AUDIT REPORT
OF THE
STATE OF NEBRASKA GOVERNOR'S OFFICE

JULY 1, 2000 THROUGH JUNE 30, 2001

STATE OF NEBRASKA GOVERNOR'S OFFICE

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BACKGROUND

Article IV, Section 6 of the Constitution of the State of Nebraska vests the supreme executive power of the State in the Governor. It is the duty of the Governor to "take care that the laws be faithfully executed and the affairs of the state efficiently and economically administered."

The Governor must annually present the Legislature with a budget recommendation for the State budget. Other duties of the Governor include the signing or vetoing of bills passed by the Legislature, giving information by message to the Legislature, giving accounts of all money received and spent, appointing certain officers, certifying notaries, enforcing criminal laws, and other duties defined by the Constitution and Statutes.

There are three offices under the agency referred to as the Governor's Office (Office). They include the Office of the Governor, the Governor's Policy Research Office, and the Nebraska Energy Office.

The Governor's Policy Research Office (GPRO) was created by the 1979 Legislature to replace the Office of Planning and Programming. The GPRO helps the Governor develop and coordinate State government policy. The GPRO helps the Governor analyze policy options, promotes executive branch cooperation and efficiency, reviews proposed rules and regulations, and researches state and national trends. The office monitors all legislative bills, coordinates legislative activities of code agencies, and helps develop and promote the Governor's legislative agenda.

The Nebraska Energy Office was originally created by executive order in 1973 as the Fuel Allocations Office and was a Department of Revenue division until 1977. From 1977 to 1987, the agency was a separate state government unit. The Energy Office collects data on energy supplies and consumption, administers federal and state energy programs, analyzes and recommends energy policies, and administers oil overcharge funds, among other activities.

The Energy Office administers federal energy programs, including the Weatherization Assistance Program, the State Energy program, and the Western Regional Biomass Energy Program. The Energy Office administers the Municipal Natural Gas Regulation Act and the oil overcharge funds. The Energy Office has been receiving oil overcharge funds since 1982. The oil overcharge funds result from court actions against oil companies that overcharged consumers between 1973 and 1981 when federal price controls were in effect. The funds are to be used to provide indirect restitution to consumers who used petroleum products during the period of these price controls. The Energy Office, on behalf of the Governor, administers these funds according to various court orders. The largest oil overcharge project is the Dollar and Energy Saving Loan Program. The Program is offered statewide to provide low-cost financing for energy efficiency improvements for residential, commercial, non-profit, industrial, agricultural, local government, rural nursing homes, telecommunication, alternate fuel projects, and construction of new single-family dwellings.

In 1991, both the Energy Office and the PRO became a division in the Governor's Office.

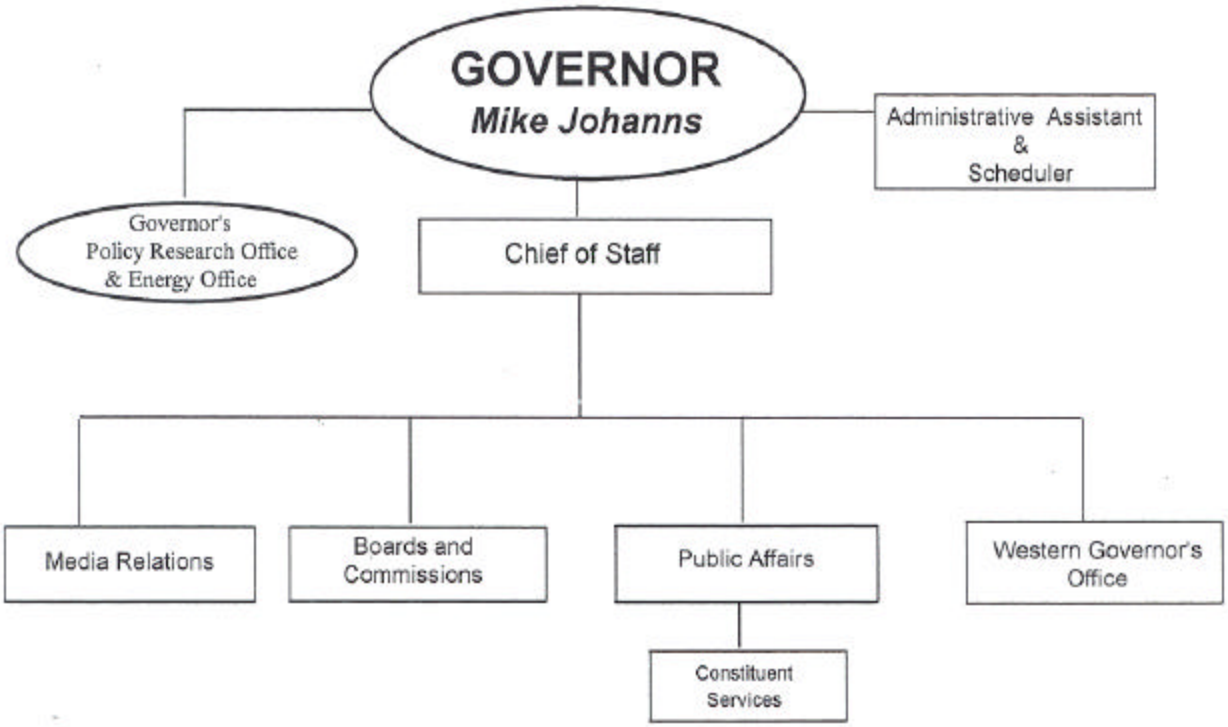
MISSION STATEMENT

The Governor's mission is to serve the people of the state as the elected chief executive as prescribed by the constitution and statute.

The Governor's Policy Research Office assists in the development, implementation, and review of state government policy.

The mission of the Nebraska Energy Office is to promote the efficient, economic, and environmentally responsible use of energy.

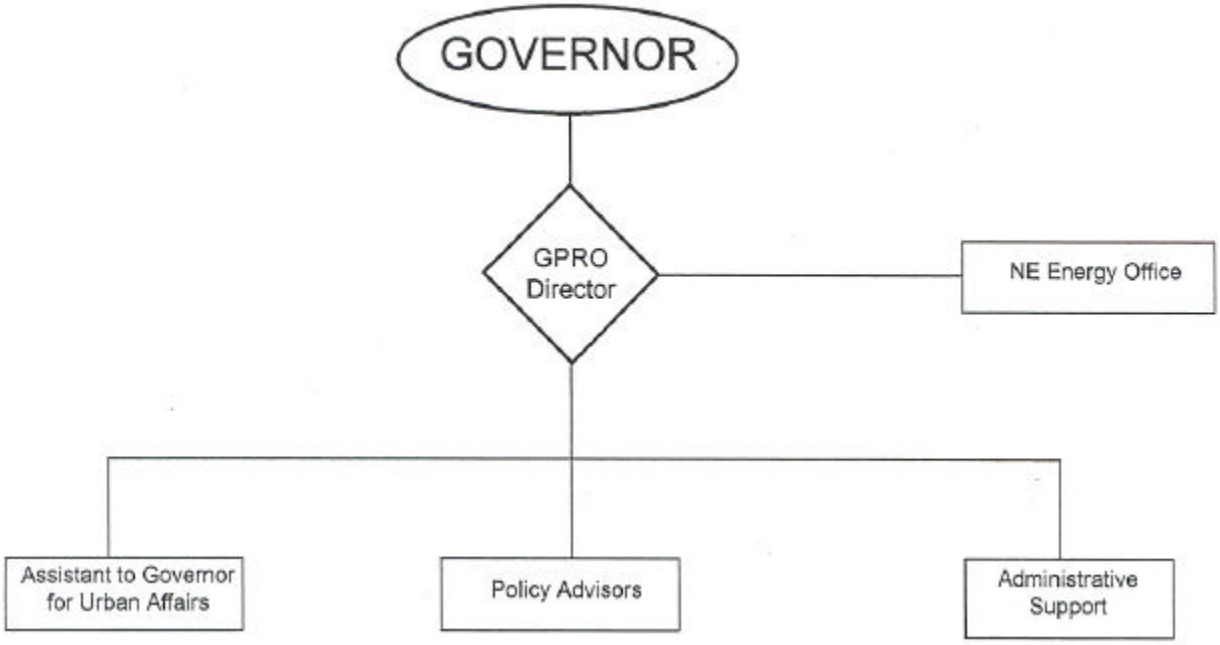
ORGANIZATIONAL CHARTS



STATE OF NEBRASKA GOVERNOR'S OFFICE

POLICY RESEARCH AND ENERGY OFFICE

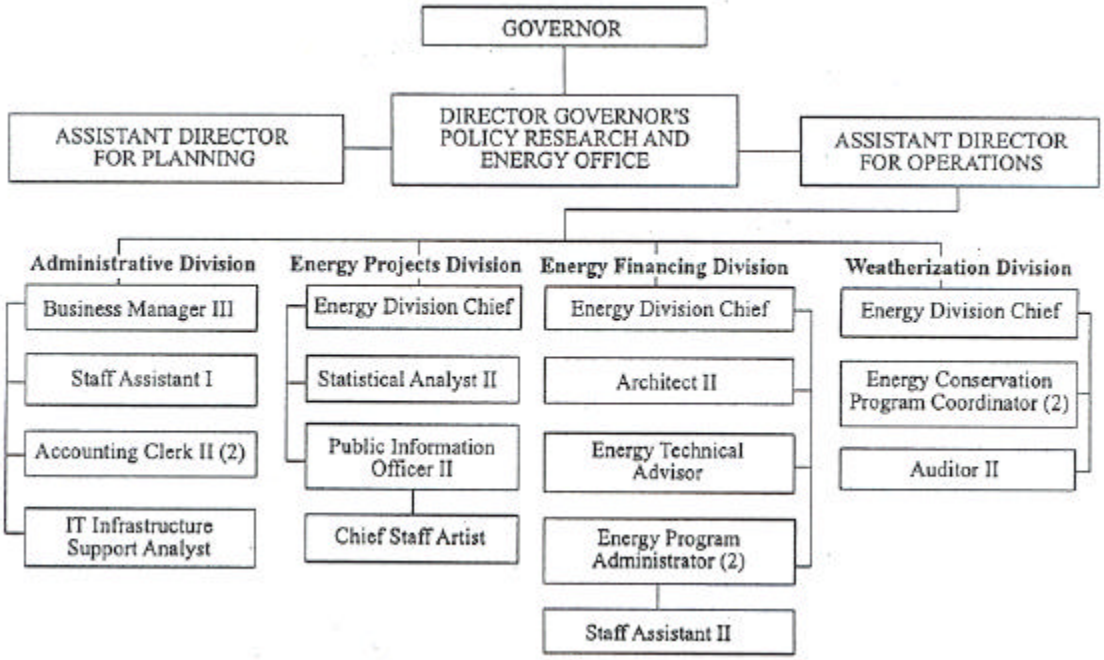
ORGANIZATIONAL CHARTS



STATE OF NEBRASKA GOVERNOR'S OFFICE

ENERGY OFFICE

ORGANIZATIONAL CHARTS



SUMMARY OF COMMENTS

During our audit of the State of Nebraska Governor's Office, 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. ***Dollar and Energy Saving Loan Program Procedures:*** The Energy Office could improve the written policies covering the administration of the Dollar and Energy Saving Loan Program. We noted several weaknesses in certain procedures related to the Program. The Energy Office made 1,939 loans for $8,184,141 during the fiscal year.

2. ***Internal Control Over Payroll:*** There was a lack of segregation of duties over payroll in all three offices. The Energy Office was not in compliance with OMB Circular A-87. We also noted other weaknesses related to payroll processing.

3. ***Contract Monitoring:*** The Energy Office did not have adequate procedures related to the monitoring of contracts under the Western Regional Biomass Energy Program.

4. ***Documentation for Interagency Service Agreements:*** The Energy Office did not have adequate documentation to support work performed by the Department of Administrative Services – Information Management Services Division (DAS-IMS). There was not a signed agreement stating the total contract price, hourly rates, etc.

5. ***Timely Deposit of Receipts:*** Nine of 24 receipts tested were not deposited to the State Treasurer within the time frame set in statute.

6. ***Internal Control Over Fixed Assets:*** The Office of the Governor had a lack of segregation of duties over fixed assets. Two items, totaling $4,244, were not added to the fixed asset inventory 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 Office 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 Office 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.

COMMENTS AND RECOMMENDATIONS

1. Dollar and Energy Saving Loan Program Procedures

Good internal control and sound business practice require adequate procedures covering significant programs. Ideally, the procedures covering significant programs should be written to ensure the program could be sustained with minimal interruption in the event of the absence or turnover of key employees. Good internal control also requires written agreements are complied with.

We reviewed the Dollar and Energy Saving Loan Program administered by the Energy Office. The Office made 1,939 loans totaling $8,184,141 during the fiscal year. We noted the following weaknesses related to the administration of the Program:

1) The written procedures provided by the Energy Office included procedures through the disbursement of the loan. There were limited written procedures for staff to follow after the loan was initially disbursed.

2) The follow-up procedures for overdue loans could be improved. The Energy Office generated a report of loans that were 120 days past due. One employee reviewed the report monthly and followed up with banks listed on the report. However, this review was not documented or maintained. Therefore, we were unable to determine the effectiveness of the process. The report we reviewed was dated May 1, 2001, and listed 314 loans that were over 120 days overdue, totaling $1,157,048.

3) Two loans on the overdue loan report were more than 3,100 days past due. The combined amount owed on the loans was $12,868 at May 1, 2001. The Office had documentation to support the contact they had made with the bank regarding these loans. However, they had not received a response from the bank in two years. There were no written procedures concerning additional action to be taken against the bank.

4) There were also loans listed on the overdue loan report for individuals who had been approved for bankruptcy. The Energy Office did not have procedures to submit these loan amounts to the State Claims Board for write-off.

5) Two of nine loans tested were not paid in accordance with the signed Commitment Agreement between the lending institution and the Energy Office. All Commitment Agreements included language that the loan closing would be "no later than ___ days" following the Energy Office's commitment of funds. The lender generally filled in the number of days on the agreement. However, the Energy Office had maintained, in practice, the loan must be closed within 120 days after the commitment of funds. The loan was not finalized until the work was completed and the bank had inspected the work.

COMMENTS AND RECOMMENDATIONS

1. <u>Dollar and Energy Saving Loan Program Procedures</u> (Continued)

However, the Energy Office had extended the original agreement, but there were no written procedures related to the extension of the Commitment Agreement. We noted in some cases the request for an extension was made after the original agreement had expired.

- One agreement stated the loan would be closed within 90 days. The loan was actually closed 139 days after the Commitment Agreement was signed. The bank requested an extension of the agreement after the original 90 days had passed. The Energy Office granted an extension on the agreement. There were no formal, written procedures regarding the extension of loan commitments.

- The second agreement stated the loan would be closed 10 days after the commitment of funds. The loan was closed 324 days after the Commitment Agreement was signed. The bank requested extensions after the original 10 days had passed. The Energy Office granted two extensions. The last extension was through May 1, 2000; however, the loan was not closed until July 11, 2000.

6) The Energy Office had a procedure to contact and confirm loan balances with lending institutions. Eight of 18 banks tested did not receive a confirmation from the Energy Office during the fiscal year. During our testing of payments received from the banks, we noted 1 of 18 banks had not remitted the Energy Office share of the loan payment from August to December 2000. We also noted the monthly payment was not credited to the proper loan at the Energy Office. If the confirmation process of the banks had been performed more timely, the Energy Office could have detected this.

> We recommend the Energy Office improve the written procedures covering the administration of the Dollar and Energy Saving Loan Program. The procedures should include overdue loan payments, action taken against banks that report or remit untimely, procedures regarding the commitment of funds, and procedures regarding the confirmation of loan balances with banks.

Governor's Response:

1) The Energy Office believes that $77,253.67 in delinquent or defaulted loan participations out of $65.8 million invested in lender loans over the past eleven years does not demonstrate weaknesses in procedures, written or unwritten.

COMMENTS AND RECOMMENDATIONS

1. <u>Dollar and Energy Saving Loan Program Procedures</u> (Continued)

2) The Energy Office does not make loans, but rather invests in loans made by the state's lenders. The office purchases a share of the loan from the lender at no interest. This share is typically 50%, which allows the borrower to receive a below market rate, currently 5%. The lender receives an acceptable yield for making and servicing the loan. The current lender yield is 10%. As borrowers make repayments to their lenders, the lenders send the Energy Office its share of the repayment. Lenders are required to remit these funds to the Energy Office at least every three months.

The report referred to in the audit as "a report of loans that were 120 days past due", is not a listing of overdue loans, but a listing of loans on which the Energy Office has not received its share of repayments from lenders.

The May 1, 2001, report reviewed during the audit listed 335 loan participations totaling $1,157,048.22. Forty-two were loans where the lender failed to correctly round off the final payment to the Energy Office. This resulted in overpayments to the Energy Office totaling $32.42. Since May 1, three of these accounts have been cleared and lenders are being contacted on the remainder.

Two hundred thirty-four totaling $1,025,856.19 have been cleared with the remittances from the lenders and are current.

Sixteen totaling $49,064.85 are reported current on their payments by the lender with remittances forthcoming. An additional three totaling $4,905.93 are to be paid off in full.

The remaining forty total $77,253.67. Eighteen of these totaling $29,633.84 are deemed a loss. The remaining twenty-two are delinquent and are in collection by lenders or in workout bankruptcies. If the entire $77,253.67 results in a loss, it will represent only .001% of $65.8 million invested by the Energy Office in the 18,391 loans totaling $140 million made by lenders since 1990. The Energy Office believes this type of minimal loss ratio does not indicate lax follow up procedures. There are no tax dollars in the energy loans.

3) These two loan participations totaling $12,868 are included in the figures cited in item 2 above. The Energy Office will resume efforts to have the bank provide the requested supporting documentation or to repurchase the Energy Office's share of these two loans.

4) The Energy Office will submit loans discharged in bankruptcy to the State Claims Board for write-offs during this fiscal year.

COMMENTS AND RECOMMENDATIONS

1. <u>Dollar and Energy Saving Loan Program Procedures</u> (Concluded)

5) The Energy Office has a procedure in place to follow up on expired Commitment Agreements. A monthly report is generated listing all Commitment Agreements past the loan closing date. Lenders are contacted to determine the status of the project and when the loan will be closed. Lenders are asked to submit extension requests, citing reasons for the delay, if loan closing is not imminent. The Energy Office is not adversely impacted if a Commitment Agreement runs beyond the stated loan closing date.

6) It would be ideal to confirm loan balances with each bank annually. The agency auditor's time, however, is split among confirmations and receipting for the Dollar & Energy Saving Loan Program, on-site formal monitoring of subgrantees for the Low-Income Weatherization Assistance Program, and the inventory for the Energy Office and the Policy Research Office. Time and staff constraints do not allow annual confirmation for the 600+ banks participating in the loan program. It should be noted that the Energy Office receives confirmations from bank examiners during annual audits of banks and any discrepancies are resolved.

Auditors' Response:

1) As noted, written procedures covering the entire loan program would ensure the program could be sustained with minimal interruption in the event of the absence or turnover of key employees.

2) We feel the procedures could be improved with adequate documentation regarding the follow-up performed.

2. <u>Internal Control Over Payroll</u>

Good internal control requires an adequate segregation of duties so no one individual is in a position to handle all phases of a transaction from beginning to end. If a proper segregation of duties is not possible due to limited staff, controls should be implemented to compensate for the lack of segregation of duties and to ensure no individual can both perpetuate and conceal errors or irregularities.

The U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, Section (11)(h)(5)(e) states, "Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that . . . At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made."

Sound business practice also requires time charged to funds and programs be periodically reviewed to ensure the time charged reflects actual time worked on the fund or program.

COMMENTS AND RECOMMENDATIONS

2. <u>Internal Control Over Payroll</u> (Continued)

During our testing of payroll, we noted the following weaknesses:

- In each of the three offices (Office of the Governor, Policy Research, and Energy Office) we noted one person was capable of handling all phases of a payroll transaction from beginning to end. There were no controls in place to compensate for the lack of segregation of duties in any of the offices. The possibility for errors to go undetected increases without an adequate segregation of duties over payroll.

- One of five employees tested did not meet the requirements of OMB Circular A-87 for payroll costs. The employee of the Energy Office worked on more than one federal program and the employee's timesheet did not reflect the actual time worked. The timesheet was based on a budget allocation determined years ago and had not been recently updated. We also noted six other positions in the Energy Office where the same method was used to allocate payroll costs to various funds, including federal funds.

- The Director of Policy Research also serves as the Director of the Energy Office. The salary for the director was allocated 32% to the Energy Office and 68% to the Policy Research Office. This allocation was also determined years ago and had not been recently updated. The Director's September 2000 timesheet showed 100% of the Director's time was charged to the Policy Research Office. Therefore, it appears too much time is being charged to the Energy Office for the salary of the Director.

- One employee tested in the Energy Office was not paid the correct amount per documentation in the personnel file. Effective January 1, 2001, the employee received a 3% salary increase per documentation in the personnel file. However, we noted the office only increased the salary 2.5% effective January 1, 2001. The employee was underpaid .5% or $135 for the six-month period beginning January 1, 2001 and ending June 30, 2001. After this was brought to the Office's attention, the error was corrected and the employee was paid the amount underpaid. We feel a proper segregation of duties over the payroll process could have detected this error.

We recommend the following:

- The Governor's Office should implement procedures to ensure adequate segregation of duties over payroll.

COMMENTS AND RECOMMENDATIONS

2. <u>Internal Control Over Payroll</u> (Continued)

- The Energy Office should compare budget estimates to actual time worked for its federal programs or obtain written approval from its federal agency for any other method of determining time charged to federal programs. The Office should also review the payroll allocation for the six other employees in the administrative area of the Office to ensure amounts charged to various funds reflect actual time worked on the various programs.

- The Energy Office and Policy Research Office should review the allocation of the Director's payroll to each Office and modify it if necessary to reflect actual time worked in each Office.

- The Energy Office's procedures for adequate segregation of duties should include a reconciliation of salary rates to ensure accurate amounts are entered into the system.

Governor's Response: The following response is in reference to the first bullet point listed under the heading Internal Control Over Payroll.

- *In small agencies like the Governor's Office, the Governor's Policy Research Office, and the Nebraska Energy Office, with limited staff, the full segregation of duties is neither feasible nor appropriate. Policies have been implemented where the personnel contact for each Agency reviews Payroll and Benefit changes with his or her appropriate supervisor/authority as listed below.*

Governor's Office –
Administrative Assistant to review items with Chief of Staff
Governor's Policy Research Office –
Office Manager to review items with Director
Nebraska Energy Office –
Accountant Clerk II to review items with Business Manager

The following response is in reference to the second bullet point listed under the heading Internal Control Over Payroll.

COMMENTS AND RECOMMENDATIONS

2. <u>Internal Control Over Payroll</u> (Concluded)

NE Energy Office -

- *Personnel costs are based upon historical information. Federal granting agencies are provided budgets containing personnel costs by employee position. Executive and support personnel are evaluated and budgeted accordingly. The evaluation is based upon time necessary for that position to complete tasks associated with the grant. Direct cost employees are so budgeted.*

The following response is in reference to the third bullet point under the heading Internal Control Over Payroll.

Governor's Policy Research Office -

- *The Auditor's evaluation of this item fails to note that the Director serves as the Director for both the NE Energy Office and the Governor's Policy Research Office. There is no allegation that the Director was overpaid. The agency will take no action on this item.*

The following response is in reference to the fourth bullet point under the heading Internal Control Over Payroll.

NE Energy Office -

- *The correct salary increase was entered into the NEIS system but was overridden by the automatic system that occurred after the initial entry.*

Auditors' Response:
(Bullet Number 2)
As noted, OMB Circular A-87 states that budget estimates or other distribution percentages do not qualify as support for charges to Federal awards and that at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports be made. We recommend the Energy Office comply with OMB Circular A-87.

(Bullet Number 3)
The first sentence of bullet number 3 does indicate the Director of Policy Research also serves as the Director of the Energy Office. Our comment relates to the allocation payroll costs to the Energy Office. It should be noted the Energy Office portion of the Director's payroll is paid from a cash fund, and the Policy Research portion of the payroll is paid from the State General Fund.

(Bullet Number 4)
We are aware of the cause for the error regarding the salary increase. Again, we recommend a reconciliation of salary rates to ensure accurate amounts are paid.

COMMENTS AND RECOMMENDATIONS

3. Contract Monitoring

Good internal control requires procedures to ensure contracts are adequately monitored and procedures to ensure amounts paid are in accordance with the terms of the contract.

The monitoring of contracts for the Western Regional Biomass Energy Program (WRBEP) administered through the Energy Office could be improved. We tested two contracts to the same vendor under this Program. The contracts included a detailed budget that listed the contractor employees working on the project, their hourly rate, and other direct expenses such as travel costs, postage, printing, and other expenses. An amendment to one of the contracts increased the amount budgeted for certain expenses "not to exceed" a certain dollar amount. The Energy Office monitored the contract expenditures for these contracts in total only, and did not monitor the detail as specified in the contract budget. Therefore, they were unable to determine whether the amendment to the contract was complied with.

On the monthly invoices the contractor submitted to the Energy Office, the individuals who had worked on the project and their hourly rates were listed on the invoice, along with other direct expenses. Each of the three invoices we reviewed included time billed for individuals who were not listed in the contract budget. Two of the invoices included hours charged for seven individuals. On both of these invoices, two of the seven individuals and their rates were not listed in the contract budget. The other invoice also included hours charged for seven individuals. Four of the seven individuals listed on this invoice and their rates were not included in the contract budget.

None of the contracts reviewed had exceeded the total contract amount at the time of the audit.

> We recommend the Energy Office implement procedures to ensure all contracts under WRBEP are adequately monitored.

Governor's Response: The Energy Office believes the Western Regional Biomass Energy Program (WRBEP) contracts are adequately monitored. Contractors may use a combination of salaried staff and outside subcontractors and individuals to fulfill their obligations under Article XI of the Specific Conditions of the contract.

There are no terms in the contract that allow the Nebraska Energy Office to refuse or modify payment based on the contractor exercising these choices. There is no reason to monitor details of an activity where the Energy Office would have no contractual basis to require a change or to refuse or modify payment based on a change that was detected such as the use of individuals not specifically listed in the budget.

COMMENTS AND RECOMMENDATIONS

3. **Contract Monitoring** (Concluded)

In the contract referenced, the contractor provides logistics support to workshops in different states. None of these workshops were scheduled at the time the contract was signed. The nature of this logistics work means that the contractor must use individuals, subcontractors and hotels at different locations at various costs and could not reasonably be expected to predict this level of detail at the time the contract was signed. Which particular individual provided the support at the workshops is not important or relevant to the contract as long as the contracted tasks are adequately executed within the budget. These workshops are funded by and arranged on behalf of the U.S. Department of Energy.

Auditors' Response: If the contract or any amendment to the contract includes language with specific instruction on how the money shall be spent, we feel the contract should be monitored by activity as specified in the budget. We did note language in certain amendments to the contracts in this regard.

4. Documentation for Interagency Service Agreements

Good internal control requires adequate documentation to support all payments. Adequate documentation relating to interagency agreements should indicate the total amount of the agreement, hourly rates, terms of the agreement, and signatures of both parties.

The Energy Office had an informal agreement with the Department of Administrative Services – Information Management Services (DAS-IMS) to redesign the Energy Office database for the Loan Program. The documentation provided by the Energy Office consisted of a work order from DAS-IMS for an estimated 80 hours for the development of the project. The Energy Office also provided an e-mail from DAS-IMS to the Energy Office that included a proposed project team and their approximate hourly rates. Four employees of DAS-IMS were listed in the e-mail. Three had a rate of approximately $78 per hour and the other rate was $60 per hour. The e-mail stated the Energy Office would have the equivalent of two full-time resources on the project; one at $78 per hour and the second at $60 per hour. The e-mail also stated if the proposed approach was acceptable to the Energy Office, DAS-IMS would put together a project charter, initial project plan, estimated cost for the remaining analysis, and a ballpark cost for the development.

The Energy Office did not have an official agreement that was signed by the Energy Office and DAS-IMS. Therefore, they were unable to provide the total cost of the project or the approved hourly rates charged by DAS-IMS. Additionally, during our testing of one payment on this project, we noted two programmers were billed more than the stated amount in the e-mail. One programmer was billed at $86 per hour for 37.25 hours and the other programmer was billed at $102 per hour for 36.5 hours. This represents $2,360 more in one month than the informal agreement between DAS-IMS provided.

COMMENTS AND RECOMMENDATIONS

4. <u>Documentation for Interagency Service Agreements</u> (Concluded)

Without adequate documentation to support payments for interagency service agreements, the risk for misuse of state funds increases significantly.

> We recommend the Energy Office implement procedures to ensure adequate documentation is available for all interagency service agreements. We further recommend the Office review the services provided by DAS-IMS and ensure a signed agreement is on file detailing the total cost of the project along with the hourly rates charged for DAS-IMS employees.

Governor's Response: The DAS-IMS project is an e-government project for the redesign of the Loan Program database. It will replace a Dbase database, which is extremely inflexible and overburdened for the large volume of loans processed through it. The DAS-IMS office did provide the Energy Office with a draft project charter, initial project plan, and estimates of cost for the remaining analysis and development work. The draft documents from which both agencies are working, however, have not been formalized. The billing discrepancy has been reported to DAS-IMS and the Energy Office expects an adjustment to be made on the next Intra-State Document from IMS.

Auditors' Response: We feel agreements should be formalized prior to the start of a project.

5. <u>Timely Deposit of Receipts</u>

Neb. Rev. Stat. Section 84-710 R.S. Supp. 1999 states it shall be unlawful for any executive department of the state to receive money belonging to the state without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars. The State Treasurer, may upon a written request from an executive department stating the applicable time period cannot be met, grant additional time to remit funds to the state treasury.

During our testing of the Energy Office receipts, we noted 9 of 24 receipts were not deposited with the State Treasurer within three days. All of these nine receipts were part of an aggregate amount exceeding $500. Seven of the receipts were deposited in four days and two of the receipts were deposited in five days. The Office did not have approval from the State Treasurer granting them additional time to remit the money.

The Office is not in compliance with the statute when receipts are not deposited within the applicable number of days. Additionally, the State treasury is deprived of potential interest on the funds if they are not deposited timely.

COMMENTS AND RECOMMENDATIONS

5. <u>Timely Deposit of Receipts</u> (Concluded)

> We recommend the Office implement procedures to ensure receipts are deposited according to the statute or written approval is obtained from the State Treasurer granting additional time to remit the funds.

Governor's Response: Depositing loan program funds with the proper segregation of duties requires that payments be entered into the internal database. The volume of checks, especially quarterly bank remittances, are difficult to process with current staffing in a timely manner. In addition, some lenders remit payments on loans not finalized within the Energy Office. These payments cannot be posted to the database because doing so causes an imbalance between NAS and the Internal System. The suggestions are noted and the State Treasurer will be notified of this issue.

6. <u>Internal Control Over Fixed Assets</u>

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a segregation of duties so no one individual can handle all phases of a transaction from beginning to end.

During our audit we noted the following:

- One person in the Office of the Governor maintained the fixed asset records, added and deleted items from the fixed asset listing, ensured purchased items were added to inventory, and completed the annual physical inventory. There were no controls to compensate for the lack of segregation of duties in the Office of the Governor.

- Items purchased in a previous fiscal year were not added to inventory until the following fiscal year in the Office of the Governor. Two computers purchased in November 1999 were not added to the listing until September 2000. The total amount was $4,244.

> We recommend the Office of the Governor implement procedures to compensate for the lack of segregation of duties. The "Account Code 4800 Expenditures Not on Inventory" report or a "History Report" should be reviewed by an individual independent of the fixed asset process at least annually.

Governor's Response: A procedure has been implemented whereby both reports will be reviewed annually by the Chief-of-Staff.

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STATE OF NEBRASKA GOVERNOR'S OFFICE

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the State of Nebraska Governor's Office as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 State of Nebraska Governor's Office, 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 State of Nebraska Governor's Office as of June 30, 2001, 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 August 1, 2001, on our consideration of the State of Nebraska Governor's Office'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 schedules 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, except for that portion marked "unaudited," on which we express no opinion, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

August 1, 2001 Manager

STATE OF NEBRASKA OFFICE OF THE GOVERNOR

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, 2001

	Governmental Fund Types		Account Group	
	General	Special Revenue	General Fixed Assets	**Totals** (Memorandum Only)
Assets				
Cash in State Treasury	$ -	$ 8,274,446	$ -	$ 8,274,446
Deposit with Vendors	2,054	3,852	-	5,906
Property, Plant, and Equipment	-	-	478,579	478,579
Total Assets	$ 2,054	$ 8,278,298	$ 478,579	$ 8,758,931
Fund Balances and Other Credits				
Other Credits:				
Investment in Fixed Assets	$ -	$ -	$ 478,579	$ 478,579
Fund Balances:				
Reserved For Postage	2,054	3,852	-	5,906
Unreserved, Undesignated	-	8,274,446	-	8,274,446
Total Fund Balances and Other Credits	$ 2,054	$ 8,278,298	$ 478,579	$ 8,758,931

See Notes to Financial Statements.

STATE OF NEBRASKA OFFICE OF THE GOVERNOR

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types		
	General	Special Revenue	**Totals** (Memorandum Only)
RECEIPTS:			
Appropriations	$ 1,373,182	$ 1,543,929	$ 2,917,111
Intergovernmental:			
Federal Grants and Contracts	-	3,091,312	3,091,312
Other	-	25,000	25,000
Sales and Charges	-	750	750
Miscellaneous:			
Payment on Energy Settlement Fund Loans	-	5,367,180	5,367,180
Miscellaneous Adjustments	113	1,519,452	1,519,565
Other	-	959,759	959,759
TOTAL RECEIPTS	1,373,295	12,507,382	13,880,677
DISBURSEMENTS:			
Personal Services	1,115,125	970,053	2,085,178
Operating	212,489	730,888	943,377
Travel	34,908	36,180	71,088
Capital Outlay	10,660	15,399	26,059
Government Aid	-	11,922,946	11,922,946
TOTAL DISBURSEMENTS	1,373,182	13,675,466	15,048,648
Excess of Receipts Over (Under) Disbursements	113	(1,168,084)	(1,167,971)
OTHER FINANCING SOURCES (USES):			
Sales of Assets	70	-	70
Transfers In	-	330,000	330,000
Deposits to State General Fund	(183)	-	(183)
Deposits to Other Agencies (Note 7)	-	(1,022,092)	(1,022,092)
TOTAL OTHER FINANCING SOURCES (USES)	(113)	(692,092)	(692,205)
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	(1,860,176)	(1,860,176)
FUND BALANCE, JULY 1, 2000	2,054	10,138,474	10,140,528
FUND BALANCE, JUNE 30, 2001	$ 2,054	$ 8,278,298	$ 8,280,352

See Notes to Financial Statements.

STATE OF NEBRASKA OFFICE OF THE GOVERNOR

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

General, Cash, and Federal Funds

For the Fiscal Year Ended June 30, 2001

	GENERAL FUND			CASH FUNDS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		$ 1,373,182			$ -	
Intergovernmental:						
Federal Grants and Contracts		-			-	
Other		-			-	
Sales and Charges:		-			-	
Miscellaneous:						
Miscellaneous Adjustments		113			1,022,192	
Other		-			70,914	
TOTAL RECEIPTS		1,373,295			1,093,106	
DISBURSEMENTS:						
Personal Services		1,115,125			327,694	
Operating		212,489			32,630	
Travel		34,908			7,863	
Capital Outlay		10,660			5,918	
Government Aid		-			83,509	
TOTAL DISBURSEMENTS	$ 1,975,491	1,373,182	$ 602,309	$ 1,071,134	457,614	$ 613,520
Excess of Receipts Over (Under) Disbursements		113			635,492	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		70			-	
Transfers In		-			330,000	
Deposit to State General Fund		(183)			-	
Deposits to Other Agencies (Note 7)		-			(1,022,092)	
TOTAL OTHER FINANCING SOURCES (USES)		(113)			(692,092)	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-			(56,600)	
FUND BALANCES, JULY 1, 2000		2,054			258,866	
FUND BALANCES, JUNE 30, 2001		$ 2,054			$ 202,266	

See Notes to Financial Statements.

(Continued)

STATE OF NEBRASKA OFFICE OF THE GOVERNOR

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

General, Cash, and Federal Funds

For the Fiscal Year Ended June 30, 2001

	FEDERAL FUNDS			**TOTALS** (MEMORANDUM ONLY)		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		$ 1,543,929			$ 2,917,111	
Intergovernmental						
Federal Grants and Contracts		3,091,312			3,091,312	
Other		25,000			25,000	
Sales and Charges		750			750	
Miscellaneous						
Miscellaneous Adjustments		25,600			1,047,905	
Other		306,742			377,656	
TOTAL RECEIPTS		4,993,333			7,459,734	
DISBURSEMENTS:						
Personal Services		633,587		$ 2,273,938	2,076,406	$ 197,532
Operating		596,367		1,593,969	841,486	752,483
Travel		28,044		76,394	70,815	5,579
Capital Outlay		4,488		56,000	21,066	34,934
Government Aid		3,721,838		5,632,593	3,805,347	1,827,246
TOTAL DISBURSEMENTS	$ 6,586,269	4,984,324	$ 1,601,945	$ 9,632,894	6,815,120	$ 2,817,774
Excess of Receipts Over (Under) Disbursements		9,009			644,614	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			70	
Transfers In		-			330,000	
Deposit to State General Fund		-			(183)	
Deposits to Other Agencies (Note 7)		-			(1,022,092)	
TOTAL OTHER FINANCING SOURCES (USES)		-			(692,205)	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		9,009			(47,591)	
FUND BALANCES, JULY 1, 2000		451,899			712,819	
FUND BALANCES, JUNE 30, 2001		$ 460,908			$ 665,228	

See Notes to Financial Statements. (Concluded)

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. Summary of Significant Accounting Policies

The accounting policies of the State of Nebraska Governor's Office are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity. The State of Nebraska Governor's Office (Office) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Office is exempt from State and Federal income taxes. The financial statements include all funds of the Office. The Office has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Office, or the significance of their relationship with the Office 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 Office 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 Office.

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

B. Basis of Accounting. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Office are maintained and the Office's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Office. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the cash receipts and disbursement basis of accounting, 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

1. Summary of Significant Accounting Policies (Continued)

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 Office 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:

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.

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

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 Office 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.

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

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

1. Summary of Significant Accounting Policies (Continued)

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 Office and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust funds. 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.

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. During fiscal year 2001, the Legislature passed a deficit appropriation bill which increased the allowable disbursement level in one of the programs.

All State budgetary disbursements for the general, cash, 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 and cash 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.

1. Summary of Significant Accounting Policies (Continued)

The Office 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 Office's current procedure is to 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 Office'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, 2001, 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.

There are no annual budgets prepared for Trust Funds, and, as a result, no budgetary comparisons are presented.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2001 follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES	
		PRIMARY GOVERNMENT	
	Total	General	Special Revenue
PERSPECTIVE DIFFERENCES:			
Classifications of budgetary fund balances into Financial Statement fund structure:			
General	$ 2,054	$ 2,054	$ -
Cash	202,266	-	202,266
Federal	460,908	-	460,908
Budgetary fund balances classified into Financial Statement fund structure	$ 665,228	2,054	663,174
Entity Difference:			
Record funds not budgeted		-	7,615,124
Financial Statement Fund Balances, June 30, 2001		$ 2,054	$ 8,278,298

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 records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2001 have been recorded at cost by the Office. Generally, equipment which has a cost in excess of $300 for the Office of the Governor and the Energy Office and any dollar amount for the Policy Research Office 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

1. Summary of Significant Accounting Policies (Continued)

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 Office, except for account 1111 in fund 4811 were designated for investment during fiscal year 2001.

G. Compensated Absences. All permanent employees working for the Office earn sick and annual leave and certain employees in the Energy Office 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.

H. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Office 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.

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 including:

Repayments from the Energy Settlement Fund loans.

Miscellaneous Adjustments: Repayments to the School Technology Fund for loans made to schools for weatherization projects. This account also includes amounts originally recorded as an expenditure in a prior fiscal year and would have been recorded as a reduction of expenditures if the entries occurred in the same fiscal year.

1. Summary of Significant Accounting Policies (Concluded)

Other Miscellaneous: Investment income and repayments of loans made from the Energy Office Cash fund and the Energy Office Federal fund.

I. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Office 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.

J. 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 reserved 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 Office is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Office, 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:

A. 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. State Agencies have the option to purchase coverage for physical damage to vehicles.

B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $1 million for each loss, and a $10,000 retention per incident.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. 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. The perils of flood and earthquake are covered up to $10,000,000.

E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation 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 State of Nebraska Governor's Office's financial statements.

3. Contingencies and Commitments (Concluded)

Litigation. The potential amount of liability involved in litigation pending against the Office, if any, could not be determined at this time. However, it is the Office's opinion that final settlement of those matters should not have an adverse effect on the Office's ability to administer current programs. Any judgment against the Office 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 mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. 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 Office 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, 2001, employees contributed $61,694 and the Office contributed $96,243.

5. Fixed Assets

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

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Equipment	$ 507,536	$ 27,106	$ 56,063	$ 478,579

6. Support Services

The Governor's Office has historically received support services from code agencies directly under its control. The following agencies were identified as providing direct support services to the Governor's Office during the fiscal year:

The Department of Administrative Services (DAS) has historically provided support services through two divisions. The Budget Division processes and maintains the disbursement accounting records for the Governor's administrative staff and assists the Governor in the preparation of the State's budget for presentation to the Legislature each year. Total Expenditures in this area are not available. The Building Division is responsible for the maintenance and operation of the Governor's Mansion. The Building Division has also spent money for construction and mansion ground improvements. Total expenditures in this area for the fiscal year were $46,847.

The State Patrol has historically protected the Governor and his official residence. For the fiscal year, the State Patrol expended $71,518 for travel costs of the Governor's security staff, communications costs, the leases of the Governor's official vehicles, tuition assistance for the Governor's security staff, and other miscellaneous costs. Other costs such as security staff salaries, and the State Patrol's helicopter usage were not accounted for separately by the State Patrol and were not available. The breakdown of the recorded costs for the fiscal year is as follows:

Travel	$	29,792
Communication		19,326
Auto Leases		15,951
Tuition Assistance		4,005
Miscellaneous		2,444
Total	$	71,518

The Department of Aeronautics provided air transportation for the Governor at the Department's expense as required by Neb. Rev. Stat. Section 3-106 R.R.S. 1997. The Governor's Office pays for all transportation costs exceeding $32,500 from the Governor's Budget. During the fiscal year, the air transportation costs did not exceed the $32,500 and were therefore paid completely by the Department.

7. Deposits to Other Agencies

Deposits to other agencies include the collection of School Weatherization Loan repayments by the Office that are credited to the Department of Education School Technology Fund per Neb. Rev. Stat. Section 81-1634 R.R.S. 1999.

8. Loans Receivable

Loans receivable includes loans made for School Weatherization, Energy Settlement, and other loans. School Weatherization provides funding for energy improvements to K-12 public schools. No new loans are made under this program; the only activity is the receipt of payments on old loans. Energy Settlement loans are offered to qualified borrowers to provide low-cost financing for energy efficient improvements. Other loans receivable consist of the Municipal Natural Gas Loans, Energy Office Cash Fund Loans, and Energy Office Federal Fund Loans.

The Loans Receivable balances at June 30, 2001 were as follows:

Energy Settlement (Fund 6811)	$ 20,854,930
School Weatherization (Fund 2812)	5,492,121
Other (Funds 2041, 2813, 4811)	1,405,971
Total Loans Receivable	$ 27,753,022

Under GAAP, the receivable would be recorded as an asset, with the offsetting entry to fund equity recorded as Fund Balance Reserved for Long Term Receivables.

STATE OF NEBRASKA OFFICE OF THE GOVERNOR

COMBINING STATEMENT OF ASSETS AND FUND BALANCES

ARISING FROM CASH TRANSACTIONS

ALL SPECIAL REVENUE FUNDS

June 30, 2001

	Fund 2040 Policy Research Office Cash Fund	Fund 2041 Municipal Natural Gas Revolving Loan Cash Fund	Fund 2147 School Technology Cash Fund	Fund 2812 School Weatherization Cash Fund
Assets				
Cash in State Treasury	$ -	$ 162	$ -	$ 67,645
Deposit with Vendors	-	-	-	617
Total Assets	$ -	$ 162	$ -	$ 68,262
Fund Balances				
Fund Balances:				
Reserved For Postage	$ -	$ -	$ -	$ 617
Unreserved, Undesignated	-	162	-	67,645
Total Fund Balances	$ -	$ 162	$ -	$ 68,262

Fund 2813 Energy Office Cash Fund	Fund 4000 Federal General Fund	Fund 4811 Energy Office Federal Fund	Fund 6041 Policy Research Trust Fund	Fund 6811 Energy Settlement Fund	**Totals Special Revenue Funds**
$ 131,085	$ -	$ 460,430	$ -	$ 7,615,124	$ 8,274,446
2,757	-	478	-	-	3,852
$ 133,842	$ -	$ 460,908	$ -	$ 7,615,124	$ 8,278,298
$ 2,757	$ -	$ 478	$ -	$ -	$ 3,852
131,085	-	460,430	-	7,615,124	8,274,446
$ 133,842	$ -	$ 460,908	$ -	$ 7,615,124	$ 8,278,298

STATE OF NEBRASKA OFFICE OF THE GOVERNOR

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
ALL SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2001

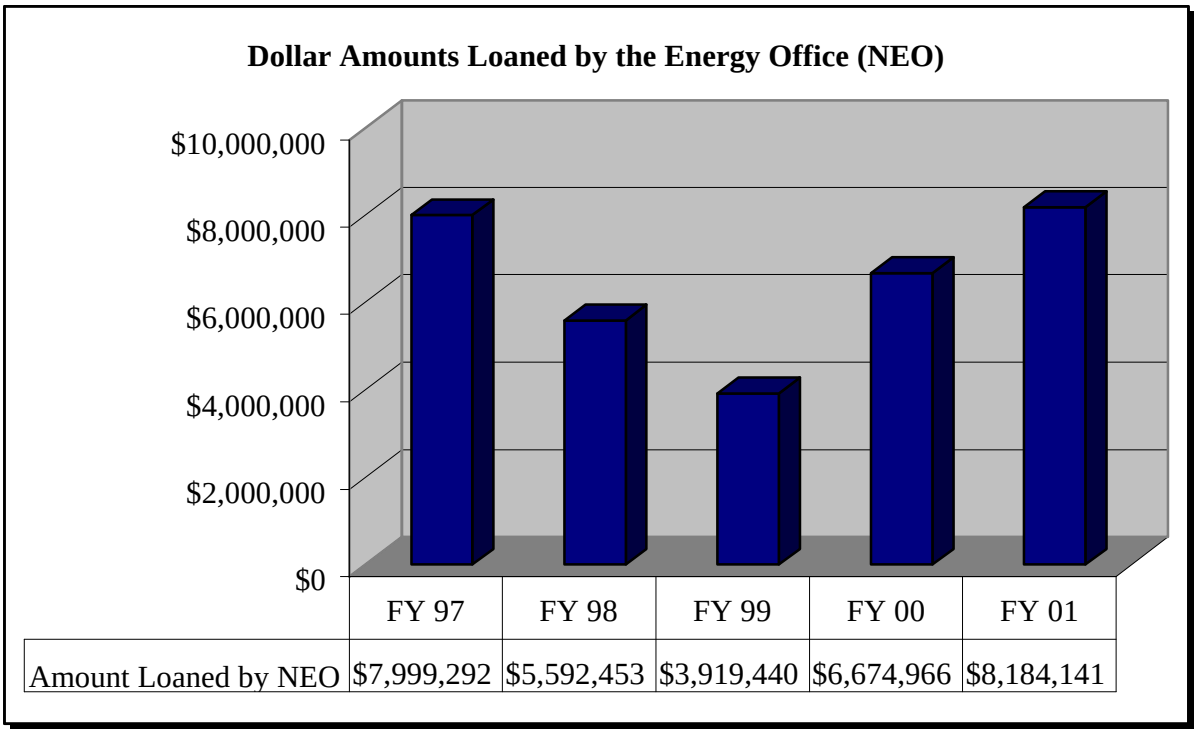
	Fund 2040 Policy Research Office Cash Fund	Fund 2041 Municipal Natural Gas Revolving Loan Cash Fund	Fund 2147 School Technology Cash Fund
RECEIPTS:			
Appropriations	$ -	$ -	$ -
Intergovernmental:			
Federal Grants and Contracts	-	-	-
Other	-	-	-
Sales and Charges	-	-	-
Miscellaneous:			
Payment on Energy Settlement Fund Loans	-	-	-
Miscellaneous Adjustments	-	-	1,022,092
Other	8	2,165	-
TOTAL RECEIPTS	8	2,165	1,022,092
DISBURSEMENTS:			
Personal Services	-	31,868	-
Operating	8	148	-
Travel	-	-	-
Capital Outlay	-	-	-
Government Aid	-	15,500	-
TOTAL DISBURSEMENTS	8	47,516	-
Excess of Receipts Over (Under) Disbursements	-	(45,351)	1,022,092
OTHER FINANCING SOURCES (USES):			
Transfers In	-	30,000	-
Deposits to Other Agencies (Note 7)	-	-	(1,022,092)
TOTAL OTHER FINANCING SOURCES (USES)	-	30,000	(1,022,092)
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	(15,351)	-
FUND BALANCE, JULY 1, 2000	-	15,513	-
FUND BALANCE, JUNE 30, 2001	$ -	$ 162	$ -

Fund 2812 School Weatherization Cash Fund	Fund 2813 Energy Office Cash Fund	Fund 4000 Federal General Fund	Fund 4811 Energy Office Federal Fund	Fund 6041 Policy Research Trust Fund	Fund 6811 Energy Settlement Fund	**Total Special Revenue Funds**
$ -	$ -	$ 1,543,929	$ -	$ -	$ -	$ 1,543,929
-	-	-	3,091,312	-	-	3,091,312
-	-	-	25,000	-	-	25,000
-	-	-	750	-	-	750
-	-	-	-	-	5,367,180	5,367,180
-	100	-	25,600	-	471,660	1,519,452
4,736	64,005	-	306,742	65	582,038	959,759
4,736	64,105	1,543,929	3,449,404	65	6,420,878	12,507,382
16,867	278,959	64,943	568,644	-	8,772	970,053
1,373	31,101	11,820	584,547	179	101,712	730,888
-	7,863	387	27,657	-	273	36,180
385	5,533	1,513	2,975	4,993	-	15,399
-	68,009	1,465,266	2,256,572	-	8,117,599	11,922,946
18,625	391,465	1,543,929	3,440,395	5,172	8,228,356	13,675,466
(13,889)	(327,360)	-	9,009	(5,107)	(1,807,478)	(1,168,084)
	300,000					330,000
-	-	-	-	-	-	(1,022,092)
-	300,000	-	-	-	-	(692,092)
(13,889)	(27,360)	-	9,009	(5,107)	(1,807,478)	(1,860,176)
82,151	161,202	-	451,899	5,107	9,422,602	10,138,474
$ 68,262	$ 133,842	$ -	$ 460,908	$ -	$ 7,615,124	$ 8,278,298

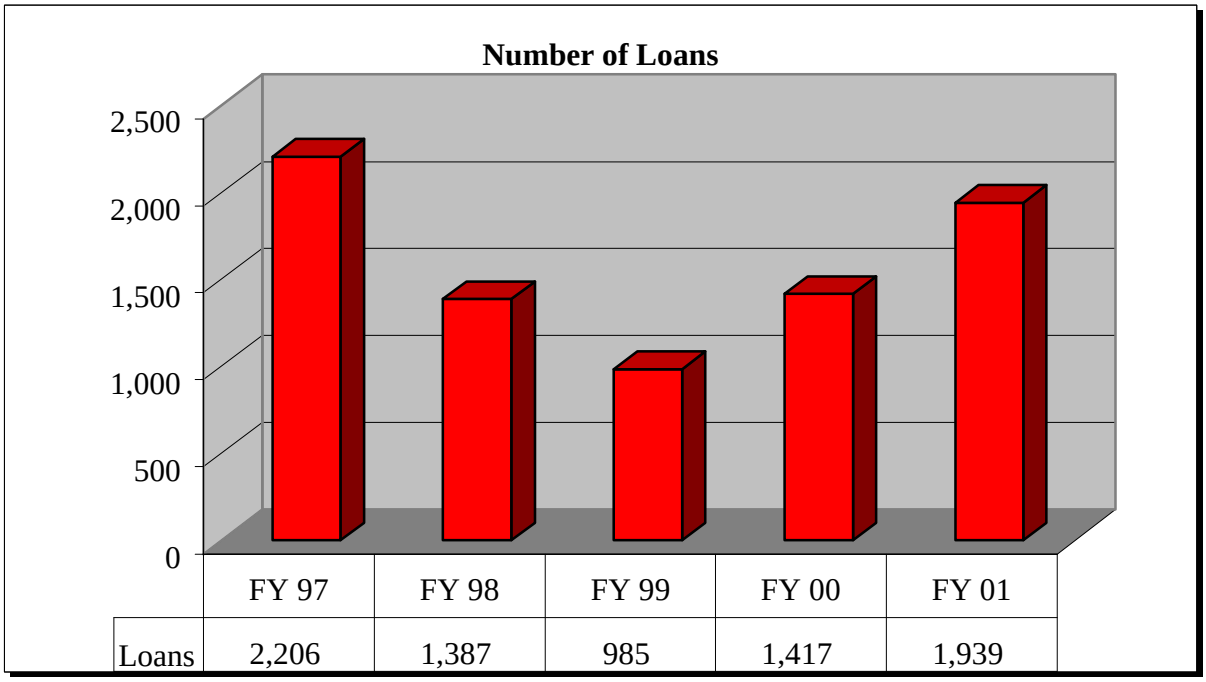
STATE OF NEBRASKA GOVERNOR'S OFFICE

SCHEDULES OF THE DOLLAR AND ENERGY SAVING LOAN PROGRAM

For Fiscal Years Ending June 30, 1997, 1998, 1999, 2000 and 2001



	FY 97	FY 98	FY 99	FY 00	FY 01
Amount Loaned by NEO	$7,999,292	$5,592,453	$3,919,440	$6,674,966	$8,184,141



	FY 97	FY 98	FY 99	FY 00	FY 01
Loans	2,206	1,387	985	1,417	1,939

Note: Information for fiscal years 1997, 1998, 1999, and 2000 is presented as unaudited.
FY = Fiscal Year

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STATE OF NEBRASKA GOVERNOR'S OFFICE

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 State of Nebraska Governor's Office as of and for the year ended June 30, 2001, and have issued our report thereon dated August 1, 2001. 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 State of Nebraska Governor's Office. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 State of Nebraska Governor's Office'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 Accounting Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the State of Nebraska Governor's Office in the Comments Section of this report as Comment Number 1 (Dollar and Energy Saving Loan Program Procedures), Comment Number 2 (Internal Control Over Payroll) and Comment Number 5 (Timely Deposit of Receipts).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Nebraska Governor's Office'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Nebraska Governor's Office's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Dollar and Energy Saving Loan Program Procedures), Comment Number 2 (Internal Control Over Payroll), and Comment Number 3 (Contract Monitoring).

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Comment Number 2 (Internal Control Over Payroll) to be a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the State of Nebraska Governor's Office in the Comments Section of the report as Comment Number 4 (Documentation for Interagency Service Agreements) and Comment Number 6 (Internal Control Over Fixed Assets).

This report is intended solely for the information and use of the Office, 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.

Pat Reding, CPA

August 1, 2001 Manager