Total capital assets, net of depreciation				<u>\$ 8,450,362,189</u>

Note: The accumulated depreciation noted in the table above was calculated in the accounting system through June 30, 2018. Depreciation for July through December 2018 was not run in the accounting system until after December 31, 2018.

Construction in Progress is determined annually as part of the CAFR. Due to this, the Construction in Progress shown above is as of June 30, 2018, and not as of December 31, 2018.

6. Investments

Long-Term Investments represent the balance reflected on EnterpriseOne. These investments are part of the Nebraska Miscellaneous Trust Fund. Additional information on the Miscellaneous Trust Fund can be found in the State of Nebraska's CAFR.

7. Loans Receivable

The Department provides interest-free loans to airports in the State to assist municipalities that wish to increase or improve the available hangar space or install, improve, or increase fuel storage at their public-use airports. The loan receivable balance is not recorded on the State Accounting System; therefore, it is not included on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Advances to airports and payments received are recorded on the State's Accounting system; however, the balances are tracked separately by the Department. Loan receivable activity for the calendar year ended December 31, 2018, was as follows:

Fund 21710	Balance July 1, 2017	Advances to Airports	Payments Received	Balance Dec 31, 2018
Hangar Loans	\$ 1,429,871	\$ 515,606	\$ 410,773	\$ 1,534,704
Fuel Loans	61,623	9,118	28,690	42,051
Total Loans Receivable	<u>\$ 1,491,494</u>	<u>\$ 524,724</u>	<u>\$ 439,463</u>	<u>\$ 1,576,755</u>

NEBRASKA DEPARTMENT OF TRANSPORTATION

NOTES TO THE SCHEDULE

(Continued)

8. Changes in Deposits

Account	Balance July 1, 2017	Increases	Decreases	Balance Dec 31, 2018
Deposits by Locals	\$ 8,087,642	\$ 16,242,176	\$ 1,351,502	\$ 22,978,316

All deposits are within the Roads Operations Cash Fund 22700. Local governments sometimes pay in advance for their share of construction projects. When those funds are used, they are moved out of the Deposits by Locals account. The Department also receives advances on various fee accounts from individuals and businesses. When the fee is earned, the amount is transferred to a revenue account. If the fee is not earned, it is returned to the individual or business. During the year, approximately \$266,060 was earned, and \$322,142 was returned. The Department also receives performance guarantees related to right-of-way purchases. When the purchase has been completed, the guarantee is returned.

9. Changes in State Aid Bridge Fund 77570

Beginning Cash Balance July 1, 2017	\$ 64,028
Gas Tax Collections Received	1,216,000
Investment Income	675
Payments to Vendors	(1,216,664)
Ending Cash Balance December 31, 2018	<u>\$ 64,039</u>

The State Treasurer makes monthly transfers of gas tax collections to the Fund, as required by Neb. Rev. Stat. § 39-847.01 (Cum. Supp. 2018). Payments to Vendors are payments to contractors for bridge replacement and rehabilitation project costs for county bridges.

10. Transfers

Operating Transfers In and Operating Transfers Out relate primarily to the distribution of Highway Trust funds. By statute, most motor fuel taxes, motor vehicle sales taxes, and motor vehicle fees deposited into the Highway Trust Fund are allocated by the State Treasurer to the Department, Nebraska counties, and Nebraska municipalities. The Department's allocation is transferred into the Highway Cash Fund and the Grade Crossing Protection Fund. During the period July 1, 2017, through December 31, 2018, \$643,067,715 in Highway Trust Funds were transferred to the Highway Cash Fund, and \$540,000 in Highway Trust Funds were transferred to the Grade Crossing Protection Fund. The Department then transfers funds from the Highway Cash Fund to the Roads Operations Cash Fund. During the period July 1, 2017, through December 31, 2018, \$645,321,935 was transferred from the Highway Cash Fund to the Roads Operation Cash Fund.

Transfers Out of the Roads Operations Cash Fund included a \$26,275,043 transfer to the Transportation Infrastructure Bank Fund in accordance with Neb. Rev. Stat. § 39-2803(3) (Reissue 2016); 2017 Neb. Laws, LB 327, § 186, required Transfers Out of \$12,486,295 to the Nebraska State Patrol for law enforcement coverage along State road construction zones; and 2017 Neb. Laws, LB 331, § 32, required the State Treasurer to transfer \$7,500,000 from the Roads Operation Cash Fund to the General Fund before June 30, 2018.

NEBRASKA DEPARTMENT OF TRANSPORTATION

NOTES TO THE SCHEDULE
(Concluded)

10. Transfers (Concluded)

The fund balance in the Aeronautics Trust Fund 61700 (Trust Fund) represents the proceeds from the sale of land from airfields that the Federal Government deeded to the State. These proceeds are invested by the Nebraska Investment Council. Gains and losses on the sale of investments are principal transactions that are added to or subtracted from the Trust Fund balance. The interest earned on the balance is transferred to the Aeronautics Cash Fund for use per a written agreement with the Federal Aviation Administration dated 1969 and amended in 1971. The amounts are transferred by the State Treasurer as required by Neb. Rev. Stat. § 3-156 (Cum. Supp. 2018).

11. Deposits to/from Common Funds

Neb. Rev. Stat. § 74-1320(1) (Reissue 2018) levies an excise tax on each railroad transporting freight in the State of Nebraska. This tax is collected by the Nebraska Department of Revenue and deposited into the Department’s Grade Crossing Protection Fund (Fund 26710).

12. Due to Roads Operation Cash Fund

The Department pays its road construction vendors from the Road Operations Cash Fund (Fund 22700) and then allocates those expenditures monthly to its different funds based on the type of work performed. For example, construction work on bridges may be paid initially from the Road Operations Cash Fund and allocated later to the State Aid Bridge Fund (Fund 77570). In some instances, the Road Operations Cash Fund may make more expenditures than the State Aid Bridge Fund has cash on hand to pay. In these instances, the Department tracks these amounts and, when the State Aid Bridge Fund has sufficient resources, the Department allocates those expenditures.

At December 31, 2018, the State Highway Capital Improvement Fund and the State Aid Bridge Fund owed the Road Operations Cash Fund for expenditures that had yet to be allocated to these funds. The amount owed is not recorded in the State’s Accounting System.

Below is a table for these two funds and the activity of the balance owed during the period:

Fund	Due to Roads Operation Cash Fund at July 1, 2017	Expenditures Paid by the Roads Operation Cash Fund	Transfers to the Road Operations Cash Fund	Due to Roads Operation Cash Fund at December 31, 2018
State Highway Capital Improvement Fund – 22740	\$ 5,081,654	\$ 143,200,654	\$ 134,241,080	\$ 14,041,228
State Aid Bridge Fund – 77570	\$ 638,877	\$ 1,370,311	\$ 1,152,665	\$ 856,523

NEBRASKA DEPARTMENT OF TRANSPORTATION

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 TRANSPORTATION
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2017, through June 30, 2018

Exhibit A

	Aeronautics Cash Fund 21710	Roads Operations Cash Fund 22700	Highway Cash Fund 22710	State Highway Capital Improvement Fund 22740	Transportation Infrastructure Bank Fund 22750	Grade Crossing Protection Fund 26710	State Recreation Road Fund 26720	Aeronautics Trust Fund 61700	State Aid Bridge Fund 77570	Totals (Memorandum Only)
REVENUES:										
Taxes	\$ 1,598,413	\$ -	\$ -	\$ 65,175,388	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,773,801
Intergovernmental	15,982,276	336,430,589	-	-	-	-	-	-	-	352,412,865
Sales & Charges	353,506	4,519,948	678,271	-	-	-	3,722,243	-	-	9,273,968
Miscellaneous	768,257	4,814,544	116,131	385,468	1,349,911	115,257	167,753	(131,843)	-	7,585,478
TOTAL REVENUES	18,702,452	345,765,081	794,402	65,560,856	1,349,911	115,257	3,889,996	(131,843)	-	436,046,112
EXPENDITURES:										
Personal Services	1,336,455	142,432,172	-	-	-	-	-	-	-	143,768,627
Operating	649,049	163,139,515	-	-	-	-	-	974	-	163,789,538
Travel	51,357	677,957	-	-	-	-	-	-	-	729,314
Capital Outlay	28,478	344,148,228	-	94,854,287	7,130,531	5,392,537	6,079,985	-	-	457,634,046
Government Aid	16,128,078	79,429,751	-	-	-	-	-	-	-	95,557,829
TOTAL EXPENDITURES	18,193,417	729,827,623	-	94,854,287	7,130,531	5,392,537	6,079,985	974	-	861,479,354
Excess (Deficiency) of Revenues Over (Under) Expenditures	509,035	(384,062,542)	794,402	(29,293,431)	(5,780,620)	(5,277,280)	(2,189,989)	(132,817)	-	(425,433,242)
OTHER FINANCING SOURCES (USES):										
Sales of Assets	652	1,827,842	-	-	-	-	-	-	-	1,828,494
Deposit to/from Common Fund	-	-	-	-	-	3,217,880	-	-	-	3,217,880
Operating Transfers In	167,568	429,402,136	425,570,169	-	15,866,844	360,000	-	-	-	871,366,717
Operating Transfers Out	-	(32,191,847)	(429,279,938)	-	-	-	-	(167,568)	-	(461,639,353)
TOTAL OTHER FINANCING SOURCES (USES)	168,220	399,038,131	(3,709,769)	-	15,866,844	3,577,880	-	(167,568)	-	414,773,738
Net Change in Fund Balances	677,255	14,975,589	(2,915,367)	(29,293,431)	10,086,224	(1,699,400)	(2,189,989)	(300,385)	-	(10,659,504)
FUND BALANCES, July 1, 2017	6,773,515	38,864,852	35,695,512	39,661,171	59,045,630	7,194,908	10,267,770	6,595,707	-	204,099,065
FUND BALANCES, June 30, 2018	\$ 7,450,770	\$ 53,840,441	\$ 32,780,145	\$ 10,367,740	\$ 69,131,854	\$ 5,495,508	\$ 8,077,781	\$ 6,295,322	\$ -	\$ 193,439,561
FUND BALANCES CONSIST OF:										
General Cash	\$ 7,346,752	\$ 76,541,984	\$ 32,780,145	\$ 10,367,740	\$ 69,131,854	\$ 5,495,508	\$ 8,077,781	\$ -	\$ 64,035	\$ 209,805,799
Petty Cash	-	1,850	-	-	-	-	-	-	-	1,850
Deposits with Vendors	3,002	2,525	-	-	-	-	-	-	-	5,527
Accounts Receivable Invoiced	107,217	2,209,700	-	-	-	-	-	-	-	2,316,917
Long-Term Investments	-	-	-	-	-	-	-	6,295,322	-	6,295,322
Due to Vendors	(6,201)	(2,032,008)	-	-	-	-	-	-	-	(2,038,209)
Deposits	-	(22,881,706)	-	-	-	-	-	-	-	(22,881,706)
Due to Government	-	(1,904)	-	-	-	-	-	-	(64,035)	(65,939)
TOTAL FUND BALANCES	\$ 7,450,770	\$ 53,840,441	\$ 32,780,145	\$ 10,367,740	\$ 69,131,854	\$ 5,495,508	\$ 8,077,781	\$ 6,295,322	\$ -	\$ 193,439,561

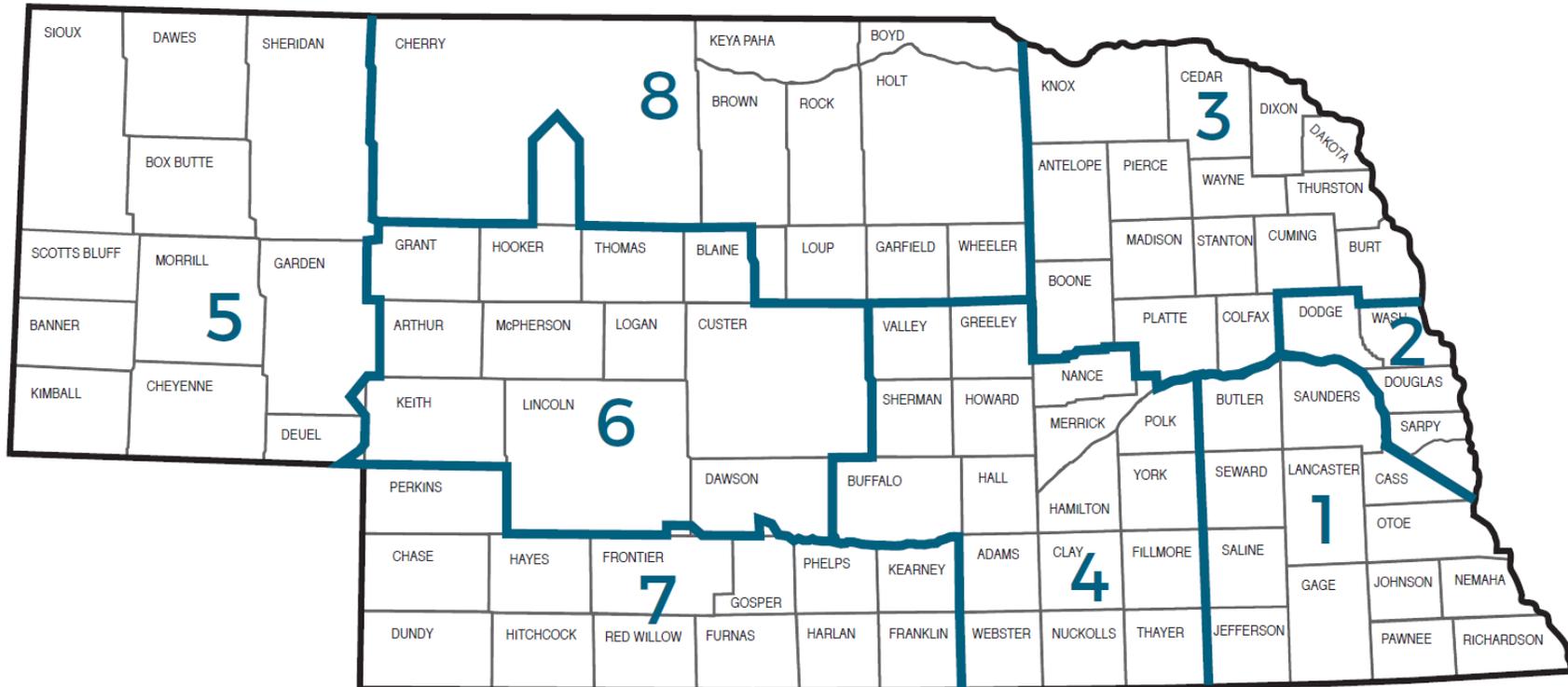
NEBRASKA DEPARTMENT OF TRANSPORTATION
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2018, through December 31, 2018

Exhibit B

	Aeronautics Cash Fund 21710	Roads Operations Cash Fund 22700	Highway Cash Fund 22710	State Highway Capital Improvement Fund 22740	Transportation Infrastructure Bank Fund 22750	Grade Crossing Protection Fund 26710	State Recreation Road Fund 26720	Aeronautics Trust Fund 61700	State Aid Bridge Fund 77570	Totals (Memorandum Only)
REVENUES:										
Taxes	\$ 940,610	\$ -	\$ -	\$ 34,457,030	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,397,640
Intergovernmental	15,515,925	250,519,854	-	-	-	-	-	-	-	266,035,779
Sales & Charges	154,395	2,389,071	370,825	-	-	-	1,766,670	-	-	4,680,961
Miscellaneous	357,277	2,503,266	69,962	82,130	841,385	62,055	96,778	75,593	-	4,088,446
TOTAL REVENUES	16,968,207	255,412,191	440,787	34,539,160	841,385	62,055	1,863,448	75,593	-	310,202,826
EXPENDITURES:										
Personal Services	585,837	71,374,416	-	-	-	-	-	-	-	71,960,253
Operating	278,370	76,540,569	-	-	-	-	-	80	-	76,819,019
Travel	25,571	401,378	-	-	-	-	-	-	-	426,949
Capital Outlay	-	236,775,135	-	39,386,793	2,587,475	786,627	1,080,455	-	-	280,616,485
Government Aid	15,634,642	53,575,955	-	-	-	-	-	-	-	69,210,597
TOTAL EXPENDITURES	16,524,420	438,667,453	-	39,386,793	2,587,475	786,627	1,080,455	80	-	499,033,303
Excess (Deficiency) of Revenues Over (Under) Expenditures	443,787	(183,255,262)	440,787	(4,847,633)	(1,746,090)	(724,572)	782,993	75,513	-	(188,830,477)
OTHER FINANCING SOURCES (USES):										
Sales of Assets	-	1,031,102	-	-	-	-	-	-	-	1,031,102
Deposit to/from Common Fund	-	-	-	-	-	656,001	-	-	-	656,001
Operating Transfers In	85,857	216,041,996	217,497,545	-	10,408,199	180,000	-	-	-	444,213,597
Operating Transfers Out	-	(14,936,100)	(216,041,996)	-	-	-	-	(85,857)	-	(231,063,953)
TOTAL OTHER FINANCING SOURCES (USES)	85,857	202,136,998	1,455,549	-	10,408,199	836,001	-	(85,857)	-	214,836,747
Net Change in Fund Balances	529,644	18,881,736	1,896,336	(4,847,633)	8,662,109	111,429	782,993	(10,344)	-	26,006,270
FUND BALANCES, July 1, 2018	7,450,770	53,840,441	32,780,145	10,367,740	69,131,854	5,495,508	8,077,781	6,295,322	-	193,439,561
FUND BALANCES, December 31, 2018	\$ 7,980,414	\$ 72,722,177	\$ 34,676,481	\$ 5,520,107	\$ 77,793,963	\$ 5,606,937	\$ 8,860,774	\$ 6,284,978	\$ -	\$ 219,445,831
FUND BALANCES CONSIST OF:										
General Cash	\$ 7,858,087	\$ 100,455,143	\$ 34,676,481	\$ 5,520,107	\$ 77,793,963	\$ 5,606,937	\$ 8,860,774	\$ -	\$ 64,039	\$ 240,835,531
Petty Cash	-	1,850	-	-	-	-	-	-	-	1,850
Deposits with Vendors	3,002	2,525	-	-	-	-	-	-	-	5,527
Accounts Receivable Invoiced	260,882	482,348	-	-	-	-	-	-	-	743,230
Long-Term Investments	-	-	-	-	-	-	-	6,284,978	-	6,284,978
Due to Vendors	(141,557)	(5,239,328)	-	-	-	-	-	-	-	(5,380,885)
Deposits	-	(22,978,316)	-	-	-	-	-	-	-	(22,978,316)
Due to Government	-	(2,045)	-	-	-	-	-	-	(64,039)	(66,084)
TOTAL FUND BALANCES	\$ 7,980,414	\$ 72,722,177	\$ 34,676,481	\$ 5,520,107	\$ 77,793,963	\$ 5,606,937	\$ 8,860,774	\$ 6,284,978	\$ -	\$ 219,445,831

NEBRASKA DEPARTMENT OF TRANSPORTATION
FIELD DISTRICTS AND STATE HIGHWAY COMMISSION DISTRICTS

Exhibit C



NEBRASKA DEPARTMENT OF TRANSPORTATION
SERVICE EFFORTS AND ACCOMPLISHMENTS - ROADS DIVISION

Exhibit D

Fiscal Years Ended June 30, 2014, through 2018

	Fiscal Year				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Average Number of Employees	2,082	2,078	2,087	2,050	1,987
Construction Costs					
Highway & Bridge Contract Payments	350,791,793	391,217,712	460,993,457	429,593,702	419,229,264
Engineering Contract Payments	20,637,899	23,779,654	25,266,125	24,805,272	33,504,674
Department Payroll	57,178,094	59,440,678	63,501,021	63,372,545	62,786,876
Public Transportation Assistance	12,442,632	12,831,384	13,470,296	15,706,064	15,175,370
Other Construction Costs	124,398,656	96,883,694	118,607,803	99,890,881	110,616,973
Total Construction Costs (Note 2)	565,449,074	584,153,122	681,838,702	633,368,464	641,313,157
Maintenance Costs					
Payroll	51,284,754	52,725,877	57,557,390	54,988,516	57,408,424
Equipment	14,670,848	11,550,614	14,322,538	16,535,153	17,392,643
Other Maintenance	81,511,539	96,668,036	102,893,084	75,961,059	75,786,904
Total Maintenance Costs	147,467,141	160,944,527	174,773,012	147,484,728	150,587,971
Administration Costs					
Payroll	12,426,494	12,761,611	13,770,840	13,566,562	14,224,026
Other	3,651,422	3,576,550	3,268,024	3,396,011	3,654,927
Total Administration Costs	16,077,915	16,338,161	17,038,864	16,962,573	17,878,953
Services & Support Costs					
Payroll	12,106,557	10,594,105	5,611,377	9,565,906	6,065,722
Other	30,831,639	35,759,526	26,540,765	24,708,963	22,643,097
Total Cap Facilities, Svc & Support Costs	42,938,196	46,353,631	32,152,142	34,274,869	28,708,819
Capital Facilities	520,601	5,455,663	3,447,226	2,383,237	4,680,640
Total Costs per the Department's Accounting System (Note 1)	772,452,927	813,245,104	909,249,946	834,473,871	843,169,540

Note 1: Total costs per the Department's accounting system will not agree to the State's system - EnterpriseOne (E1) due to timing differences as the Department systems recognizes costs when they are incurred and E1 recognizes expenditures when paid. Additionally, the historic expenditures found on **Exhibit E** include the Aeronautics Division but the amounts above do not. Also certain items, such as local match, are recorded "net" on E1 and the Department records as "gross" with a corresponding revenue.

Note 2: Includes construction costs for local projects involving Federal aid matching funds. County/City Projects let to contract by the Department are paid by the Department. The local match is paid by the County/City to the Department and the Federal share is reimbursed to the Department. Projects let to contract by the County/City are paid by the County/City and the Department is billed for the Federal share. The Department then requests reimbursement from the Federal Department of Transportation and remits the reimbursement to the County/City. The entire costs of local projects are entered into the Department records whether let to contract by the Department or the local subdivision.

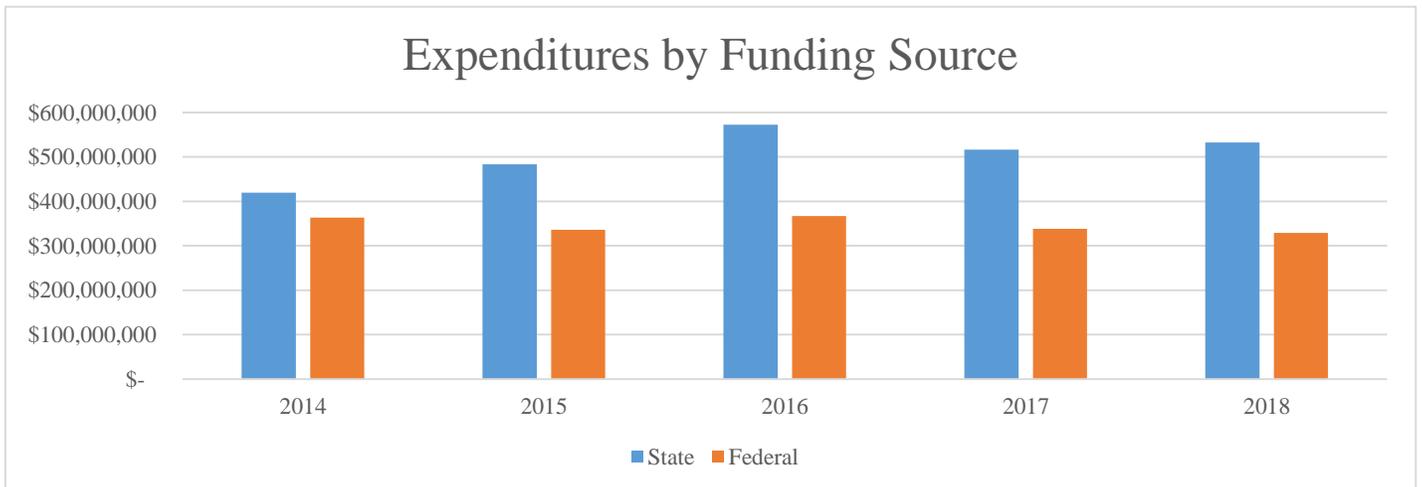
NEBRASKA DEPARTMENT OF TRANSPORTATION **Exhibit E**
EXPENDITURES BY PROGRAM, MAJOR ACCOUNT, AND FUNDING SOURCE
 Fiscal Years Ended June 30, 2014, through 2018

	Expenditures by Program				
	2014	2015	2016	2017	2018
Aeronautics Trust Fund	\$ 1,150	\$ 483	\$ 700	\$ 1,061	\$ 974
Administration and Services - Aeronautics	2,124,403	2,433,030	2,128,950	4,680,053	1,835,890
Public Airports	15,151,347	14,945,806	29,088,094	17,243,238	16,115,389
Public Transportation Aid	4,653,732	4,904,274	5,607,757	6,066,041	5,296,426
Highway Administration	15,145,334	15,704,878	15,879,251	16,373,757	17,325,059
Construction	559,869,074	576,059,337	670,563,482	624,626,759	632,449,112
Services and Support	31,732,942	35,213,161	35,349,037	32,930,811	31,008,905
Highway Maintenance	150,394,371	164,210,889	177,165,335	150,590,814	152,053,494
State-Owned Aircraft	3,788,890	217,498	309,257	199,112	242,137
Capital Facilities	520,601	5,939,510	3,130,579	2,212,818	5,151,968
	783,381,844	819,628,866	939,222,442	854,924,464	861,479,354

	Expenditures by Major Account				
	2014	2015	2016	2017	2018
Personal Services	\$ 136,419,045	\$ 138,861,985	\$ 143,742,958	\$ 144,757,657	\$ 143,768,627
Operating Expenses	153,388,086	177,157,807	196,332,323	165,904,945	163,789,538
Travel	988,505	998,487	1,137,402	887,771	729,314
Capital Outlay	376,347,751	415,005,100	485,306,715	455,033,039	457,634,046
Government Aid	116,238,457	87,605,487	112,703,044	88,341,052	95,557,829
	\$ 783,381,844	\$ 819,628,866	\$ 939,222,442	\$ 854,924,464	\$ 861,479,354

	Expenditures by Funding Source				
	2014	2015	2016	2017	2018
State	\$ 419,679,745	\$ 483,689,351	\$ 572,415,342	\$ 516,431,214	\$ 532,456,633
Federal	363,702,099	335,939,515	366,807,100	338,493,250	329,022,721
	\$ 783,381,844	\$ 819,628,866	\$ 939,222,442	\$ 854,924,464	\$ 861,479,354

Note: These amounts come from the State Accounting System.

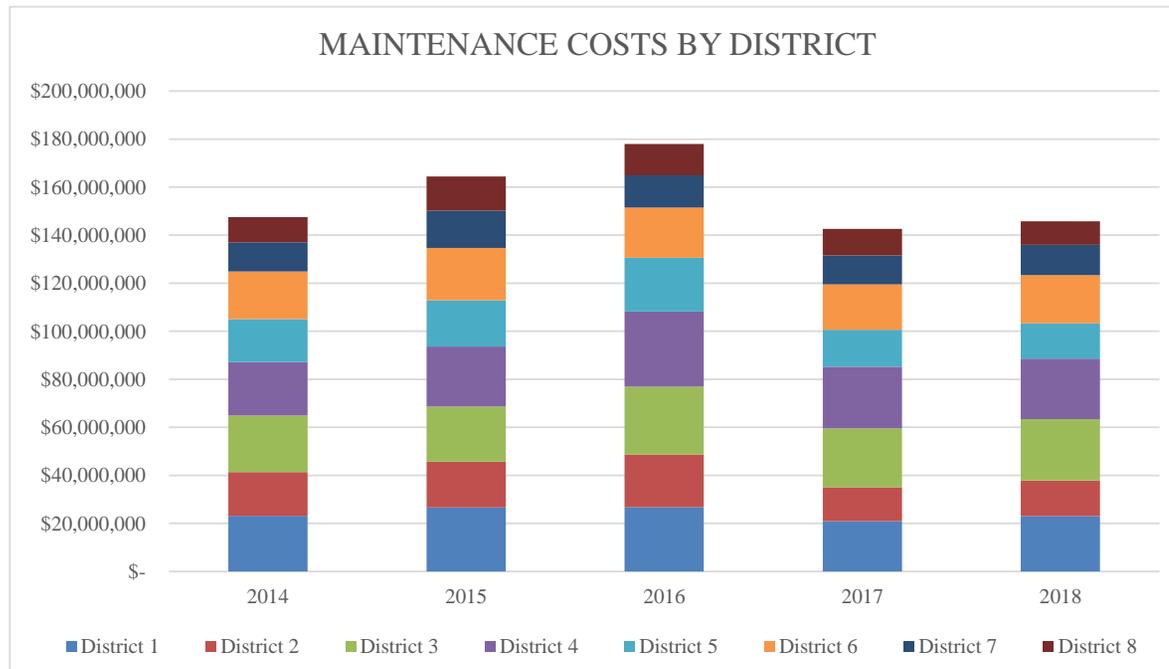


NEBRASKA DEPARTMENT OF TRANSPORTATION
MAINTENANCE COSTS BY DISTRICT
 Fiscal Year Ended June 30, 2014, through 2018

Exhibit F

District Location	1 Lincoln	2 Omaha	3 Norfolk	4 Grand Island	5 Bridgeport	6 North Platte	7 McCook	8 Ainsworth
Highway Maintenance Costs by Fiscal Year								
2014	\$ 23,175,800	\$ 18,160,059	\$ 23,584,828	\$ 22,242,928	\$ 17,910,816	\$ 19,872,521	\$ 12,082,015	\$ 10,478,385
2015	\$ 26,715,525	\$ 19,013,372	\$ 22,880,029	\$ 25,012,313	\$ 19,261,845	\$ 21,844,112	\$ 15,460,098	\$ 14,278,562
2016	\$ 26,770,621	\$ 21,895,487	\$ 28,336,651	\$ 31,251,809	\$ 22,326,919	\$ 20,924,506	\$ 13,424,372	\$ 13,082,454
2017	\$ 20,923,228	\$ 14,166,396	\$ 24,474,982	\$ 25,717,855	\$ 15,395,414	\$ 18,847,010	\$ 12,027,425	\$ 11,101,263
2018	\$ 23,006,630	\$ 14,900,191	\$ 25,461,660	\$ 25,225,467	\$ 14,728,275	\$ 20,051,558	\$ 12,552,762	\$ 9,830,871
Total Lane Miles	3,753	1,727	3,340	3,951	2,915	2,964	2,100	2,133
Average Maintenance Cost per Total Lane Mile FY2018								
2018	\$ 6,131	\$ 8,626	\$ 7,624	\$ 6,385	\$ 5,053	\$ 6,765	\$ 5,977	\$ 4,609

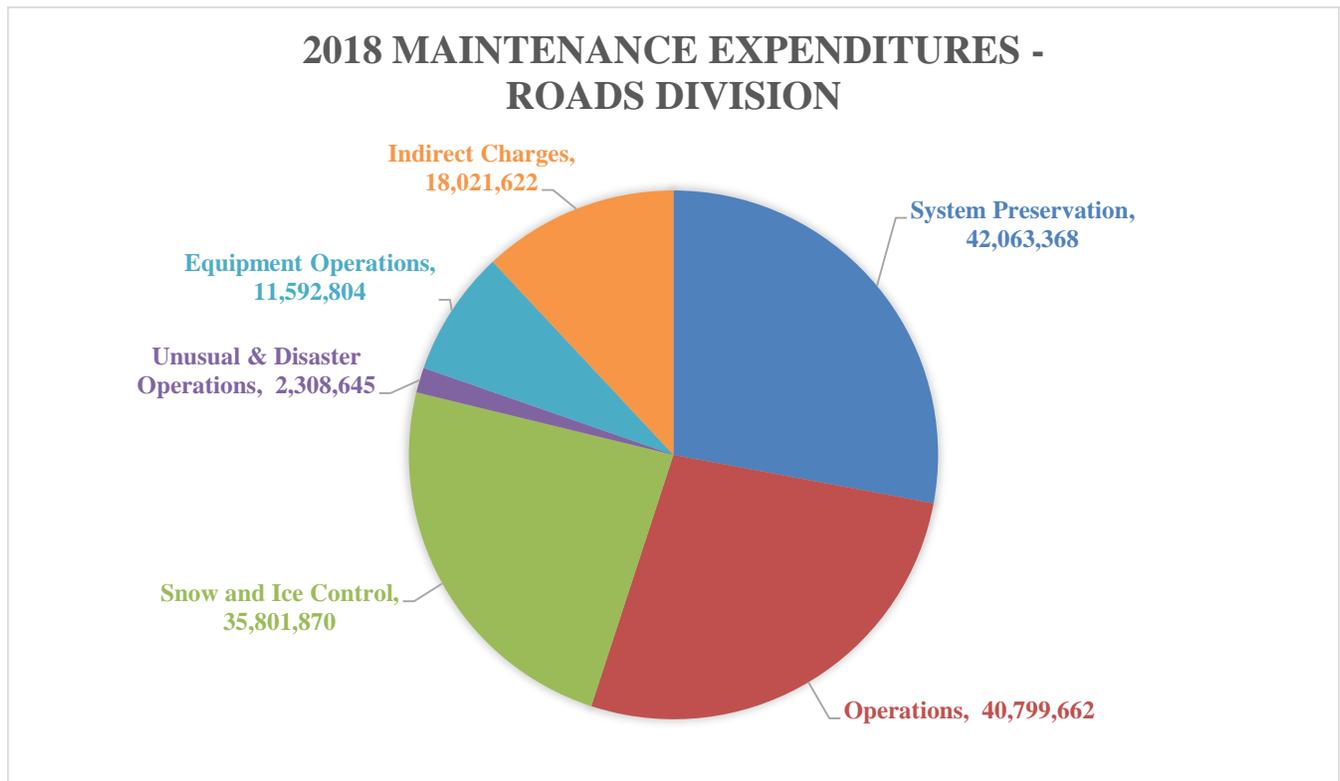
Note: The Highway Maintenance Costs only includes the costs for these eight districts and does not include any other administrative or support costs or adjustments. The cost amounts are from the Department's Accounting system.



NEBRASKA DEPARTMENT OF TRANSPORTATION **Exhibit G**
HIGHWAY MAINTENANCE EXPENDITURES BY CATEGORY - ROADS DIVISION
 Fiscal Years Ended June 30, 2014, through 2018

	2014	2015	2016	2017	2018
Highway Maintenance					
System Preservation	54,718,242	68,427,152	72,714,506	45,667,795	42,063,368
Operations	38,940,020	40,259,674	44,605,756	43,741,565	40,799,662
Snow and Ice Control	25,502,846	25,915,605	31,758,864	26,484,551	35,801,870
Unusual & Disaster Operations	1,731,440	2,887,836	27,340	1,938,722	2,308,645
Equipment Operations	9,931,474	6,065,641	8,271,381	13,273,756	11,592,804
Indirect Charges	16,643,119	17,388,619	17,395,165	16,378,339	18,021,622
	\$ 147,467,141	\$ 160,944,527	\$ 174,773,012	\$ 147,484,728	\$ 150,587,971

Note: This cost data comes from the Department's Accounting system.



Fiscal Responsibility

Use Financial Resources Wisely
and Make Financial Decisions in
an Open and Transparent Way

Fiscal Responsibility is defined as (1) living within our means; (2) using financial resources wisely, and (3) making financial decisions in an open and transparent way. The goal is to optimize the use of available funds to build and maintain the state's transportation system. These measures have been established to reflect the progress toward meeting this goal.

Overhead as a Percentage of Annual Expenditures

Description: Measurement of the department's costs for construction, maintenance and overhead.

Purpose: To maximize funding for transportation purposes by minimizing overhead costs.

Goal: To have overhead costs less than 10% of annual expenditures.

Outcome: The department has maintained overhead at less than 10% of annual expenditures over the ten-year period. The overhead for 2018 was 6%.

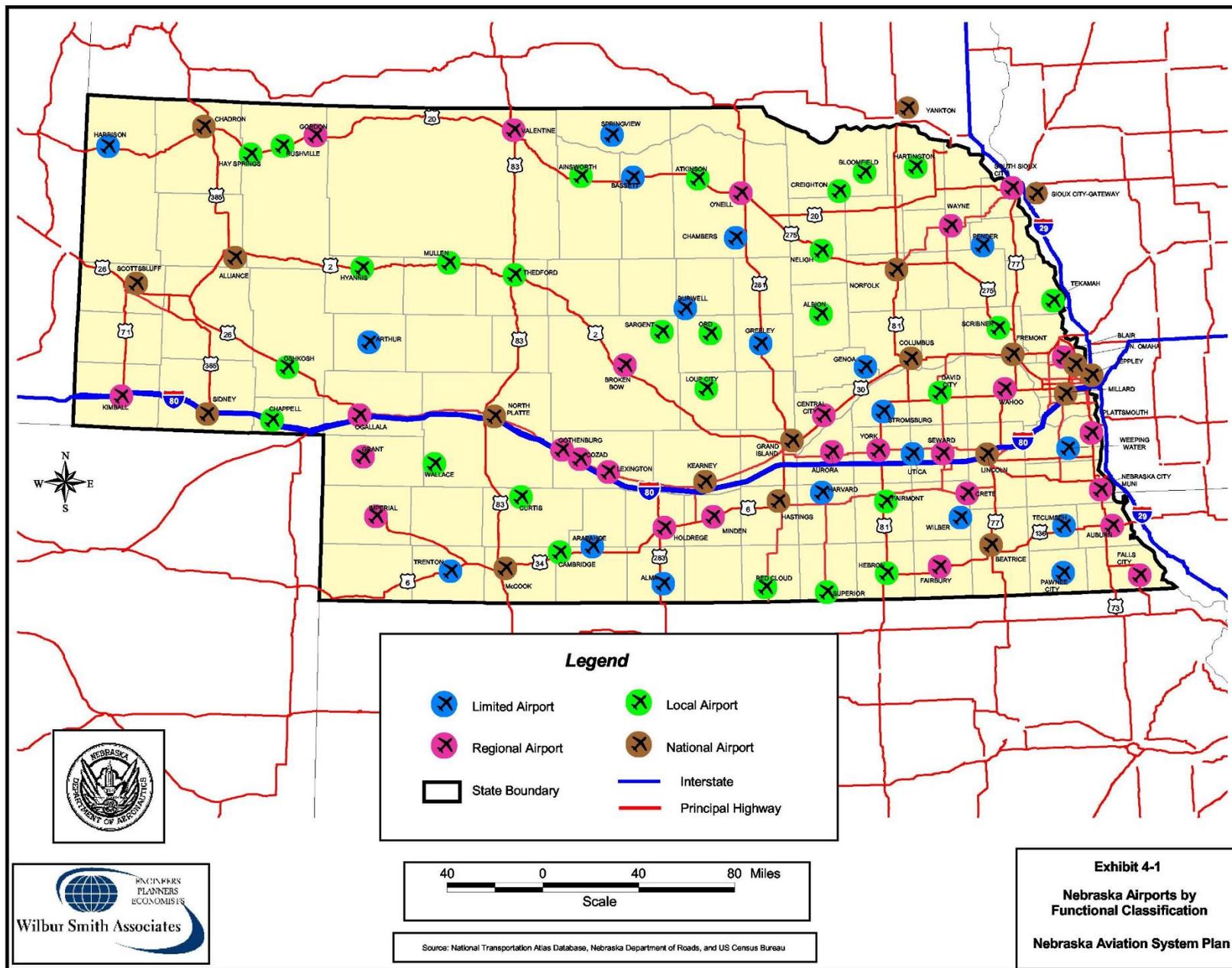
Transportation and Administrative Expenditures
(Dollar amounts represented in millions)



Data in the report is from NDOT's Budget Status Report/Agency Summary by Program/Function financial report for fiscal year ending June 30, 2018
 - Construction includes the Highway Construction and Construction Related Expenses major categories
 - Maintenance includes the Highway Maintenance plus Capital Facilities major categories less the Supply Base/Inventories category
 - Overhead includes the Administration major category plus the Building Operations, Business Technology Services and Support Centers categories

NEBRASKA DEPARTMENT OF TRANSPORTATION
MAP OF AIRPORTS

Exhibit I



NEBRASKA DEPARTMENT OF TRANSPORTATION
AID PROVIDED TO AIRPORTS - AERONAUTICS DIVISION

Exhibit J

For the Fiscal Year Ended June 30, 2018

<u>City/Airport</u>	<u>Aid Payments</u>	<u>City/Airport</u>	<u>Aid Payments</u>
Ainsworth	\$ 338,037	Imperial	\$ 158,750
Alliance	\$ 221,366	Kearney	\$ 3,011,675
Alma	\$ 58,806	Kimball	\$ 40,782
Auburn	\$ 228,416	Lexington	\$ 324,456
Aurora	\$ 203,163	Loup City	\$ 35,054
Beatrice	\$ 115,749	Nebraska City	\$ 153,004
Blair	\$ 147,124	Norfolk	\$ 1,858,781
Burwell	\$ 91,841	North Platte	\$ 719,005
Central City	\$ 611,301	Ogallala	\$ 305,682
Cozad	\$ 14,209	Omaha	\$ 374,249
Crete	\$ 727,993	O'Neill	\$ 49,071
David City	\$ 331,624	Pawnee City	\$ 456,475
Falls City	\$ 251,871	Plattsmouth	\$ 1,283,375
Fairbury	\$ 703,800	Rushville	\$ 185,039
Gordon	\$ 22,000	Sidney	\$ 23,677
Grant	\$ 14,272	Stuart-Atkinson	\$ 7,581
Hartington	\$ 612,471	Superior	\$ 33,421
Hastings	\$ 428,828	Tekamah	\$ 103,669
Hebron	\$ 317,289	Wayne	\$ 472,850
Holdrege	\$ 638,126	York	\$ 440,257
		TOTAL	\$ 16,115,139

Note: Aid to airports consists primarily of Federal AIP grants passed through to airports, totaling \$15,514,349. The remainder is made up of the State Share of the AIP projects \$177,166, and Hangar Loans \$423,624; paid from the Division's cash funds (aviation fuel tax dollars).