

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF AERONAUTICS**

**JULY 1, 2003 THROUGH JUNE 30, 2004**

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**Issued on March 11, 2005**

# NEBRASKA DEPARTMENT OF AERONAUTICS

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## NEBRASKA DEPARTMENT OF AERONAUTICS

### BACKGROUND

The Department is composed of a Director, staff, and the Nebraska Aeronautics Commission.

**COMMISSION:** The Nebraska Aeronautics Commission was originally established in 1945. It is a five member Commission appointed by the Governor, and each member serves for five years. One Commission member is appointed or reappointed each year in March. The members of the Commission receive no salary but are reimbursed for their actual expenses.

The Commission's primary functions are:

1. Allocate State funds and approve the use of Federal funds to be spent for the construction or maintenance of airports.
2. Designate the location and approve the sites of airports.
3. Arrange and authorize the purchase of aircraft on behalf of the State.
4. Select and approve pilots to be employed by the State.
5. Assist the Director in formulating the regulations and policies to be carried out by the Department under the terms of the State Aeronautics Department Act.

**DEPARTMENT OPERATIONS:** The Nebraska Department of Aeronautics was created in 1945 to provide for the development and regulation of transportation by aircraft and the closely related areas of airports and air navigation aids. The Governor appoints the Director, subject to confirmation by the Legislature. The Director serves at the will of the Governor and the salary is fixed by the Governor. The Director's primary duties are:

1. Serve as administrative officer of the Department.
2. Administer the statutes, rules, and regulations of the State relative to aeronautics.
3. Serve as secretary for the Nebraska Aeronautics Commission (no voting ability).
4. Employ Department staff pursuant to appropriations approved by law.
5. Manage the offices of the Department, and collect and report information to the Commission and public related to aeronautics.
6. Execute all contracts to which the Department is legally authorized to enter into.

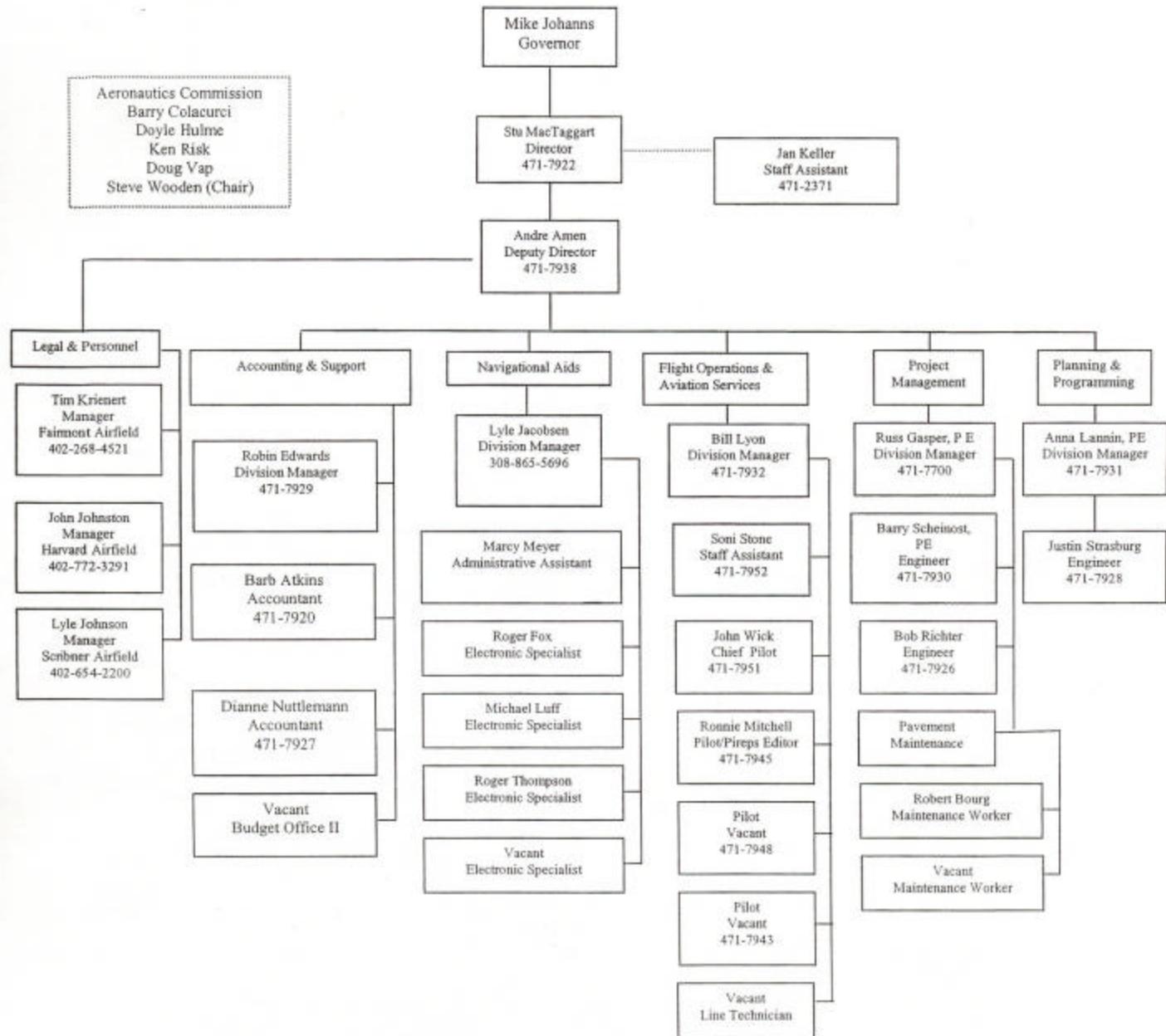
To accomplish its responsibilities, the Department is organized into six areas. They are: Accounting & Support, Navigational Aids, Flight Operations & Aviation Services, Project Management, Legal & Personnel, and Planning & Programming.

### MISSION STATEMENT

Encourage and facilitate the development and use of aviation in Nebraska.

# NEBRASKA DEPARTMENT OF AERONAUTICS

## ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF AERONAUTICS

**EXIT CONFERENCE**

An exit conference was held on February 10, 2005 with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Aeronautics were:

NAME	TITLE
Stuart MacTaggart	Director
Andre B. Aman	Deputy Director
Robin Edwards	Division Manager, Accounting and Support

## NEBRASKA DEPARTMENT OF AERONAUTICS

### SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Aeronautics, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Nebraska Information System and Accounting Procedures:*** Significant concerns or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operation efficiency were identified.
2. ***Basis for the Program Allocation for Pilots' Salary Was Not Documented.*** The basis for the allocation of the pilots' salary between programs was not documented.
3. ***Income Tax Withholdings were Calculated Incorrectly.*** Two of five employees' State and Federal income tax withholdings tested were incorrectly calculated.
4. ***Expense Reimbursements.*** Three out of seven expense reimbursement documents tested included credit card receipts to support a portion of the meals. One of seven meal expense reimbursements tested was not supported by documentation. The amount reimbursed for a portion of the meals and lodging reimbursements tested was in excess of the General Services Administration maximums for Nebraska.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature as 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 staff during the course of the examination.

## NEBRASKA DEPARTMENT OF AERONAUTICS

### COMMENTS AND RECOMMENDATIONS

#### **1. Nebraska Information System and Accounting Procedures**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the Nebraska Information System (NIS). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004, the Procurement and Employee Self-Service components were partially implemented. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003, at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported. However, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the DAS Accounting Division performed some reconciliation procedures. As of July 2004, the June 30, 2003, reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records.

During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004 have been performed and indicate fluctuations in the variance amounts. The latest monthly reconciliation performed, February 2004, indicates an

## NEBRASKA DEPARTMENT OF AERONAUTICS

### **COMMENTS AND RECOMMENDATIONS**

(Continued)

#### **1. Nebraska Information System and Accounting Procedures (Continued)**

unknown variance between the bank records and the accounting records of \$5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.
- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this problem. The "work around" solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately for salaried employees who incur hours that are distributed across multiple business units.
- d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of user training conducted by the DAS Accounting Division during the fiscal year ended June 30, 2004, but does acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.

NEBRASKA DEPARTMENT OF AERONAUTICS

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Nebraska Information System and Accounting Procedures (Continued)**

- e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State. The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the State Records Administrator schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

- f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.
- g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, "All critical function access rights have been secured down to the appropriate high level matrix codes." We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.
- h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, "The NIS CNC's and the NIS Security team have developed a comprehensive security policy." We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.

NEBRASKA DEPARTMENT OF AERONAUTICS

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Nebraska Information System and Accounting Procedures (Continued)**

- i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, "We have now contracted with an outside vendor for business continuity planning." Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.
- j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:
  - 1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.
  - 2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.
  - 3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

- k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

## NEBRASKA DEPARTMENT OF AERONAUTICS

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### **1. Nebraska Information System and Accounting Procedures (Concluded)**

DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

The issues identified above are the responsibility of the DAS Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to DAS, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

#### **2. Basis for the Program Allocation for Pilots' Salary Was Not Documented**

Good internal control requires the basis for the allocation of costs of the pilots' salary to programs be reviewed periodically and documented. Per Department policy, the pilots' salary is to be allocated 50/50 between Program 026 – Departmental Administration and Program 596 – Flight Operations.

The basis for the allocation of the pilots' salary between programs had not been revised since the 1970's and the basis for the allocation was not documented. Without periodic review of the pilots' time records, the pilots' salary may not be charged to the programs receiving the benefit of the pilots' time.

When the basis for the allocation of costs between programs is not reviewed and supported by documentation, certain programs may be overcharged and other programs undercharged.

We recommend the Department review the basis for the salary allocation using current time records for pilots to ensure the 50/50 allocation is still appropriate. We also recommend this review be documented.

#### **3. Income Tax Withholdings were Calculated Incorrectly**

Good internal control requires employee's State and Federal income tax withholdings be correctly calculated. Internal Revenue Service (IRS) Regulations require tax withholdings to be supported by W-4 forms on file.

## NEBRASKA DEPARTMENT OF AERONAUTICS

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 3. Income Tax Withholdings were Calculated Incorrectly (Concluded)

Two of five employees' State and Federal income tax withholdings tested were incorrectly calculated. We noted the following:

- State and Federal income taxes withheld from one employee's September 2003 paycheck was based on a marital status of single with one exemption instead of married with zero exemptions as her W-4 form, from her personnel file, indicated. There was no documentation on file to indicate any change had been made by the employee. Federal and State taxes withheld per the payroll register were \$305 and calculated withholdings based on the W-4 on file were \$232. The amount over-withheld was \$73.
- State and Federal income taxes withheld from one employee's May 2004 paycheck was based on a marital status of married instead of single ("married, but withhold at higher single rate") as his W-4 form, in his personnel file, indicated. There was no documentation on file to indicate any change had been made by the employee. Federal and State taxes withheld per the payroll register were \$102 and calculated withholdings based on the W-4 on file were \$187. The amount under-withheld was \$85.

When income tax withholdings are not supported by W-4 forms, the Department is not in compliance with IRS requirements.

We recommend the Department review the State and Federal income taxes withheld from employees' paychecks each month, to ensure the correct amounts are withheld according to marital status and exemptions documented on W-4 forms on file.

#### 4. Expense Reimbursements

Good internal control requires adequate supporting documentation exist to support expenses. The risk of reimbursing improper expenses increases when supporting documentation is inadequate. For fiscal year 2004, the General Service Administration (GSA) maximum Per Diem Rates were \$19 for dinner and \$55 for lodging in Nebraska.

- Three out of seven expense reimbursement documents tested that included meal reimbursements included credit card receipts as support for a portion of the meals.
- One of seven expense reimbursement documents tested included meal reimbursements for one meal which was not supported by documentation.

NEBRASKA DEPARTMENT OF AERONAUTICS

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Expense Reimbursements (Concluded)**

- One employee was reimbursed \$25 for dinner in Nebraska. This was \$6 over the maximum GSA amount allowed.
- The rate paid for lodging in Alliance, Nebraska was \$69 a night. This was \$14 dollars over the GSA maximum for Nebraska. Two employees stayed for six nights each for a total of twelve nights at \$69 each. The amount paid for lodging was \$168 over the maximum GSA amount.

Credit card receipts do not provide adequate detail to determine if the expense reimbursements are allowable. When no documentation is available to support expense reimbursements, there is an increased risk the expense reimbursement is not appropriate. When reimbursements are in excess of GSA guidelines there is an increased cost to the State.

We recommend the Department require itemized receipts to document meal expense reimbursement amounts when receipts are used instead of meal logs. We recommend the Department ensure employees are aware of the GSA maximum rates. Expense reimbursements should be reviewed to ensure the expenses incurred are within the GSA guidelines. In addition, the individuals making the reservations for lodging should know the rates that are acceptable under the GSA guidelines and should request the government rate. When government rates are not available consideration should be made as to whether there are alternative choices for lodging in the area.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF AERONAUTICS

### INDEPENDENT ACCOUNTANT'S REPORT

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Nebraska Department of Aeronautics  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Aeronautics (Department) for the fiscal year ended June 30, 2004. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Aeronautics for the fiscal year ended June 30, 2004, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2005, on our consideration of the Nebraska Department of Aeronautics' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Timothy J. Chamber CPA". The signature is fluid and cursive, with "Timothy J." on top and "Chamber CPA" below it.

February 10, 2005

Assistant Deputy Auditor

**NEBRASKA DEPARTMENT OF AERONAUTICS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2004

	Dept. of Aeronautics Cash Fund 21710	Aeronautics Trust Fund 61700	<b>Total (Memorandum Only)</b>
<b>REVENUES:</b>			
Taxes	\$ 1,510,773	\$ -	\$ 1,510,773
Intergovernmental	15,690,576	- -	15,690,576
Sales & Charges	258,364	- -	258,364
Miscellaneous			
Investment Interest	179,202	336,620	515,822
Net Appreciation/Depreciation of Investments	- -	(487,033)	(487,033)
Other Miscellaneous	704,174	- -	704,174
<b>TOTAL REVENUES</b>	<b>18,343,089</b>	<b>(150,413)</b>	<b>18,192,676</b>
<b>EXPENDITURES:</b>			
Personal Services	1,287,349	- -	1,287,349
Operating	904,709	773	905,482
Travel	90,374	- -	90,374
Capital Outlay	102,401	- -	102,401
Government Aid	15,921,439	- -	15,921,439
<b>TOTAL EXPENDITURES</b>	<b>18,306,272</b>	<b>773</b>	<b>18,307,045</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>36,817</u>	<u>(151,186)</u>	<u>(114,369)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Sales of Assets	1,796	- -	1,796
Adjustment to Fund Balance	(129)	- -	(129)
Operating Transfers In (Note 6)	308,690	- -	308,690
Operating Transfers Out (Note 6)	- -	(308,690)	(308,690)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>310,357</b>	<b>(308,690)</b>	<b>1,667</b>
Net Change in Fund Balances	347,174	(459,876)	(112,702)
<b>FUND BALANCES, JULY 1, 2003</b>	<b>4,342,959</b>	<b>6,872,169</b>	<b>11,215,128</b>
<b>FUND BALANCES, JUNE 30, 2004</b>	<b>\$ 4,690,133</b>	<b>\$ 6,412,293</b>	<b>\$ 11,102,426</b>
<b>FUND BALANCES CONSIST OF:</b>			
General Cash	\$ 4,716,482	\$ - -	\$ 4,716,482
Deposits with Vendors	3,002	- -	3,002
Accounts Receivable Invoiced	20,320	- -	20,320
Long-Term Investments	- -	6,412,293	6,412,293
Due to Vendors	(49,678)	- -	(49,678)
Due to Fund	7	- -	7
<b>TOTAL FUND BALANCES</b>	<b>\$ 4,690,133</b>	<b>\$ 6,412,293</b>	<b>\$ 11,102,426</b>

The accompanying notes are an integral part of the schedule.

# NEBRASKA DEPARTMENT OF AERONAUTICS

## NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2004

### 1. Criteria

The accounting policies of the Nebraska Department of Aeronautics are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.R.S. 1999, the State of Nebraska Director of Administrative Services duties include "The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Department was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2004 includes only those payables posted to NIS before June 30, 2004 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2004 **does not** include amounts for goods and services received before June 30, 2004 which had not been posted to NIS as of June 30, 2004.

The NIS system does not include liabilities for compensated absences.

The fund types established by NIS that are used by the Department are:

**20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

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

The major revenue object account codes established by NIS used by the Department are:

**Taxes** – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consist of Aviation Fuel Taxes.

## NEBRASKA DEPARTMENT OF AERONAUTICS

### NOTES TO THE SCHEDULE

(Continued)

#### 1. **Criteria** (Concluded)

**Intergovernmental** – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

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

**Miscellaneous** – Revenue from sources not covered by other major categories, such as investment income and rental of land and buildings.

The major expenditure object account titles established by NIS used by the Department are:

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

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

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

**Capital Outlay** – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

**Government Aid** – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant object account codes established by NIS and used by the Department include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and long term investments. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS. Long term investments (investments) are stated at fair value based on quoted market prices. Law or legal instruments may restrict these investments. Investments are under the control of the State Treasurer or other administrative bodies as determined by law.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance.

**Other Financing Sources** – Operating transfers and proceeds of fixed asset dispositions.

## NEBRASKA DEPARTMENT OF AERONAUTICS

### NOTES TO THE SCHEDULE

(Continued)

#### **2. State Agency**

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

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

#### **3. Totals**

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

#### **4. Investments**

Neb. Rev. Stat. Section 72-1246 R.R.S. 2003 authorizes the State Investment Officer to invest the State's funds in accordance with the prudent person rule, subject to the direction of the Nebraska Investment Council. Certain State Entities are also allowed by statute to invest in real estate and other investments. The State's investments are categorized to give an indication of the level of custodial risk assumed by the State at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes insured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the State's name.

<b>INVESTMENTS CATEGORY</b>	<b>TOTAL FAIR VALUE</b>
Category 1	\$ 2,465,004
UNCATEGORIZED	
Investments Held by Broker-Dealers	
Under Securities Loans	
U.S. Government Securities	3,687,228
Cash and Cash Equivalents	260,061
Total	<u>\$ 6,412,293</u>

# NEBRASKA DEPARTMENT OF AERONAUTICS

## NOTES TO THE SCHEDULE

(Continued)

### **5. Capital Assets**

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Department values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land, and land improvements costing in excess of \$1,500 are capitalized. Building improvements and renovations in excess of \$1,500 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

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

Buildings                  40 Years

Equipment                  3 to 20 Years

Capital asset activity of the Department for the fiscal year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Buildings	\$ 2,243,407	\$ -	\$ -	\$ 2,243,407
Equipment	2,476,313	102,401	22,820	2,555,894
Land	165,268	-	-	165,268
Total	<u>\$ 4,884,988</u>	<u>\$ 102,401</u>	<u>\$ 22,820</u>	<u>\$ 4,964,569</u>

Less accumulated depreciation for:

Buildings	1,265,059
Equipment	1,758,908
Total	<u>3,023,967</u>

Total capital assets, net of depreciation	<u>\$ 1,940,602</u>
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NEBRASKA DEPARTMENT OF AERONAUTICS

**NOTES TO THE SCHEDULE**

(Continued)

**6. Transfers**

Operating Transfers Out are amounts transferred out of the Aeronautics Trust Fund 61700 by the State Treasurer and recorded as Operating Transfers In in the Aeronautics Cash Fund 21710.

**7. Nebraska Department of Aeronautics Trust Fund 61700**

The fund balance in the Trust Fund represents the proceeds from the sale of land which the Federal Government distributed to the State. These proceeds are invested. Gains and losses on the sale of investments are principal transactions which are added to or subtracted from the Trust Fund balance. The interest earned on the balance is transferred to the Department's cash fund for use as per a written agreement with the Federal Aviation Administration (FAA) dated 1969 and amended in 1971.

**8. Revenues, Expenditures, and Operating Transfers Out – Aeronautics Trust Fund 61700**

The Aeronautics Trust Fund 61700 is a common fund with the State Treasurer. Miscellaneous Revenues reflect amounts received by the State Treasurer and Expenditures reflect amounts charged by the Nebraska Investment Council. Operating Transfers Out reflect amounts transferred to the Department's cash fund by the State Treasurer.

**9. Reclassification**

Payments to airfields for hangar loans and fuel farm loans of \$521,778 originally coded to capital outlay object account codes were reclassified as government aid.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF AERONAUTICS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Nebraska Department of Aeronautics  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Aeronautics for the fiscal year ended June 30, 2004, and have issued our report thereon dated February 10, 2005. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Aeronautics' internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Nebraska Department of Aeronautics' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Nebraska Information System and Accounting Procedures).

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial schedule being examined 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, we do not believe the reportable condition described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Aeronautics' schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional items that we reported to management of the Nebraska Department of Aeronautics in the Comments Section of this report as Comment Number 2 (Basis for the Program Allocation for Pilots' Salary Was Not Documented), Comment Number 3 (Income Tax Withholdings were Calculated Incorrectly), and Comment Number 4 (Expense Reimbursements).

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Timothy J. Chamber CPA". The signature is fluid and cursive, with "Timothy" and "J." being the most distinct parts.

February 10, 2005

Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF AERONAUTICS

**STATISTICAL SECTION**

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

**NEBRASKA DEPARTMENT OF AERONAUTICS**  
**AID DISBURSEMENTS BY AIRPORT**  
**AIRPORT IMPROVEMENT PROGRAM**  
For the Fiscal Year Ended June 30, 2004

<u>City/Airport</u>	<u>Aid Payments</u>
Ainsworth	\$ 641,346
Albion	8,123
Alliance	260,503
Alma	114,287
Antelope County	34,741
Auburn	67,426
Aurora	29,910
Beatrice	391,569
Blair	1,904,926
Broken Bow	500
Central City	44,667
Chadron	133,203
Columbus	51,549
Cozad	82,908
Creighton	43,839
Crete	14,616
Curtis	18,655
David City	75,431
Fairbury	186,718
Falls City	132,569
Fremont	193,309
Garden County	30,725
Grant	23,855
Hall County	27,149
Hastings	49,427
Hebron	56,034
Holdrege	244,506
Imperial	113,979
Kearney	304,184
Kimball	14,660
Lexington	128,459
Lincoln	69,185
Loup City	48,843
Military Department	20,565
Minden	78,252
Nebraska City	24,198
Norfolk	1,067,784
North Platte	801,591
Omaha	4,409,418
O'Neill	18,387
Plattsmouth	166,674
Red Cloud	67,216
Rock County	39,711
Rushville	236,827
Sargent	6,928
Seward	325,393
South Sioux City	4,560
Tecumseh	27,692
Thomas County	61,286
Valentine	146,526
Wayne	94,405
Western Nebraska Regional	2,197,972
York	21,528
Total	\$ 15,358,714 (See Note 1)

Note 1: Aid payment total does not include minimal returned amounts by cities/airports and hangar and fuel farm loans.

**NEBRASKA DEPARTMENT OF AERONAUTICS**  
**DISBURSEMENTS**  
Fiscal Years Ended June 30, 2000 through 2004

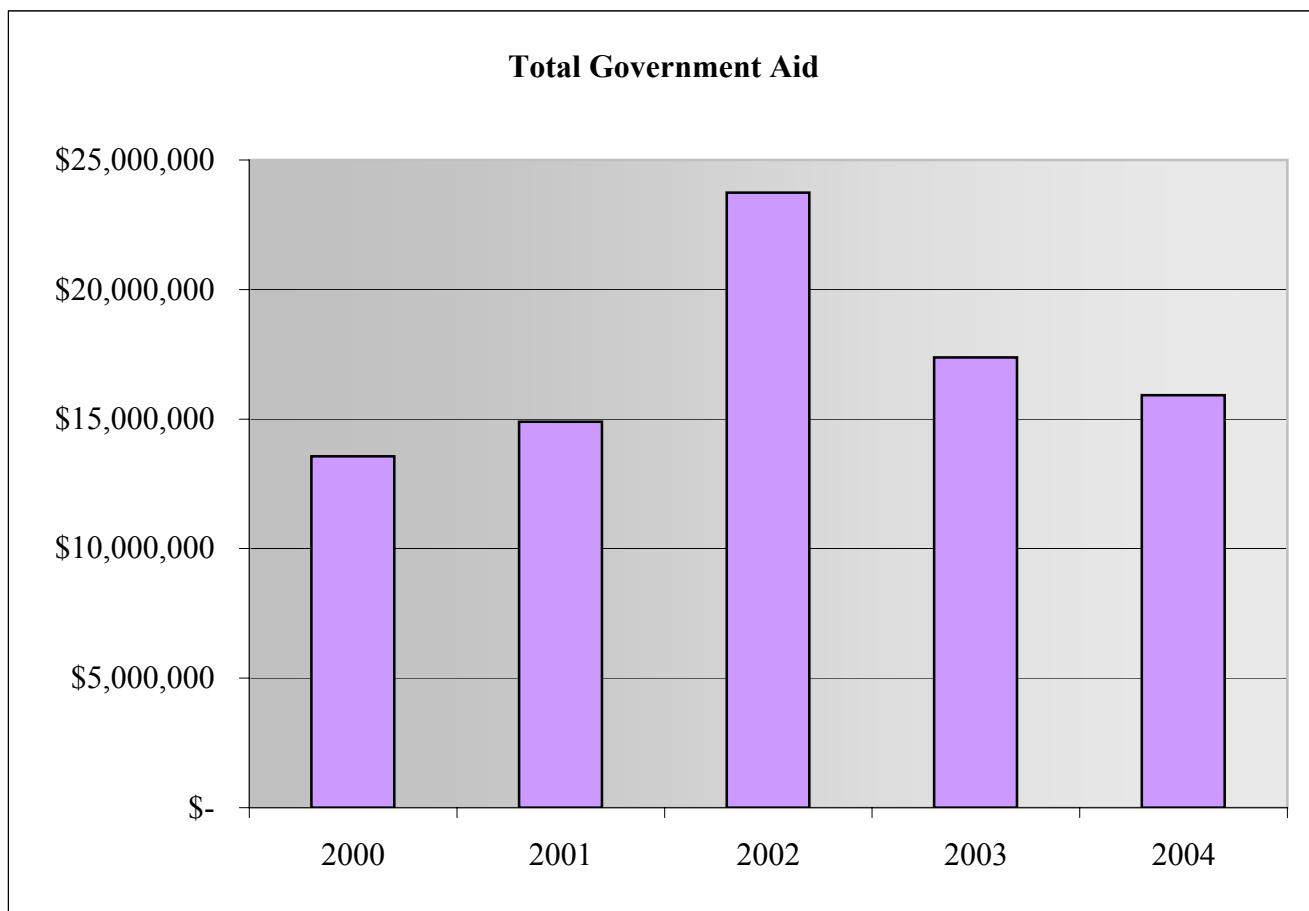
	2000	2001	2002	2003	2004
<b>Disbursements by Program</b>					
Cash Fund 21710 Prog 026-Development & Enforcement	\$ 525,584	\$ 573,574	\$ 603,571	\$ 638,163	\$ 566,513
Cash Fund 21710 Prog 301-Public Airports	15,844,952	16,807,441	25,816,909	19,382,980	17,224,193
Cash Fund 21710 Prog 596-State Owned Aircraft	472,448	495,605	647,251	469,586	515,566
Trust Fund 61700	(See Note 1)	(See Note 1)	(See Note 1)	336	773
<b>Total</b>	<b>\$ 16,842,984</b>	<b>\$ 17,876,620</b>	<b>\$ 27,067,731</b>	<b>\$ 20,491,065</b>	<b>\$ 18,307,045</b>
 <b>Disbursements by Major Object Account Category</b>					
Personal Services	\$ 1,273,143	\$ 1,319,221	\$ 1,345,576	\$ 1,352,899	\$ 1,287,348
Operating Expenses	1,074,634	966,580	1,336,695	857,295	905,483
Travel	93,305	88,801	84,598	95,524	90,374
Capital Outlay	843,334	601,758	566,586	802,300	102,401
Government Aid (Note 2)	13,558,568	14,900,260	23,734,276	17,383,047	15,921,439
<b>Total</b>	<b>\$ 16,842,984</b>	<b>\$ 17,876,620</b>	<b>\$ 27,067,731</b>	<b>\$ 20,491,065</b>	<b>\$ 18,307,045</b>

Note 1: Trust Fund amount not available.

Note 2: The Government Aid amount for 2004 includes the reclassification of hangar and fuel farm loan payments made of \$521,778. Hangar and fuel farm loan amounts are shown in Capital Outlay for 2000 through 2003.

NEBRASKA DEPARTMENT OF AERONAUTICS  
**TOTAL GOVERNMENT AID**  
Fiscal Years Ended June 30, 2000 through 2004

	2000	2001	2002	2003	2004
Total Government Aid	\$ 13,558,568	\$ 14,900,260	\$ 23,734,276	\$ 17,383,047	\$ 15,921,439 (Note 1)



Note 1: The Government Aid amount for 2004 includes the reclassification of hangar and fuel farm loan payments made of \$521,778. Hangar and fuel farm loan amounts are shown in Capital Outlay for 2000 through 2003.

NEBRASKA DEPARTMENT OF AERONAUTICS  
**AIRCRAFT HOURS USED BY AGENCY**  
For the Fiscal Year Ended June 30, 2004

