

**AUDIT REPORT
OF THE
NEBRASKA MILITARY DEPARTMENT
JULY 1, 1999 THROUGH JUNE 30, 2000**

NEBRASKA MILITARY DEPARTMENT

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NEBRASKA MILITARY DEPARTMENT

BACKGROUND

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

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

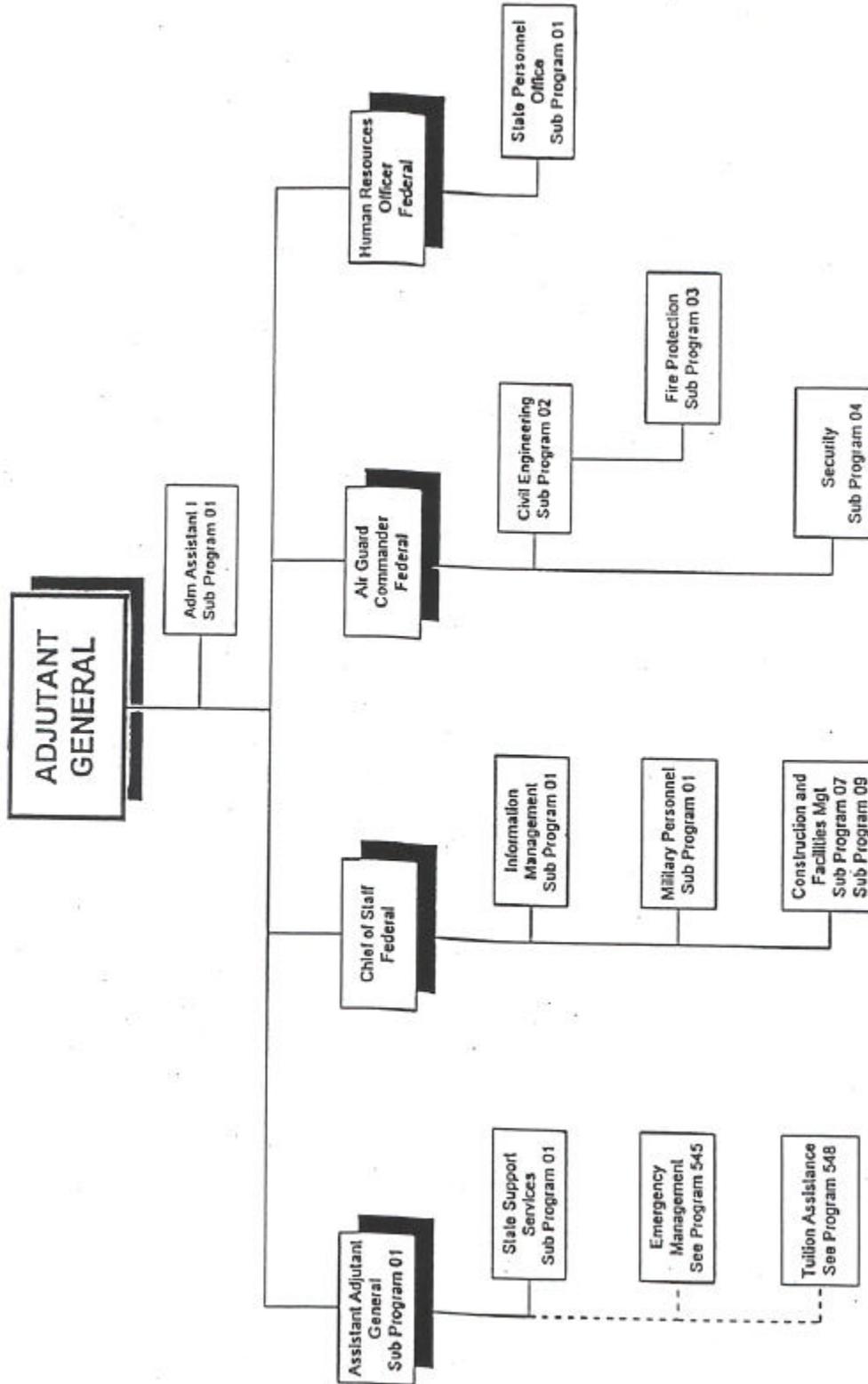
The Governor, as the State's military force Commander in Chief, appoints the Adjutant General from commissioned officers of the Nebraska National Guard. The Adjutant General serves until reaching the mandatory retirement age of 64, resigning or being relieved. The Adjutant General controls Military Department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

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

MISSION STATEMENT

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

NEBRASKA MILITARY DEPARTMENT



Organizational Structure
 Depicting Supervision and
 Utilization of State Employees
 Military Department

NEBRASKA MILITARY DEPARTMENT

SUMMARY OF COMMENTS

During our audit of the Nebraska Military Department, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Federal Interest Liability Calculation:*** The Nebraska Military Department overpaid the federal government for federal interest liability, as the federal interest liability was calculated based on three Catalog of Federal Domestic Assistance (CFDA) programs instead of just one program. The amount of interest paid exceeded \$55,000.
2. ***Cash Management:*** The Cash Management Improvement Act (CMIA) requires a State to request funds not more than three business days before a disbursement is made. The average clearance pattern was seven days.
3. ***Fixed Asset Inventory Listing:*** A metal storage building costing \$141,197 was constructed but was not added to the inventory listing in a timely manner.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Department declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

1. Federal Interest Liability Calculation

The Treasury agreement between the Nebraska State Treasurer's Office and the Federal government requires interest to be calculated and remitted to the federal government. This is required for Catalog of Federal Domestic Assistance (CFDA) program number 83.544 – Public Assistance Grants. The interest due is based on a formula, which includes the daily balances. Interest is required to be paid because drawdowns of federal funds are made in advance. Good internal control also requires the Department to ensure they are calculating and remitting the correct amount.

During the audit, we noted the Department was basing its interest liability and payments on CFDA program number 83.543 – Individual and Family Grants and 83.548 – Hazard Mitigation Grant, in addition to program number 83.544. The agency paid \$55,282 in interest based upon this calculation. The actual amount of overpayment could not be determined. The interest paid was greater than required because three programs were used in the calculation instead of one.

We recommend controls be implemented to ensure the correct interest is paid to the federal government. In addition, the department should investigate whether the overpayments made to the federal government can be returned to the State.

Department's Response: The Treasurer's office sent out the directions to the Military Department regarding the figuring of interest liability. The directions we received from the Treasurer's office showed that we were to calculate the interest liability on all disaster programs. The documentation was showed to the auditors at the time of audit.

Auditors' Response: We agree the Treasurers' Office provided directions to the Department. However, the Department should work with the Treasurers' Office to ensure their liability is calculated correctly.

2. Cash Management

The Cash Management Improvement Act (CMIA), 31 C.F.R. Section 205.7(c)(4) states, "A State shall request funds not more than 3 business days prior to the day on which it makes a disbursement, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds."

We noted, the average clearance pattern for the Department was seven days, four days more than the three allowed. The average clearance pattern represents the average number of days between the time the money was drawn from the federal government until the warrant was issued.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

2. Cash Management (Concluded)

We recommend the Department implement procedures to decrease the amount of time necessary between the draw down of Federal money and the issuance of a State warrant.

3. Fixed Asset Inventory Listing

Good internal control requires fixed assets to be added to the fixed asset inventory listing in a timely manner.

We noted a metal storage building was constructed during fiscal year 2000 costing \$141,197. However, the building was not added to the building fixed asset inventory listing as of November 2000.

We recommend the Department implement procedures to ensure items are added to the fixed asset inventory listing in a timely manner.

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Auditor of Public Accounts



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NEBRASKA MILITARY DEPARTMENT

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Military Department as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska Military Department, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Military Department as of June 30, 2000, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2000, on our consideration of the Nebraska Military Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying combining statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Handwritten signature of Timothy J. Chamberlain CPA in cursive script.

Manager

November 27, 2000

NEBRASKA MILITARY DEPARTMENT
**COMBINED STATEMENT OF ASSETS AND FUND BALANCES AND
OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP**
June 30, 2000

| | <u>Governmental</u> <u>Fund Type</u> | <u>Account Group</u> General Fixed Assets | Totals (Memorandum Only) |
|---|---|--|---------------------------------------|
| <u>Assets</u> | | | |
| Cash in State Treasury | \$ 1,195,017 | \$ - | \$ 1,195,017 |
| Deposit with Vendors | 107 | - | 107 |
| Petty Cash | 300 | - | 300 |
| Property, Plant, and Equipment | - | <u>14,208,483</u> | <u>14,208,483</u> |
| Total Assets | <u>\$ 1,195,424</u> | <u>\$ 14,208,483</u> | <u>\$ 15,403,907</u> |
| <u>Fund Balances and Other Credits</u> | | | |
| Other Credits: | | | |
| Investment in Fixed Assets | \$ - | \$ 14,208,483 | \$ 14,208,483 |
| Fund Balances: | | | |
| Reserved For Postage | 107 | - | 107 |
| Unreserved, Undesignated | <u>1,195,317</u> | <u>-</u> | <u>1,195,317</u> |
| Total Fund Balances and Other Credits | <u>\$ 1,195,424</u> | <u>\$ 14,208,483</u> | <u>\$ 15,403,907</u> |

See Notes to Financial Statements.

NEBRASKA MILITARY DEPARTMENT
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2000

| | Governmental Fund Types | | | Totals (Memorandum Only) |
|--|-------------------------|---------------------|----------------------------------|--------------------------------|
| | General | Special Revenue | Capital Projects Fund 3300 | |
| RECEIPTS: | | | | |
| Appropriations | \$ 4,332,402 | \$ - | \$ 27,887 | \$ 4,360,289 |
| Intergovernmental | - | 14,877,525 | - | 14,877,525 |
| Sales and Charges | - | 259,680 | - | 259,680 |
| Miscellaneous | 26,572 | 885,388 | - | 911,960 |
| TOTAL RECEIPTS | 4,358,974 | 16,022,593 | 27,887 | 20,409,454 |
| DISBURSEMENTS: | | | | |
| Personal Services | 1,661,869 | 3,592,576 | - | 5,254,445 |
| Operating | 1,115,155 | 2,855,156 | 11,056 | 3,981,367 |
| Travel | 52,383 | 73,415 | - | 125,798 |
| Capital Outlay | 119,597 | 998,609 | 16,831 | 1,135,037 |
| Government Aid | 1,383,398 | 8,607,624 | - | 9,991,022 |
| TOTAL DISBURSEMENTS | 4,332,402 | 16,127,380 | 27,887 | 20,487,669 |
| Excess of Receipts Over (Under) Disbursements | 26,572 | (104,787) | - | (78,215) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sales of Assets | 3,834 | 1,221 | - | 5,055 |
| Deposits to State General Fund | (30,406) | - | - | (30,406) |
| (Net) Distributive Activity: | | | | |
| Ins | - | 5,723 | - | 5,723 |
| Outs | - | (4,559) | - | (4,559) |
| TOTAL OTHER FINANCING SOURCES (USES) | (26,572) | 2,385 | - | (24,187) |
| Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses | - | (102,402) | - | (102,402) |
| FUND BALANCE, JULY 1, 1999 | - | 1,297,826 | - | 1,297,826 |
| FUND BALANCE, JUNE 30, 2000 | \$ - | \$ 1,195,424 | \$ - | \$ 1,195,424 |

See Notes to Financial Statements.

NEBRASKA MILITARY DEPARTMENT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 General, Cash, Construction and Federal Funds
 For the Year Ended June 30, 2000

| | GENERAL FUND | | | CASH FUNDS | | |
|--|------------------|--------------------------------|--|------------------|--------------------------------|--|
| | BUDGET | ACTUAL (BUDGETARY BASIS) | VARIANCE FAVORABLE (UNFAVORABLE) | BUDGET | ACTUAL (BUDGETARY BASIS) | VARIANCE FAVORABLE (UNFAVORABLE) |
| RECEIPTS: | | | | | | |
| Appropriations | | \$ 4,332,402 | | \$ - | | |
| Intergovernmental | | - | | | 10,106 | |
| Sales and Charges | | - | | | 259,680 | |
| Miscellaneous | | <u>26,572</u> | | | <u>227,607</u> | |
| TOTAL RECEIPTS | | <u>4,358,974</u> | | | <u>497,393</u> | |
| DISBURSEMENTS: | | | | | | |
| Personal Services | | 1,661,869 | | | 252,123 | |
| Operating | | 1,115,155 | | | 185,633 | |
| Travel | | 52,383 | | | 16,433 | |
| Capital Outlay | | 119,597 | | | 66,809 | |
| Government Aid | | <u>1,383,398</u> | | | <u>69,430</u> | |
| Total Budgeted | 4,585,346 | 4,332,402 | 252,944 | 573,099 | 590,428 | (17,329) |
| Under Budgeted (Note 8) | <u>3,821,430</u> | - | <u>3,821,430</u> | <u>636,005</u> | - | <u>636,005</u> |
| TOTAL DISBURSEMENTS | <u>8,406,776</u> | <u>4,332,402</u> | <u>4,074,374</u> | <u>1,209,104</u> | <u>590,428</u> | <u>618,676</u> |
| Excess of Receipts Over (Under) Disbursements | | <u>26,572</u> | | | <u>(93,035)</u> | |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Sale of Assets | | 3,834 | | | 1,125 | |
| Deposit to State General Fund (NET) Distributive Activity: | | (30,406) | | | - | |
| Ins | | - | | | 5,723 | |
| Outs | | - | | | <u>(4,559)</u> | |
| TOTAL OTHER FINANCING SOURCES (USES) | | <u>(26,572)</u> | | | <u>2,289</u> | |
| Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses | | - | | | (90,746) | |
| FUND BALANCES, JULY 1, 1999 | | - | | | <u>807,135</u> | |
| FUND BALANCES, JUNE 30, 2000 | | <u>\$ -</u> | | | <u>\$ 716,389</u> | |

See Notes to Financial Statements.

(Continued)

NEBRASKA MILITARY DEPARTMENT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 General, Cash, Construction and Federal Funds
 For the Year Ended June 30, 2000

| | FEDERAL FUNDS | | | CAPITAL PROJECTS FUND | | |
|--|-------------------|--------------------------------|--|-----------------------|--------------------------------|--|
| | BUDGET | ACTUAL (BUDGETARY BASIS) | VARIANCE FAVORABLE (UNFAVORABLE) | BUDGET | ACTUAL (BUDGETARY BASIS) | VARIANCE FAVORABLE (UNFAVORABLE) |
| RECEIPTS: | | | | | | |
| Appropriations | | \$ - | | | \$ 27,887 | |
| Intergovernmental | | 14,867,419 | | | - | |
| Sales and Charges | | - | | | - | |
| Miscellaneous | | 657,781 | | | - | |
| TOTAL RECEIPTS | | <u>15,525,200</u> | | | <u>27,887</u> | |
| DISBURSEMENTS: | | | | | | |
| Personal Services | | 3,340,453 | | | - | |
| Operating | | 2,669,523 | | | 11,056 | |
| Travel | | 56,982 | | | - | |
| Capital Outlay | | 931,800 | | | 16,831 | |
| Government Aid | | 8,538,194 | | | - | |
| Total Budgeted | 10,450,642 | 15,536,952 | (5,086,310) | - | 27,887 | (27,887) |
| Under Budgeted (Note 8) | 6,987,989 | - | 6,987,989 | 212,544 | - | 212,544 |
| TOTAL DISBURSEMENTS | <u>17,438,631</u> | <u>15,536,952</u> | <u>1,901,679</u> | <u>212,544</u> | <u>27,887</u> | <u>184,657</u> |
| Excess of Receipts Over (Under) Disbursements | | <u>(11,752)</u> | | | <u>-</u> | |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Sale of Assets | | 96 | | | - | |
| Deposit to State General Fund | | - | | | - | |
| (NET) Distributive Activity: | | | | | | |
| Ins | | - | | | - | |
| Outs | | - | | | - | |
| TOTAL OTHER FINANCING SOURCES (USES) | | <u>96</u> | | | <u>-</u> | |
| Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses | | <u>(11,656)</u> | | | <u>-</u> | |
| FUND BALANCES, JULY 1, 1999 | | <u>490,691</u> | | | <u>-</u> | |
| FUND BALANCES, JUNE 30, 2000 | | <u>\$ 479,035</u> | | | <u>\$ -</u> | |

See Notes to Financial Statements.

(Continued)

NEBRASKA MILITARY DEPARTMENT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL

General, Cash, Construction and Federal Funds
 For the Year Ended June 30, 2000

| | TOTALS | | |
|--|-------------------|--------------------------------|--|
| | (MEMORANDUM ONLY) | | |
| | BUDGET | ACTUAL (BUDGETARY BASIS) | VARIANCE FAVORABLE (UNFAVORABLE) |
| RECEIPTS: | | | |
| Appropriations | | \$ 4,360,289 | |
| Intergovernmental | | 14,877,525 | |
| Sales and Charges | | 259,680 | |
| Miscellaneous | | 911,960 | |
| TOTAL RECEIPTS | | <u>20,409,454</u> | |
| DISBURSEMENTS: | | | |
| Personal Services | \$ 5,482,962 | 5,254,445 | \$ 228,517 |
| Operating | 3,764,004 | 3,981,367 | (217,363) |
| Travel | 126,395 | 125,798 | 597 |
| Capital Outlay | 424,264 | 1,135,037 | (710,773) |
| Government Aid | <u>5,811,462</u> | <u>9,991,022</u> | <u>(4,179,560)</u> |
| Total Budgeted | 15,609,087 | 20,487,669 | (4,878,582) |
| Under Budgeted (Note 8) | <u>11,657,968</u> | - | <u>11,657,968</u> |
| TOTAL DISBURSEMENTS | <u>27,267,055</u> | <u>20,487,669</u> | <u>6,779,386</u> |
| Excess of Receipts Over (Under) Disbursements | | <u>(78,215)</u> | |
| OTHER FINANCING SOURCES (USES): | | | |
| Sale of Assets | | 5,055 | |
| Deposit to State General Fund | | (30,406) | |
| (NET) Distributive Activity: | | | |
| Ins | | 5,723 | |
| Outs | | <u>(4,559)</u> | |
| TOTAL OTHER FINANCING SOURCES (USES) | | <u>(24,187)</u> | |
| Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses | | (102,402) | |
| FUND BALANCES, JULY 1, 1999 | | <u>1,297,826</u> | |
| FUND BALANCES, JUNE 30, 2000 | | <u>\$ 1,195,424</u> | |

See Notes to Financial Statements.

(Concluded)

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Military Department are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Military Department (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 financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

These financial statements present the Nebraska Military Department. No component units were identified. The Nebraska Military Department is part of the primary government for the State of Nebraska's reporting entity.

- B. **Basis of Accounting.** The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

- C. **Fund Accounting.** The accounts and records of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP, and include:

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by state government and which are not accounted for in any other fund.

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Capital Projects Funds. Reflect transactions related to resources received and used for the acquisition, construction, or improvement of permanent facilities.

General Fixed Assets Account Group. Used to account for general fixed assets of the Department.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Department are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

3000 - Construction Funds - account for the receipts and disbursements associated with the acquisition or construction of capital facilities.

4000 - Federal Funds - account for all federal grants and contracts received by the State.

D. Budgetary Process. The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the general, cash, construction, and federal fund types are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general, cash, and construction fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Department utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Department's current procedure is to

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Department's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2000 follows:

| | BUDGETARY FUND BALANCES | FINANCIAL STATEMENT FUND BALANCES PRIMARY GOVERNMENT Special Revenue |
|--|-------------------------------|--|
| PERSPECTIVE DIFFERENCES: | | |
| Classifications of budgetary fund balances into Financial Statement fund structure: | | |
| Cash | \$ 716,389 | \$ 716,389 |
| Federal | 479,035 | 479,035 |
| Budgetary fund balances classified into Financial Statement fund structure | <u>\$ 1,195,424</u> | |
| Financial Statement Fund Balances, June 30, 2000 | | <u>\$ 1,195,424</u> |

E. Fixed Assets. General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2000 have been recorded at cost or estimated cost by the Department. Generally, equipment which has a cost in excess of \$100 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure, such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department, except for the Emergency Management Fund 4312, were designated for investment during fiscal year 2000.
- G. Net Distributive Activity.** Net Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.
- H. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.
- I. Compensated Absences.** All permanent employees working for the Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

J. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Appropriations. Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Intergovernmental. Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements. The grants are for various programs.

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

Miscellaneous. Receipts from sources not covered by other major categories. This consists mainly of interest.

K. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

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

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

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed 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 MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Concluded)**

L. Fund Balance Reservations. Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as reserves for postage.

2. **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 since interfund balances and transactions have not been eliminated.

3. **Contingencies and Commitments**

Risk Management. The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, natural disasters, and health care insurance. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

1. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
4. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$100,000 per loss occurrence. The perils of flood and earthquake are covered up to \$9,000,000. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments (Concluded)

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Worker's compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Military Department's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgement against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

4. State Employees Retirement Plan (Plan)

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service, and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and completion of twelve months of service within a five-year period, except any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2000, employees contributed \$169,236 and the Department contributed \$264,009.

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **Net Distributive Activity**

The Department's net distributive activity for the audit period consists mainly of sales tax collected and remitted on the rental of facilities.

6. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

| | Balance July 1, 1999 | Additions | Retirements | Balance June 30, 2000 |
|----------------------------|-------------------------|-------------------|------------------|--------------------------|
| Land | \$ 19,356 | \$ - | \$ - | \$ 19,356 |
| Buildings | 12,098,072 | 141,197 | - | 12,239,269 |
| Equipment | 1,833,369 | 163,201 | 46,712 | 1,949,858 |
| Total General Fixed Assets | <u>\$ 13,950,797</u> | <u>\$ 304,398</u> | <u>\$ 46,712</u> | <u>\$ 14,208,483</u> |

7. **Full Accountability of the General and Capital Project Funds**

Only the cash transactions are reported on the financial statements for these funds. They do not show appropriations and authorizations to spend. To show the full accountability over these funds the following schedules reflect appropriations and authorization to spend. Appropriations and authorizations to spend do not represent cash transactions.

| General Fund | |
|---|---------------------|
| Beginning (Reappropriated) Balance July 1, 1999 | \$ 4,242,533 |
| New Appropriations | 4,179,985 |
| Total Appropriations | <u>8,422,518</u> |
| Disbursements | (4,332,402) |
| Lapse of Appropriations | (15,742) |
| Ending (Appropriations) Balance June 30, 2000 | <u>\$ 4,074,374</u> |

| Capital Projects Fund 3300 | |
|---|-------------------|
| Beginning (Reappropriated) Balance July 1, 1999 | <u>\$ 212,544</u> |
| Disbursements | (27,887) |
| Ending (Appropriations) Balance June 30, 2000 | <u>\$ 184,657</u> |

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. Under-Budgeted

The amount budgeted does not agree to the total appropriations amount because the budget status is set up with the initial appropriations and no changes were made to update the amounts later.

NEBRASKA MILITARY DEPARTMENT
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
 ALL SPECIAL REVENUE FUNDS
 June 30, 2000

| | Military Dept. Cash Fund 2311 | Governors Emergency Fund 2312 | Army National Guard Operation & Maintenance Agreement Fund 4311 | Emergency Management Fund 4312 | Air National Guard Operation & Maintenance Security Fund 4313 | Other Federal Fund 4326 | Totals Special Revenue Funds |
|----------------------------|-------------------------------------|-------------------------------------|---|--------------------------------------|---|-------------------------------|---|
| Assets | | | | | | | |
| Cash in State Treasury | \$ 461,345 | \$ 254,637 | \$ 38,184 | \$ 103,965 | \$ 308,004 | \$ 28,882 | \$ 1,195,017 |
| Deposit with Vendors | 107 | - | - | - | - | - | 107 |
| Petty Cash | 300 | - | - | - | - | - | 300 |
| Total Assets | \$ 461,752 | \$ 254,637 | \$ 38,184 | \$ 103,965 | \$ 308,004 | \$ 28,882 | \$ 1,195,424 |
| Fund Balances | | | | | | | |
| Fund Balances: | | | | | | | |
| Reserved For Postage | \$ 107 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 107 |
| Unreserved, Undesignated | 461,645 | 254,637 | 38,184 | 103,965 | 308,004 | 28,882 | 1,195,317 |
| Total Fund Balances | \$ 461,752 | \$ 254,637 | \$ 38,184 | \$ 103,965 | \$ 308,004 | \$ 28,882 | \$ 1,195,424 |

NEBRASKA MILITARY DEPARTMENT
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 2000

| | Military Dept. Cash Fund 2311 | Governors Emergency Fund 2312 | Army National Guard Operation & Maintenance Agreement Fund 4311 | Emergency Management Fund 4312 | Air National Guard Operation & Maintenance Security Fund 4313 | Other Federal Fund 4326 | Total Special Revenue Funds |
|--|-------------------------------------|-------------------------------------|---|--------------------------------------|---|-------------------------------|--|
| RECEIPTS: | | | | | | | |
| Intergovernmental | \$ 10,106 | \$ - | \$ 2,835,742 | \$ 8,574,420 | \$ 2,594,453 | \$ 862,804 | \$ 14,877,525 |
| Sales and Charges | 259,680 | - | - | - | - | - | 259,680 |
| Miscellaneous | <u>211,073</u> | <u>16,534</u> | <u>14,169</u> | <u>628,270</u> | <u>13,421</u> | <u>1,921</u> | <u>885,388</u> |
| TOTAL RECEIPTS | <u>480,859</u> | <u>16,534</u> | <u>2,849,911</u> | <u>9,202,690</u> | <u>2,607,874</u> | <u>864,725</u> | <u>16,022,593</u> |
| DISBURSEMENTS: | | | | | | | |
| Personal Services | 252,123 | - | 908,229 | 543,961 | 1,888,263 | - | 3,592,576 |
| Operating | 147,700 | 37,933 | 1,079,278 | 260,621 | 538,029 | 791,595 | 2,855,156 |
| Travel | 16,433 | - | 12,435 | 35,466 | 9,081 | - | 73,415 |
| Capital Outlay | 66,809 | - | 848,525 | 8,165 | 20,297 | 54,813 | 998,609 |
| Government Aid | <u>10,669</u> | <u>58,761</u> | <u>-</u> | <u>8,538,194</u> | <u>-</u> | <u>-</u> | <u>8,607,624</u> |
| TOTAL DISBURSEMENTS | <u>493,734</u> | <u>96,694</u> | <u>2,848,467</u> | <u>9,386,407</u> | <u>2,455,670</u> | <u>846,408</u> | <u>16,127,380</u> |
| Excess of Receipts Over (Under) Disbursements | <u>(12,875)</u> | <u>(80,160)</u> | <u>1,444</u> | <u>(183,717)</u> | <u>152,204</u> | <u>18,317</u> | <u>(104,787)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Sales of Assets | 1,125 | - | - | 96 | - | - | 1,221 |
| (Net) Distributive Activity: | | | | | | | |
| Ins | 5,723 | - | - | - | - | - | 5,723 |
| Outs | <u>(4,559)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(4,559)</u> |
| TOTAL OTHER FINANCING SOURCES | <u>2,289</u> | <u>-</u> | <u>-</u> | <u>96</u> | <u>-</u> | <u>-</u> | <u>2,385</u> |
| Excess of Receipts and Other Financing Sources Over (Under) Disbursements | <u>(10,586)</u> | <u>(80,160)</u> | <u>1,444</u> | <u>(183,621)</u> | <u>152,204</u> | <u>18,317</u> | <u>(102,402)</u> |
| FUND BALANCE, JULY 1, 1999 | <u>472,338</u> | <u>334,797</u> | <u>36,740</u> | <u>287,586</u> | <u>155,800</u> | <u>10,565</u> | <u>1,297,826</u> |
| FUND BALANCE, JUNE 30, 2000 | <u>\$ 461,752</u> | <u>\$ 254,637</u> | <u>\$ 38,184</u> | <u>\$ 103,965</u> | <u>\$ 308,004</u> | <u>\$ 28,882</u> | <u>\$ 1,195,424</u> |

NEBRASKA MILITARY DEPARTMENT
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS

Program 192 Governor's Emergency Fund/Operations

| | <u>FY 1996</u> | <u>FY 1997</u> | <u>FY 1998</u> | <u>FY 1999</u> | <u>FY 2000</u> |
|--|----------------|----------------|----------------|----------------|----------------|
| Emergencies & Disasters requiring National Guard activation | 5 | 4 | 1 | - | 1 |

Program 544 National and State Guard and General Support

| | <u>FY 1996</u> | <u>FY 1997</u> | <u>FY 1998</u> | <u>FY 1999</u> | <u>FY 2000</u> |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Army Guard authorized strength | 5,326 | 4,222 | 4,220 | 4,240 | 4,868 |
| Army Guard actual strength | 3,318 | 3,493 | 3,489 | 3,519 | 3,404 |
| Percent of fill | 63% | 83% | 83% | 83% | 70% |

| | <u>FY 1996</u> | <u>FY 1997</u> | <u>FY 1998</u> | <u>FY 1999</u> | <u>FY 2000</u> |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Air Guard authorized strength | 911 | 914 | 911 | 873 | 900 |
| Air Guard actual strength | 937 | 929 | 925 | 849 | 874 |
| Percent of fill | 102% | 101.60% | 101.50% | 97.30% | 97.10% |

Program 545 Emergency Management Planning/Operations

| | <u>FY 1996</u> | <u>FY 1997</u> | <u>FY 1998</u> | <u>FY 1999</u> | <u>FY 2000</u> |
|---|----------------|----------------|----------------|----------------|----------------|
| Days the Emergency Operating Center was operational and on alert | 36 | 40 | 144 | 36 | 29 |

Program 548 Tuition Credit Reimbursement

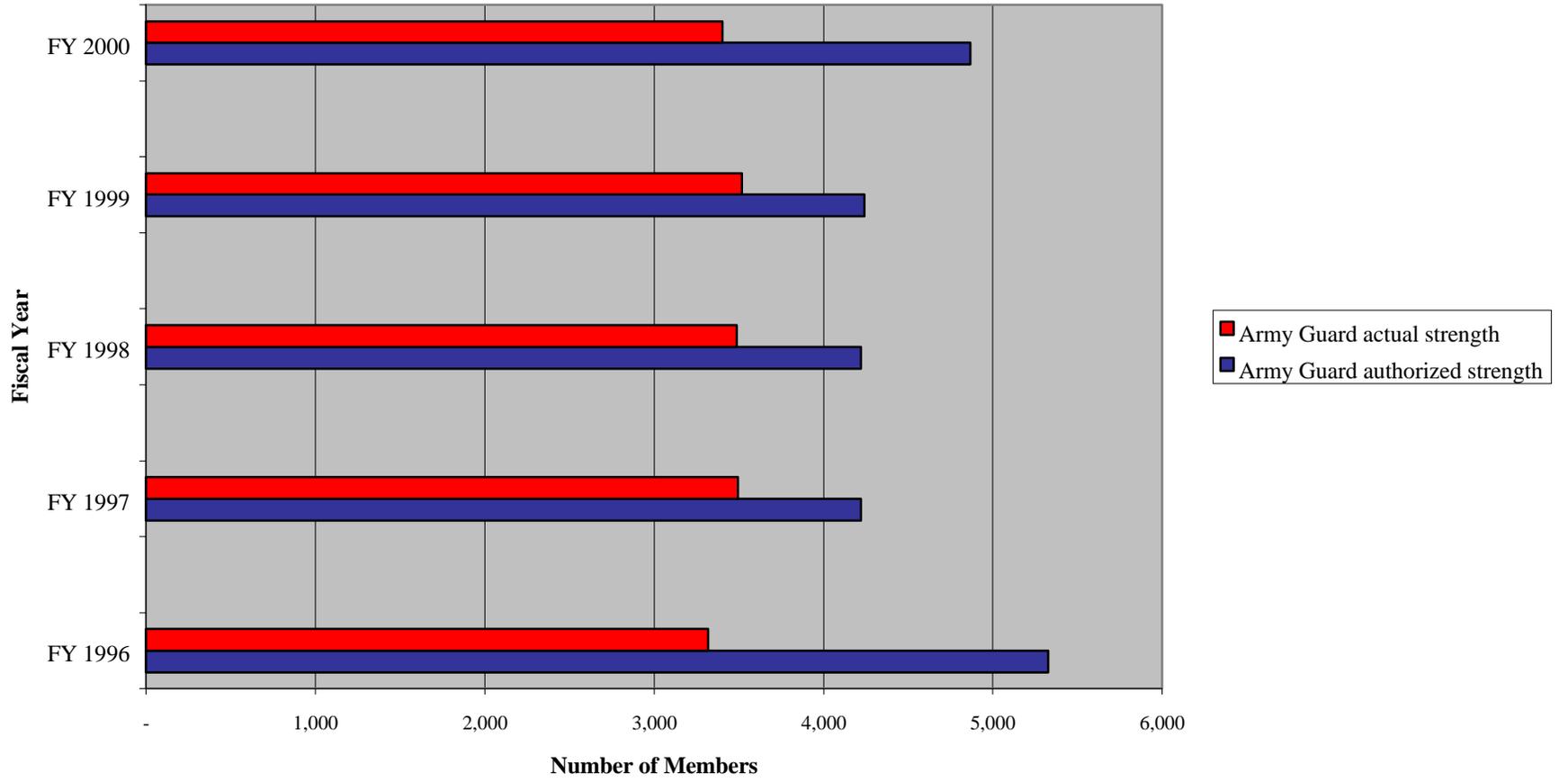
National Guard members receiving tuition
credit and attending:

| | <u>FY 1996</u> | <u>FY 1997</u> | <u>FY 1998</u> | <u>FY 1999</u> | <u>FY 2000</u> |
|--|----------------|----------------|----------------|----------------|----------------|
| University of Nebraska | 409 | 360 | 285 | 296 | 305 |
| State Colleges | 107 | 93 | 96 | 92 | 90 |
| Technical Community Colleges | 183 | 178 | 203 | 197 | 208 |
| Independent Colleges | 0 | 27 | 30 | 40 | 58 |
| Total students receiving tuition credit* | 699 | 633 | 641 | 625 | 661 |

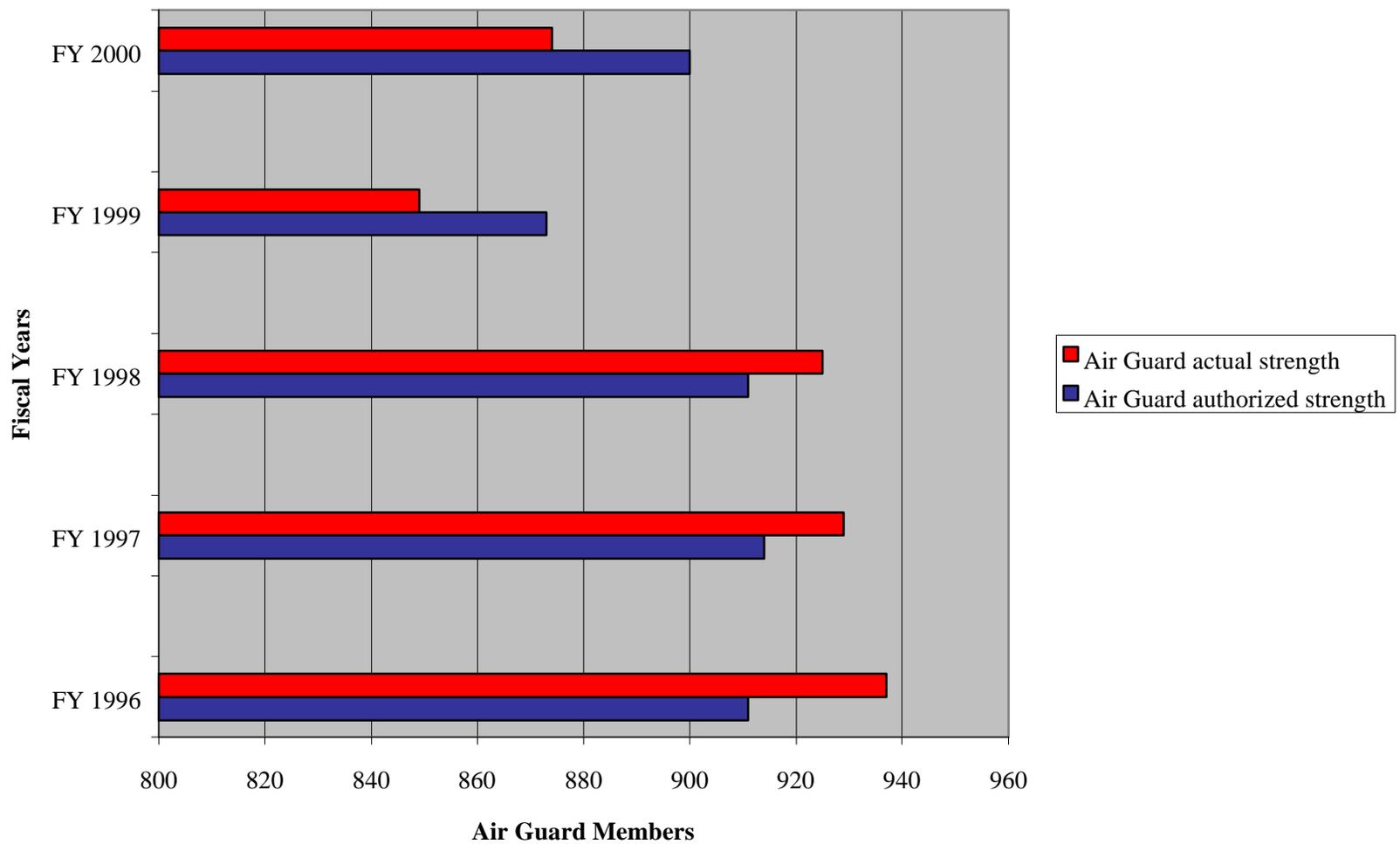
* The total of the individual school attendance may not match the Total students receiving "tuition credit" figure because some students attend more than one school during an academic year.

FY = Fiscal Year

Army Guard Strength



Air Guard Strength



STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA MILITARY DEPARTMENT
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Military Department as of and for the year ended June 30, 2000, and have issued our report thereon dated November 27, 2000. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Military Department. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Military Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Military Department in the Comments Section of this report as Comment Number 2 (Cash Management).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Military Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting

would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Nebraska Military Department in the Comments Section of this report as Comment Number 1 (Federal Interest Liability Calculation) and Comment Number 3 (Fixed Asset Inventory Listing).

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Timothy J. Chamber CPA in cursive script.

Manager

November 27, 2000