

**AUDIT REPORT
OF THE
NEBRASKA MILITARY DEPARTMENT**

JULY 1, 2001 THROUGH JUNE 30, 2002

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NEBRASKA MILITARY DEPARTMENT

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NEBRASKA MILITARY DEPARTMENT

BACKGROUND

The Military Department functions as the 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.

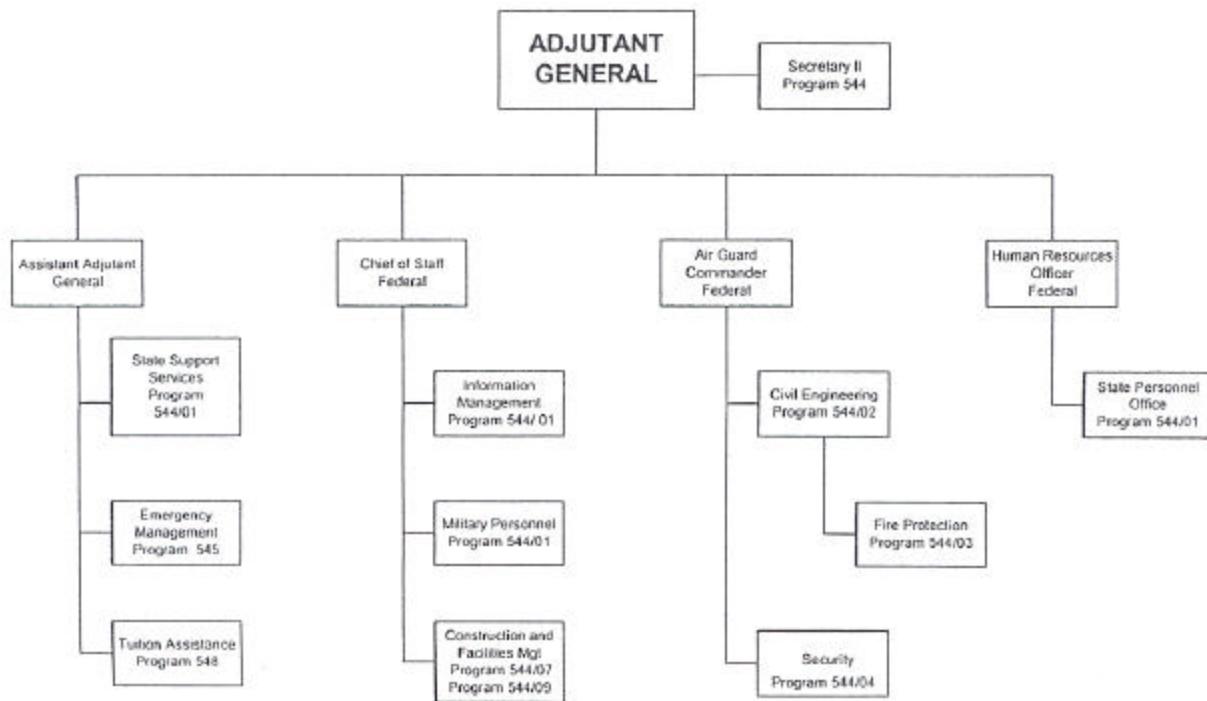
The Adjutant General represents the State at all national, regional, and area military and nonmilitary defense conferences. The Adjutant General develops all civil and military defense, State emergency preparedness and disaster recovery for the State. He coordinates with appropriate national and regional 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 a 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 CHART



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. ***Subrecipient Monitoring:*** Office of Management and Budget (OMB) Circular A-133 Compliance Supplement requires pass through entities to monitor the subrecipients' activities to provide reasonable assurance the subrecipients use Federal grant awards in compliance with Federal requirements. Three subrecipients tested did not have adequate documentation to substantiate their expenditures and there was no documentation on-site monitoring visits were performed by the Department.
2. ***Cash Management:*** The Cash Management Improvement Act (CMIA) requires the State to request funds not more than three business days before a disbursement is made. The average clearance pattern for the Department was seven days.
3. ***Capital Assets:*** Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 requires the Department to maintain a current accurate listing of furniture and equipment. Also, one individual handled all aspects of accounting for the Department's capital assets.

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. The Department declined to respond.

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

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

1. Subrecipient Monitoring

During the audit, the Department had 31 Emergency Management Performance grant subrecipients, 25 Public Assistance grant subrecipients, and 30 Hazard Mitigation subrecipients. In total, the Department passed through \$7,059,827 in Federal aid to these subrecipients.

Office of Management and Budget (OMB) Circular A-133 Compliance Supplement section 3-M-1 states, “A pass-through entity is responsible for … Monitoring the subrecipient’s activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.” OMB Circular A-133 Compliance Supplement 3-M-1 also indicates monitoring procedures may include reviewing reports submitted by the subrecipient, performing site visits to the subrecipients to review financial and programmatic records and observe operations, and reviewing the subrecipients single audit.

The two Emergency Management grant payments tested and one of four Hazard Mitigation grant payments tested did not include adequate documentation to substantiate the subrecipient’s expenditures or indicate the Department had performed a site visit. Further review indicated the Department had performed no site visits for the Emergency Management Performance grants and approximately five site visits each for the Public Assistance and Hazard Mitigation grants.

Without adequate review of the documentation for a subrecipient’s expenditures and periodic site visits, there is an increased risk subrecipients did not administer their grants in compliance with Federal requirements.

We recommend the Department develop a policy on the number, frequency, method of selection, and documentation for subrecipient site visits.

In addition, we recommend the Department require all subrecipients submit adequate documentation substantiating their disbursements.

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 three 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.”

The average clearance pattern for the Department’s disbursements was seven days, four days more than the three allowed. The average clearance pattern represents the average number of days between the date the money was drawn down from the Federal government until the State warrant disbursing the funds cleared the State’s bank.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

2. Cash Management (Concluded)

As a result, the Department paid \$28,079 in interest charges to the Federal government during the fiscal year.

We recommend the Department implement procedures to become compliant with Federal regulations.

3. Capital Assets

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include an adequate segregation of duties so no one individual is able to handle all phases of a transaction. Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999 requires each State department to annually make an inventory of all property, including furniture and equipment, in their possession, and file the inventory with the Materiel Administrator of the Department of Administrative Services. In addition, Section 81-1118.02(3) states each department shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the wording "Property of the State of Nebraska."

During our testing of the Department's capital assets, we noted the following:

- One employee maintained the capital assets inventory records, added new purchases, prepared surplus property documents, deleted items from the records, reviewed the 4800 exception report, reviewed the capital assets history report, and completed the physical inventory.
- The Department's review of the 4800 exception report and the capital assets history report were not done in a timely manner.
- The three items tested from the 4800 exception report had not yet been added to the capital assets records at the time of the audit.
- One of nine items selected from the Department's capital assets records could not be located by the Department.
- One of nine items selected from the Department's capital assets records had two inventory tags. One tag was from the Communications Division of the Department of Administrative Services and one was from the Department.

Without an adequate segregation of duties and a current accurate listing of capital assets, there is an increased risk of the loss or misuse of State assets.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

3. Capital Assets (Concluded)

We recommend the Department implement procedures to ensure an adequate segregation of duties exists over capital assets. If a segregation of duties is not possible, then a management review of capital asset transactions should be established.

In addition, we recommend the Department review the 4800 exception report in a timely manner to ensure capital asset purchases are added to the records in a timely manner.

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NEBRASKA MILITARY DEPARTMENT

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Military Department (Department), as of and for the year ended June 30, 2002, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

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 of the Nebraska Military Department are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable

to the transactions of the Nebraska Military Department. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended 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 respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Military Department, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2002, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining nonmajor fund financial statement, schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statement and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Management's Discussion and Analysis and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

August 29, 2002



Assistant Deputy Auditor

NEBRASKA MILITARY DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Military Department's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Military Department for the fiscal year ended June 30, 2002. Please read it in conjunction with the Department's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Military Department's basic financial statements. The Department's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Department's overall financial status. Over time, increases or decreases in the Department's net assets are one indicator of whether its financial health is improving or deteriorating. The Department's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Department. Nonfinancial factors also need to be considered to assess the overall health of the Department. Agency-wide financial statements divide the Department into three kinds of activities:

Governmental activities – The Department's basic services are included here. These activities are generally financed through taxes, charges for services, and Federal grants.

Business-type activities – Activities financed by fees charged to external parties for goods or services would be included here. The Department had no business-type activities for the fiscal year ended June 30, 2002.

Component units – No component units for the Department were identified.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Department, reporting the Department's operations in more detail than the agency-wide statements by providing information about the Department's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The governmental fund statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Department currently has no proprietary funds.

NEBRASKA MILITARY DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Concluded)

Fiduciary fund statements provide information about financial relationships in which the Department acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements. The Department currently has no fiduciary funds.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as combining statements for non-major funds, which are shown in the fund financial statements in a single column, and schedules of Service, Efforts, and Accomplishments. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Military Department's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE DEPARTMENT AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Department (current assets resulting from cash basis transactions) increased 11 percent.

NEBRASKA MILITARY DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Continued)

FINANCIAL ANALYSIS OF THE DEPARTMENT AS WHOLE (Concluded)

	Governmental Activities	
	2002	2001
Restricted	\$ 1,437,493	\$ 1,150,612
Unrestricted	401,618	505,536
Total Net Assets	<u>\$ 1,839,111</u>	<u>\$ 1,656,148</u>

Governmental Activities

Receipts for the Department's governmental activities increased 4 percent, while expenses increased 3 percent.

NEBRASKA MILITARY DEPARTMENT CHANGES IN NET ASSETS

	Governmental Activities		% Change
	2002	2001	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 480,028	\$ 955,733	-50%
Operating Grants & Contributions	15,046,952	13,125,890	15%
General Receipts:			
Appropriations	3,977,599	4,656,342	-15%
Investment Interest	21,159	26,125	-19%
Total Receipts	<u>19,525,738</u>	<u>18,764,090</u>	<u>4%</u>
DISBURSEMENTS:			
Public Safety	18,829,096	18,280,666	3%
Capital Outlay	54,023	5,264	926%
Total Disbursements	<u>18,883,119</u>	<u>18,285,930</u>	<u>3%</u>
Excess before Other Financing Sources and Uses	642,619	478,160	34%
OTHER FINANCING SOURCES & USES			
Increase in Net Assets	(459,656)	(17,741)	2491%
	<u>182,963</u>	<u>460,419</u>	<u>-60%</u>
Beginning Net Assets July 1	<u>1,656,148</u>	<u>1,195,729</u>	<u>39%</u>
Ending Net Assets June 30	<u>\$ 1,839,111</u>	<u>\$ 1,656,148</u>	<u>11%</u>

NEBRASKA MILITARY DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS

As noted earlier, the Nebraska Military Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Governor's Emergency Fund experienced a noteworthy change in its fund balance from the prior year as a result of the General Fund and the Emergency Management Fund reimbursing it for emergency aid payments made in prior fiscal years.

GENERAL FUND BUDGETARY HIGHLIGHTS

No significant differences were noted between the original and final budget amounts, or between final budget amounts and actual budget results for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Military Department.

NEBRASKA MILITARY DEPARTMENT
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
June 30, 2002

	GOVERNMENTAL ACTIVITIES	TOTAL
	<u>(Memorandum Only)</u>	
Assets		
Cash in State Treasury	\$ 1,838,403	
Petty Cash	300	
Deposit with Vendors	408	
		<hr/>
Total Assets	\$ 1,839,111	
		<hr/>
Net Assets		
Restricted for:		
Emergency Fund	\$ 629,728	
Federal Grants	807,765	
Unrestricted	401,618	
		<hr/>
Total Net Assets	\$ 1,839,111	
		<hr/>

The accompanying notes are an integral part of the financial statements.

NEBRASKA MILITARY DEPARTMENT
STATEMENT OF ACTIVITIES - CASH BASIS
June 30, 2002

	Governmental Activities TOTAL	FUNCTION		
		(Memorandum Only)	Public Safety	Capital Outlay
Disbursements:				
Personal Services	\$ 5,576,567	\$ 5,576,567	\$ -	-
Operating	3,848,000	3,822,235	25,765	-
Travel	153,723	153,723	-	-
Capital Asset Purchases	1,232,797	1,204,539	28,258	-
Government Aid	8,072,032	8,072,032	-	-
Total Disbursements	18,883,119	18,829,096	54,023	
Program Receipts:				
Charges for Services	480,028	480,028	-	-
Operating Grants & Contributions	15,046,952	15,046,952	-	-
Net Program Receipts (Disbursements)	(3,356,139)	(3,302,116)	(54,023)	
General Receipts and Other Financing Sources & Uses:				
Appropriations	3,977,599			
Unrestricted Investment Interest	21,159			
Other Financing Sources & Uses	(459,656)			
Total General Receipts and Other Financing Sources & Uses	3,539,102			
Change in Net Assets	182,963			
Net Assets July 1, 2001	1,656,148			
Net Assets June 30, 2002	\$ 1,839,111			

The accompanying notes are an integral part of the financial statements.

NEBRASKA MILITARY DEPARTMENT
STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
June 30, 2002

	Major Funds						Other Funds		Total Governmental Funds (Memorandum Only)
	State General Fund 1000	Military Department Cash Fund 2311	Governors Emergency Fund 2312	Army National Guard Operation & Maintenance Fund 4311	Emergency Management Fund 4312	Air National Guard Operation & Maintenance Fund 4313			
Assets									
Cash in State Treasury	\$ -	\$ 400,910	\$ 629,728	\$ 237,793	\$ 176,964	\$ 311,981	\$ 81,027	\$ 1,838,403	
Petty Cash	-	300	-	-	-	-	-	-	300
Deposit with Vendors	301	107	-	-	-	-	-	-	408
Total Assets	\$ 301	\$ 401,317	\$ 629,728	\$ 237,793	\$ 176,964	\$ 311,981	\$ 81,027	\$ 1,839,111	

Fund Balances									
Reserved for:									
Postage	\$ 301	\$ 107	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	408
Unreserved	-	401,210	629,728	237,793	176,964	311,981	-	-	1,757,676
Unreserved, Reported in Nonmajor Special Revenue Funds	-	-	-	-	-	-	-	81,027	81,027
Total Fund Balances	\$ 301	\$ 401,317	\$ 629,728	\$ 237,793	\$ 176,964	\$ 311,981	\$ 81,027	\$ 1,839,111	

The accompanying notes are an integral part of the financial statements.

NEBRASKA MILITARY DEPARTMENT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Major Funds			
	State General Fund 1000	Military Department Cash Fund 2311	Governors Emergency Fund 2312	Army National Guard Operation & Maintenance Fund 4311
RECEIPTS:				
Appropriations	\$ 3,923,576	\$ -	\$ -	\$ -
Federal Grants & Contracts	-	10,939	-	3,459,232
Sales & Charges	-	251,012	-	-
Miscellaneous:				
Investment Interest	-	21,159	23,677	8,239
Donations & Contributions	-	4,279	-	-
Other Miscellaneous	34,581	171,517	-	3,508
TOTAL RECEIPTS	3,958,157	458,906	23,677	3,470,979
DISBURSEMENTS BY FUNCTION:				
Public Safety	3,923,576	561,520	33,828	3,333,365
Capital Outlay	-	-	-	-
TOTAL DISBURSEMENTS	3,923,576	561,520	33,828	3,333,365
Excess of Receipts Over Disbursements	34,581	(102,614)	(10,151)	137,614
OTHER FINANCING SOURCES (USES):				
Sales of Assets	14,163	580	-	-
Deposits to General Fund	(472,864)	-	-	-
Distributive Activity:				
Ins	-	8,805	-	-
Outs	-	(10,689)	-	(1,000)
Adjustments to Fund Balance	424,120	-	431,350	1,000
TOTAL OTHER FINANCING SOURCES (USES)	(34,581)	(1,304)	431,350	-
Net Change in Fund Balances	-	(103,918)	421,199	137,614
FUND BALANCES, JULY 1, 2001	301	505,235	208,529	100,179
FUND BALANCES, JUNE 30, 2002	\$ 301	\$ 401,317	\$ 629,728	\$ 237,793

The accompanying notes are an integral part of the financial statements.

Major Funds		Other Funds		Total Governmental Funds <i>(Memorandum Only)</i>
Emergency Management Fund 4312	Air National Guard Operation & Maintenance Fund 4313			
\$ 8,547,028	\$ 2,484,472	\$ 54,023	\$ 3,977,599	
-	-	494,780	14,996,451	
			251,012	
		12,670	1,636	67,381
		-	-	4,279
19,410	-	-	-	229,016
8,566,438	2,497,142	550,439	19,525,738	
8,120,928	2,413,850	442,029	18,829,096	
-	-	54,023	54,023	
8,120,928	2,413,850	496,052	18,883,119	
445,510	83,292	54,387	642,619	
349	-	-	15,092	
-	-	-	(472,864)	
55,000	-	-	63,805	
(55,000)	-	-	(66,689)	
(855,470)	-	-	1,000	
(855,121)	-	-	(459,656)	
(409,611)	83,292	54,387	182,963	
586,575	228,689	26,640	1,656,148	
\$ 176,964	\$ 311,981	\$ 81,027	\$ 1,839,111	

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

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 (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 is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) 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 Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Department, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Department. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Department reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods,

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The majority of general receipts reported by the Department were 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.

Fund Financial Statements. The fund financial statements provide information about the Department's funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Department uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department reports the following major governmental funds:

General Fund. This is the Department's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

Military Department Cash Fund 2311. This is the Department's cash fund used to account for receipts generated from renting armory space, training sites, and Camp Ashland. Income is also received from the State's nuclear power plants as reimbursement for developing emergency response plans.

Governor's Emergency Cash Fund. This is the Department's cash fund used to account for transactions in responding to and recovering from natural and man-made emergencies.

Army National Guard Operation & Maintenance Fund 4311. This is the Department's primary Federal fund. It accounts for the Federal grant used to operate and maintain Army National Guard real property, environmental resources, security, and training.

Emergency Management Fund 4312. This is the Department's Federal fund for disaster relief grants. It accounts for the Federal grants awarded for Public Assistance, Hazard Mitigation, Emergency Management Performance, and other distribution of aid related to natural and man-made disasters.

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Air National Guard Operation & Maintenance Fund 4313. This is the Department's Federal fund for the Air National Guard's grant. It accounts for the operation and maintenance of real property, security, fire department, and training academy.

The Department reports the following other funds:

Other Federal Fund 4326. This is the Department's Federal fund for telecommunications and recruiting projects.

State Building Fund 3300. This is the Department's capital project's fund. It accounts for the transactions relating to the acquisition, construction, or improvement of State owned permanent facilities.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Department are maintained and the Agency-wide financial statements were reported 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 Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP), which require the Agency-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

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 the Emergency Management Fund 4312 and the Other Federal Fund, were designated for investment during fiscal year 2002.

Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

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. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then the unrestricted resources, as they are needed. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

E. 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 postage expenses.

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 because 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, and natural disasters. 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:

- 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.

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments (Concluded)

- 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 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 judgment 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. Prior to April 18, 2002, membership in the Plan was 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

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. State Employees Retirement Plan (Plan) (Concluded)

appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

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 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%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to three years participation in the system.

For the fiscal year ended June 30, 2002, employees contributed \$172,116 and the Department contributed \$268,502.

5. Net Distributive Activity

The Department's Net Distributive Activity for the audit period consists mainly of sales taxes collected and remitted on the rental of facilities.

6. Adjustments to Fund Balance

Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a receipt or disbursement account. The adjustments correctly recorded federal reimbursements for administrative costs and disaster survey report costs, received in prior fiscal periods, into the General Fund and the Governor's Emergency Fund. For the fiscal year, Public Safety Disbursements and Program Receipts were decreased by \$1,247,113.

7. Full Accountability of the General Fund

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedules reflect appropriations. Appropriations do not represent cash transactions.

NEBRASKA MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. Full Accountability of the General Fund (Concluded)

General Fund	
Beginning (Reappropriated) Balance July 1, 2001	\$ 3,634,717
New Appropriations	<u>3,659,958</u>
Total Appropriations	7,294,675
Disbursements	(4,186,592)
Lapse of Appropriations	<u>(566)</u>
Ending (Appropriations) Balance June 30, 2002	<u>\$ 3,107,517</u>

The Disbursements of \$4,186,592 is \$263,016 greater than the General Fund disbursements of \$3,923,576 shown on the Statement of Receipts, Disbursements, and Changes in Fund Balances – Government Funds because of the adjustments discussed in the Note 6.

8. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Department implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Department's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Department were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Department.

**NEBRASKA MILITARY DEPARTMENT
SUPPLEMENTARY INFORMATION
GENERAL FUND**

**BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2002

PROGRAM:	BUDGET AMOUNTS			VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL	ACTUAL AMOUNTS	POSITIVE (NEGATIVE)	
192 - Governor's Emergency Fund	\$ 3,075,741	\$ 3,075,741	\$ 147,359	\$ 2,928,382	
544 - National and State Guard	2,643,717	2,643,152	2,363,240	279,912	
545 - Emergency Management	696,583	696,583	633,577	63,006	
548 - Tuition Assistance	914,633	878,633	779,400	99,233	
TOTAL DISBURSEMENTS	<u>\$ 7,330,674</u>	<u>\$ 7,294,109</u>	<u>\$ 3,923,576</u>	<u>\$ 3,370,533</u>	

See Notes to Supplementary Information

**NEBRASKA MILITARY DEPARTMENT
SUPPLEMENTARY INFORMATION
MAJOR SPECIAL REVENUE FUNDS**
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

<u>Military Department Cash Fund 2311</u>					
PROGRAM:	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET</u>	
	ORIGINAL	FINAL	ACTUAL AMOUNTS	POSITIVE (NEGATIVE)	
544 - National and State Guard	\$ 298,131	\$ 376,193	\$ 322,738	\$ 53,455	
545 - Emergency Management	314,158	314,158	238,782	75,376	
TOTAL DISBURSEMENTS	\$ 612,289	\$ 690,351	\$ 561,520	\$ 128,831	

<u>Governor's Emergency Fund 2312</u>					
PROGRAM:	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET</u>	
	ORIGINAL	FINAL	ACTUAL AMOUNTS	POSITIVE (NEGATIVE)	
192 - Governor's Emergency Fund	\$ 345,281	\$ 345,281	\$ 33,828	\$ 311,453	
TOTAL DISBURSEMENTS	\$ 345,281	\$ 345,281	\$ 33,828	\$ 311,453	

<u>Emergency Management Fund 4312</u>					
PROGRAM:	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET</u>	
	ORIGINAL	FINAL	ACTUAL AMOUNTS	POSITIVE (NEGATIVE)	
192 - Governor's Emergency Fund	\$ 3,500,000	\$ 7,500,000	\$ 6,100,998	\$ 1,399,002	
545 - Emergency Management	1,979,412	2,824,412	2,019,930	804,482	
TOTAL DISBURSEMENTS	\$ 5,479,412	\$ 10,324,412	\$ 8,120,928	\$ 2,203,484	

See Notes to Supplementary Information

NEBRASKA MILITARY DEPARTMENT

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULES

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Department's legally adopted annual budget amount. The Department's budgetary comparison schedules include the General Fund, and the Military Cash Fund 2311, Governors Emergency Fund 2312, and the Emergency Management Fund 4312. A budgetary comparison could not be shown for the Army National Guard Operations and Maintenance Fund 4311 and the Air National Guard Operations and Maintenance Fund 4313 because the Legislature does not make appropriations at this level, nor do the records of the State provide this information.

GAAP also requires the budgetary comparison schedules to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

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.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and presents the 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 approved appropriations 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. As a result, the budgetary comparison schedules only report total disbursements *by program*.

NEBRASKA MILITARY DEPARTMENT

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

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 fund and the Department's major special revenue funds 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 objects 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 appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from the Department's major federal special revenue funds may be increased to the extent receipts of these funds exceed the original budget estimate.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

NEBRASKA MILITARY DEPARTMENT
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Special Revenue Funds	Capital Projects	Total Nonmajor Governmental Funds
	Other Federal Fund 4326	State Building Fund 3300	
RECEIPTS:			
Appropriations	\$ -	\$ 54,023	\$ 54,023
Federal Grants & Contracts	494,780	-	494,780
Miscellaneous:			
Investment Interest	1,636	-	1,636
TOTAL RECEIPTS	496,416	54,023	550,439
DISBURSEMENTS BY FUNCTION:			
Public Safety	442,029	-	442,029
Capital Outlay	-	54,023	54,023
TOTAL DISBURSEMENTS	442,029	54,023	496,052
Net Change in Fund Balances	54,387	-	54,387
FUND BALANCES, JULY 1, 2001	26,640	-	26,640
FUND BALANCES, JUNE 30, 2002	\$ 81,027	\$ -	\$ 81,027

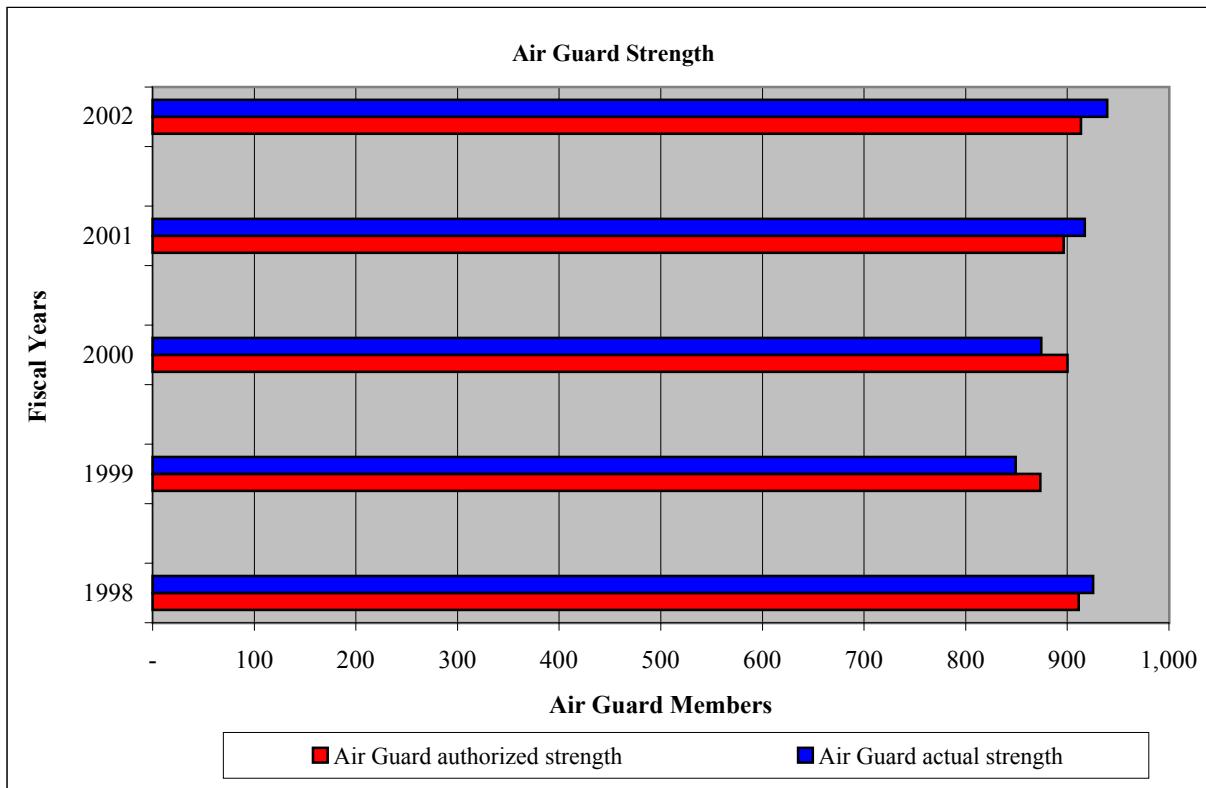
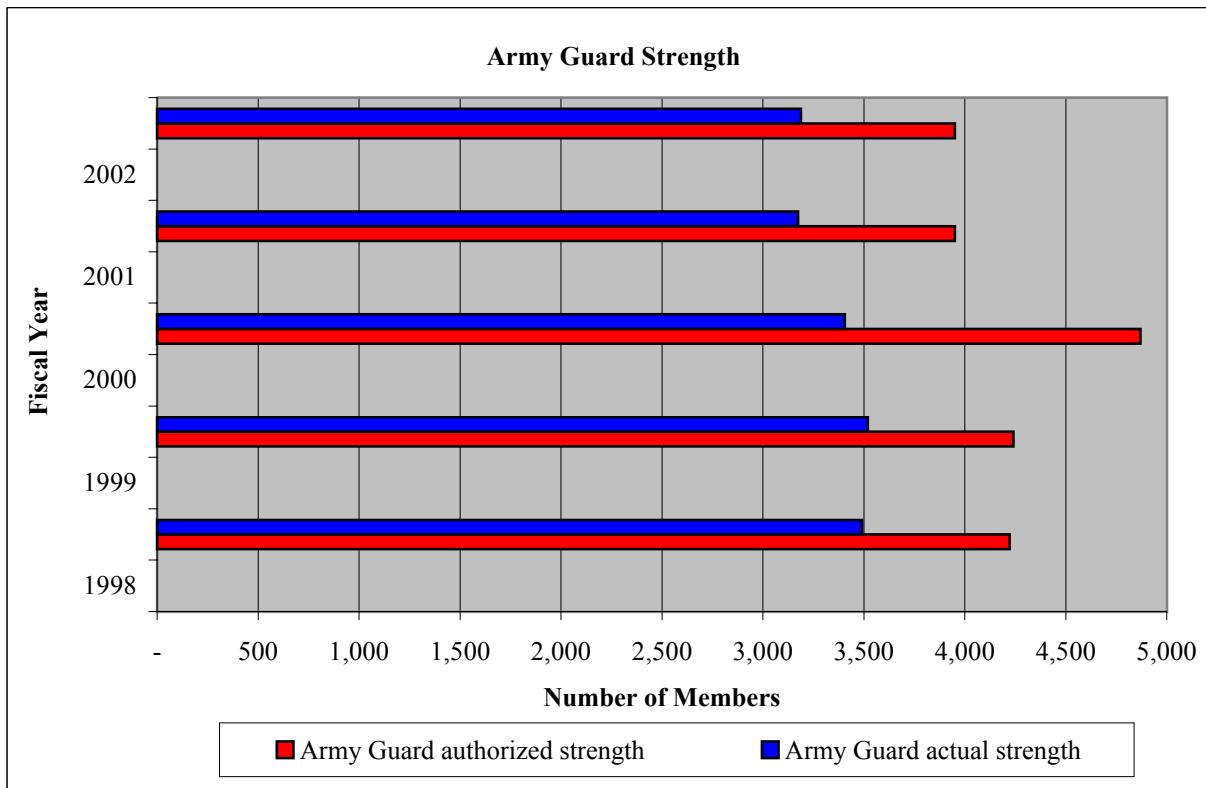
The accompanying notes are an integral part of the financial statements.

NEBRASKA MILITARY DEPARTMENT
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS

Description	Fiscal Year				
	1998	1999	2000	2001	2002
Program 192 Governor's Emergency Fund					
Emergencies and disasters requiring					
National Guard activation	1	-	1	2	1
OCW35					
Chadron Fire					
2002 - Jackson Tornado					
Program 544 National and State Guard					
Army Guard authorized strength	4,220	4,240	4,868	3,949	3,949
Army Guard actual strength	3,489	3,519	3,404	3,172	3,187
Percent of fill	83%	83%	70%	80%	81%
Air Guard authorized strength	911	873	900	896	913
Air Guard actual strength	925	849	874	917	939
Percent of fill	102%	97%	97%	102%	103%
Program 545 Emergency Management					
Days the Emergency Operating Center was operational and on alert	144	36	29	16	76
Program 548 Tuition Assistance					
National Guard members receiving tuition credit and attending:					
University of Nebraska	285	296	305	302	316
State Colleges	96	92	90	87	85
Technical Community Colleges	203	197	208	251	269
Independent Colleges	30	40	58	54	61
Total students receiving tuition credit *	641	625	661	694	732

* 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.

NEBRASKA MILITARY DEPARTMENT
SCHEDULE OF ARMY GUARD STRENGTH AND AIR GUARD STRENGTH
 For the Fiscal Years 1998, 1999, 2000, 2001, and 2002



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*

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We have audited the financial statements of the Nebraska Military Department as of and for the year ended June 30, 2002, and have issued our report thereon dated August 29, 2002. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize the financial statements present only the funds of the Nebraska Military Department. 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and is described in the Comments Section of our report as Comment Number 1 (Subrecipient Monitoring). We also noted certain immaterial instances of noncompliance that we have reported to the management of the Nebraska Military Department in the Comments Section of this report as Comment Number 2 (Cash Management) and Comment Number 3 (Capital Assets).

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 a matter involving the internal control over financial reporting that we have reported to the management of the Nebraska Military Department in the Comments Section of this report as Comment Number 3 (Capital Assets).

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



Assistant Deputy Auditor

August 29, 2002