

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF EDUCATION
JULY 1, 2005 THROUGH JUNE 30, 2006**

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Issued on July 16, 2007

NEBRASKA DEPARTMENT OF EDUCATION

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Vision Statement	2
Mission Statement	2
Organizational Charts	3 - 4
Comments Section	
Exit Conference	5
Summary of Comments	6 - 7
Comments and Recommendations	8 - 27
Financial Section	
Independent Accountant's Report	28 - 29
Schedule of Revenues, Expenditures, and Changes in Fund Balances	30 - 31
Notes to the Schedule	32 - 36
Government Auditing Standards Section	
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 <i>Government Auditing Standards</i>	37 - 38
Statistical Section	39
Expenditures by Fund Type	40
Expenditures Other than Government Aid	41
Government Aid Expenditures	42
Government Aid Expenditures by Program	43
Tax Equity and Educational Opportunities Support Act - State Aid to Schools – Expenditures	44
Tax Equity and Educational Opportunities Support Act - State Aid to Schools – Statistics	45
Temporary School Fund Expenditures	46
Special Education Populations Chart	47
Special Education Populations Aid Expenditures	48

NEBRASKA DEPARTMENT OF EDUCATION

BACKGROUND

The Nebraska Department of Education (Department) is a constitutional agency that operates under the authority of an elected Board of Education. The Department is organized into teams that interact to operate the Department and carry out the duties assigned by State and Federal statutes and the policy directions of the State Board of Education. The teams are organized around distinct functions and responsibilities that encompass leadership and support for Nebraska's system of early childhood, primary, secondary and postsecondary education; direct services to clients; and internal support to the Department.

The Department carries out its duties on behalf of Nebraska students in public, private, and nonpublic school systems. The staff of the Department interacts with schools and institutions of higher education to develop, coordinate, and improve educational programs.

Included in the Department is Vocational Rehabilitation which is the statewide employment agency for people with disabilities. Services are provided or arranged through an employment team and may include vocational evaluation, career planning, independent living, assistive technology, job training and placement. District offices are located in Grand Island, Kearney, Lincoln, Norfolk, North Platte, Omaha and Scottsbluff, with satellite offices in Columbus and South Sioux City. The agency receives 20 percent of its funding from the state and 80 percent from the federal government. The goal of the program is to help people with disabilities achieve economic self sufficiency including earnings at or above the full-time minimum wage equivalent with health benefits in competitive employment, self-employment and business enterprise employment. If economic self-sufficiency is not possible with the first job placement, Vocational Rehabilitation may continue to work with the person to help them retain or advance in employment. Vocational Rehabilitation staff work with students with disabilities as early as age 14. Through the Transition Partnership Initiative, educators, parents, students and Vocational Rehabilitation plan to assure that students with disabilities are prepared for employment after graduation.

The Department also includes the Disability Determinations Section (DDS). The Disability Determinations Section is the entity of state government that processes applications for federal disability benefits under the federal social security program and the supplemental security income program for Nebraska residents. These applications are taken at the social security field offices across the state and forwarded to the DDS office in Lincoln. Section staff obtain and evaluate medical and vocational evidence in order to make a decision on each applicant's medical eligibility for benefits.

NEBRASKA DEPARTMENT OF EDUCATION

VISION STATEMENT

Partnering for the best education for all . . . for life.

The well being of Nebraska is best served by providing a quality education for all students. Through the policy and program leadership of the State Board of Education and the Department of Education, we must enable all Nebraska schools to demonstrate: Rigorous curriculum guided by standards and expectations for all student learning; Accountability for what is taught and what students learn; Safe, orderly, and drug free environments for learning; and Competent and caring educators in every classroom.

MISSION STATEMENT

To Lead and Support the Preparation of all Nebraskans for Learning, Earning, and Living. Also, according to Neb. Rev. Stat. Section 79-701 R.R.S. 2003, the mission of the State of Nebraska through its public school system is:

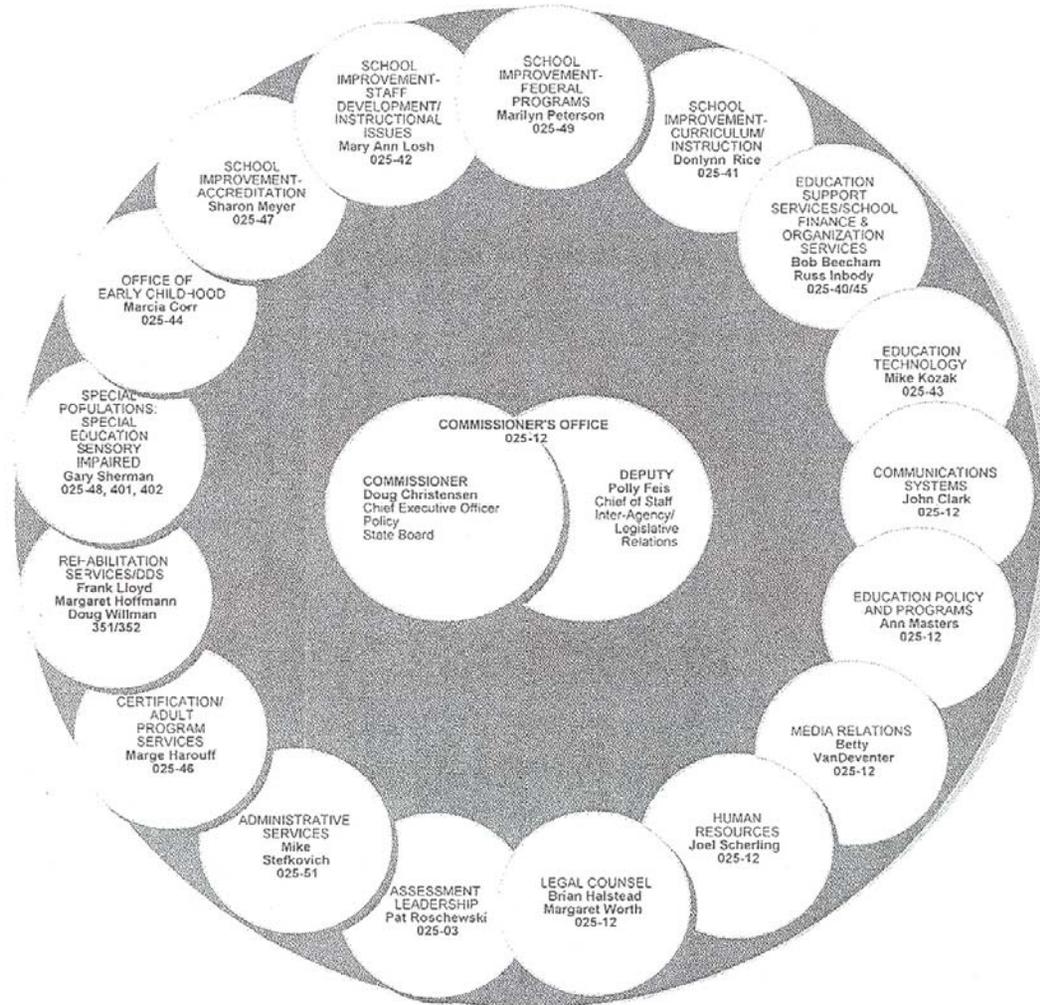
“The Legislature hereby finds and declares that the mission of the State of Nebraska, through its public school system, is to:

- (1) Offer each individual the opportunity to develop competence in the basic skills of communications, computations, and knowledge of basic facts concerning the environment, history, and society;
- (2) Offer each individual the opportunity to develop higher order thinking and problem-solving skills by means of adequate preparation in mathematics, science, the social sciences, and foreign languages and by means of appropriate and progressive use of technology;
- (3) Instill in each individual the ability and desire to continue learning throughout his or her life;
- (4) Encourage knowledge and understanding of political society and democracy in order to foster active participation;
- (5) Encourage the creative potential of each individual through exposure to the fine arts and humanities;
- (6) Encourage a basic understanding of and aid the development of good health habits; and
- (7) Offer each individual the opportunity for career exploration and awareness.”

NEBRASKA DEPARTMENT OF EDUCATION

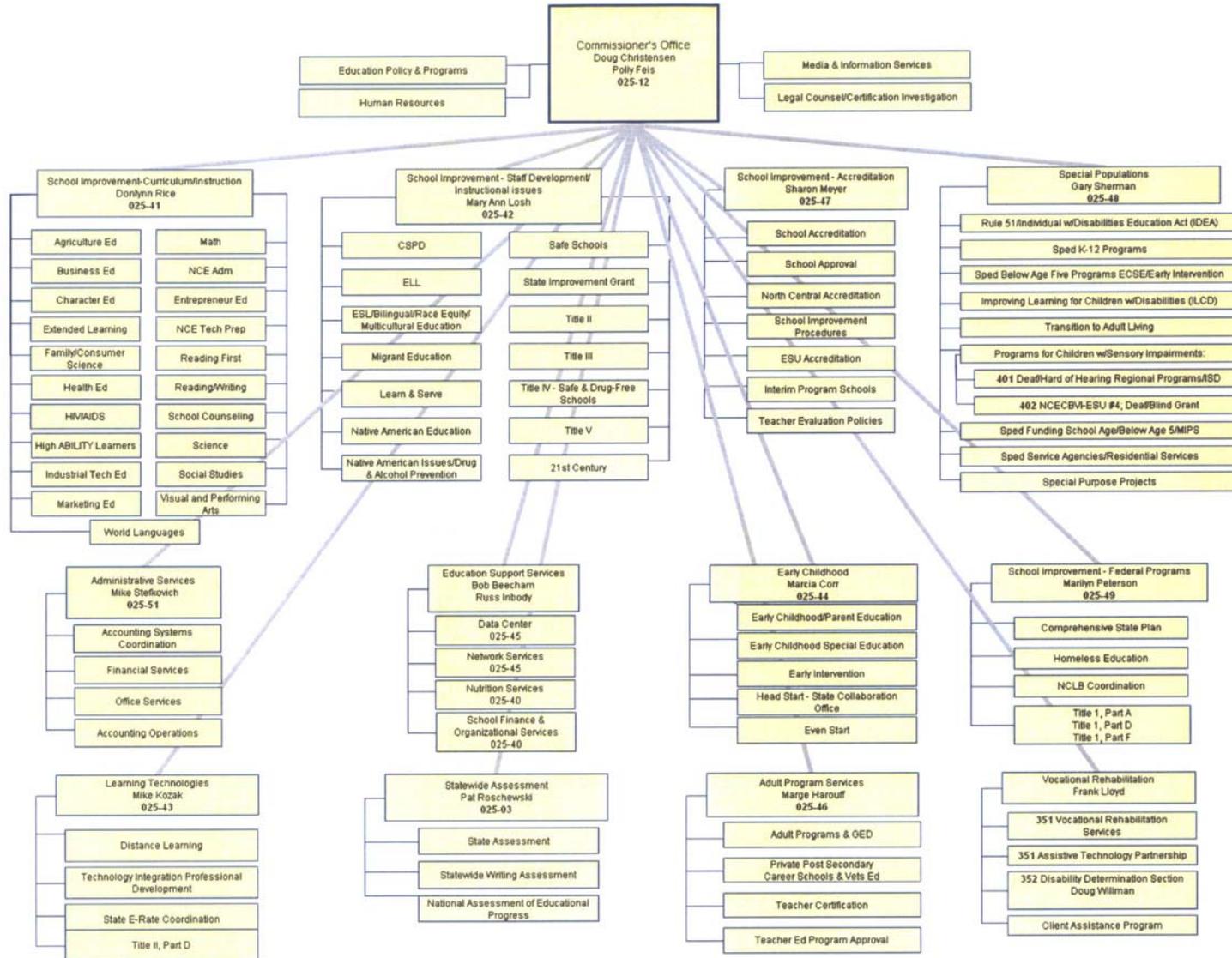
ORGANIZATIONAL CHARTS
LEADERSHIP COUNCIL

A Process for Communication, Decision Making, and Collaboration



NEBRASKA DEPARTMENT OF EDUCATION

ORGANIZATIONAL CHARTS



NEBRASKA DEPARTMENT OF EDUCATION

EXIT CONFERENCE

An exit conference was held June 29, 2007, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Education were:

NAME	TITLE
Joseph M. Stefkovich	Chief Financial Officer
Paul Haas	Accounting Operations Supervisor
Joel Scherling	Director, Human Resources
Scott Summers	Legal Counsel II
Tracey L. Hillman	Administrative Specialist - Vocational Rehabilitation
Mike Weber	Supervisor - Administrative Services
Doug Willman	Administrator - Disability Determination
Russ Inbody	Administrator - School Finance Organization and Services
Cathy Callaway	Program Specialist - Vocation Rehabilitation

NEBRASKA DEPARTMENT OF EDUCATION

SUMMARY OF COMMENTS

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

1. ***Disability Determination Section (DDS) Expenditures for Aid and Medical Consultants:*** The Auditor of Public Accounts (APA) was initially able to perform testing on DDS aid expenditures; however, subsequent requests to review financial related documentation to support payments for aid and medical consultants were denied. Therefore, the APA was unable to conclude whether or not DDS expenditures for medical consultants are recorded correctly on the financial schedule. Total DDS aid and medical consultant expenditures were \$2,624,293 and \$778,142, respectively for a total of \$3,402,435.
2. ***Calculation of the Poverty Portion of State Aid to Schools:*** Funds distributed to schools for State Aid were less accurate than possible as the aggregate number of students receiving free lunch was used in part of the calculation of the poverty portion of State Aid. The number of students eligible for free lunch was overstated due to ineligible students receiving free meals through the National School Lunch Program (NSLP).
3. ***State Aid:*** The Department did not verify the Limited English Proficiency (LEP) numbers reported by the school districts. In addition, the audit work performed by school district auditors for Average Daily Membership (ADM) did not give adequate assurance the ADM reported to the Department was correct. The ADM was used in the calculation to determine the allocation of State Aid to schools.
4. ***School Audit Requirements:*** Ten of fifteen school districts tested failed to meet the Department's management letter and responses January 31st deadline. Of these ten school districts tested, nine were correctly sent a letter in accordance with the Department's policy to inform them that if the school district's management letter or responses were not received by February 18th the Department would withhold State Aid payments and would send a letter to the County Treasurer to have school monies collected withheld until such items were received. The only one of the ten school districts which did not receive a letter or have State Aid, or school money collected by the County Treasurer withheld in accordance with the Department's policy for missing the submission deadline was the Omaha Public School District.
5. ***Segregation of Duties Over Capital Assets:*** One individual was responsible for maintaining capital asset records. This individual was responsible for adding items to the capital asset records, preparing Surplus Property Notification forms, initiating the disposal of assets, changing asset information, and maintaining the capital asset records.

NEBRASKA DEPARTMENT OF EDUCATION

SUMMARY OF COMMENTS

(Continued)

6. **Contracts:** Three of ten contracts tested were for a duration of longer than one year. Seven of ten contracts tested were signed after the start date of the contract.
7. **Travel:** Ten of sixteen meal expenditures/reimbursements tested appeared unreasonable and excessive. Two of eleven lodging expenditures/reimbursements tested did not appear reasonable; in addition, we noted two instances of the Department paying sales and lodging taxes which the Department is exempt from paying.
8. **Employee Timesheets:** Three of twenty-five employees tested neither included actual hours worked on their timesheet nor was a note included on the timesheet indicating they worked or used approved leave for forty hours of work each week.
9. **Incorrect Retirement Makeup Contributions:** Makeup retirement contributions for both employees tested were not correct. The employees contributed \$71 and \$89 less than required by State Statute. This also resulted in the employees missing out on the State match of \$111 and \$139 respectively.
10. **Lack of Supporting Documentation for Adjusted Service Date:** One of twenty-three employees tested did not have documentation on file supporting their adjusted service date being different than their original hire date.
11. **Statewide Single Audit:** These findings are related to work performed on the Department during the Statewide Single Audit for the fiscal year ended June 30, 2006. The information provided within this report, regarding the Statewide Single findings, is at a high level and if the reader would like to read about the findings and Department of Education responses in greater detail it is available on the Auditor of Public Accounts homepage under Reports Issued by APA.

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. All formal responses received have been incorporated into this report. The responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

1. DDS Expenditures for Aid and Medical Consultants

Attorney General's Opinion Number 02030, Financial Audits And Performance Audits; Authority Of The Nebraska Auditor Of Public Accounts, issued December 2, 2002, indicates a response to "What documents can the Auditor have authorization to review?"

Neb. Rev. Stat. Section 84-305 (1999) states that:

The Auditor of Public Accounts shall have access to all records of any public entity, in whatever form or mode the records may be, unless the auditor's access to the records is specifically prohibited or limited by federal or state law. No provisions of state law shall be construed to change the nonpublic nature of the data obtained as a result of the access. When an audit or investigative finding emanates from nonpublic data which is nonpublic pursuant to federal or state law, all the nonpublic information shall not be made public.

Under the two statutes cited above [84-304 & 84-305], and in conformance with the Auditor's constitutional authority, we believe that the APA has broad authority to review any and all records of public entities, including state agencies, in the performance of his or her proper duties, absent a state or federal law which specifically limits the Auditor's access.

While conducting our fiscal year 2006 attestation examination of the Nebraska Department of Education, the Auditor of Public Accounts (APA) requested documentation supporting expenditures related to the Disability Determination Section (DDS). During the initial testing of DDS expenditures, the APA was allowed to view support for a sample of expenditures; however, a request for case file information supporting DDS medical consultant expenditures was denied because the documentation included Personal Identifiable Information (PII). This denial was based on the Department's interpretation of federal regulations and recommendations of federal authorities. The APA realizes the sensitivity of PII as well as the importance of keeping PII secure and nonpublic; however, we also believe it is within our authority, granted by the Nebraska Constitution, to observe PII data in order to assure and determine the correct financial information was reported and expended. Total DDS aid and medical consultant expenditures were \$2,624,293 and \$778,142, respectively for a total of \$3,402,435.

The APA annually completes a Single Audit of the State of Nebraska. On a rotational basis as outlined in the Single Audit Act, the DDS of the Department is considered a Major Federal Program for auditing purposes. If access to the financial related information continues to be an issue, it may have an impact on the Single Audit of the State of Nebraska.

The inability to view case file financial related documentation for DDS expenditures eliminates our ability to determine whether or not expenditures are correctly recorded on the financial schedule.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **DDS Expenditures for Aid and Medical Consultants** (Concluded)

We recommend the Department allow the Auditor of Public Accounts to review financial related documentation supporting the expenditures of the Disability Determination Section.

Department's Response: The report correctly states that the APA requested access to data from the DDS files and that such access was denied because the request pertained to "Personally Identifiable Information." The report goes on to say:

"This denial was based on the Department's interpretation of federal regulations and recommendations of federal authorities".

As explained in the next paragraph, the phraseology of the report overstates the role of NDE and understates the role of federal authorities. Upon receipt of the APA's request for this information, DDS, as required by federal direction, contacted the federal Social Security Administration (SSA) asking if disclosure or access to the information was permitted by federal policy. DDS was told that it was not, and this was conveyed to the APA who then requested a meeting to discuss the matter. In order to facilitate reasonable opportunity for the parties to exchange points of view, DDS arranged for SSA to participate in this meeting by telephone. During the discussion, the APA explained its reason for requesting the information, and SSA responded unequivocally that the information could not be disclosed. Denial of the APA's request was not based on DDS' interpretation of federal regulations and the federal authorities did not merely recommend that access be denied. Instead, the federal authorities required that the request be denied.

There is a specific penalty for acting contrary to the determination of the federal authorities. At the audit exit conference, DDS provided copies of the relevant part of the federal SSA manual, POMS 30530.025. The manual states that willful and knowing disclosure is deemed to be a crime punishable by a fine and a period of imprisonment.

In view of the federal interpretation of the law and regulations, NDE cannot comply with the APA's recommendation.

Auditor's Response: The APA has had further discussion with Federal Social Security officials who when asked about access related to the Single Audit Act were unfamiliar with details relating to the Act. They indicated they would research this and respond. We have not received any further communication related to this issue.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Calculation of the Poverty Portion of State Aid to Schools

Neb. Rev. Stat. Section 79-1007.01 (c) (iii) R.R.S. 2003 states "...The poverty factor shall equal the number of low-income students or the formula students qualified for free lunches or free milk under United States Department of Agriculture child nutrition programs, whichever is greater, multiplied by the following factors:..."

Good fiscal policy and internal control requires the use of accurate data to determine the number of poverty students used in the calculation of the poverty portion of State Aid.

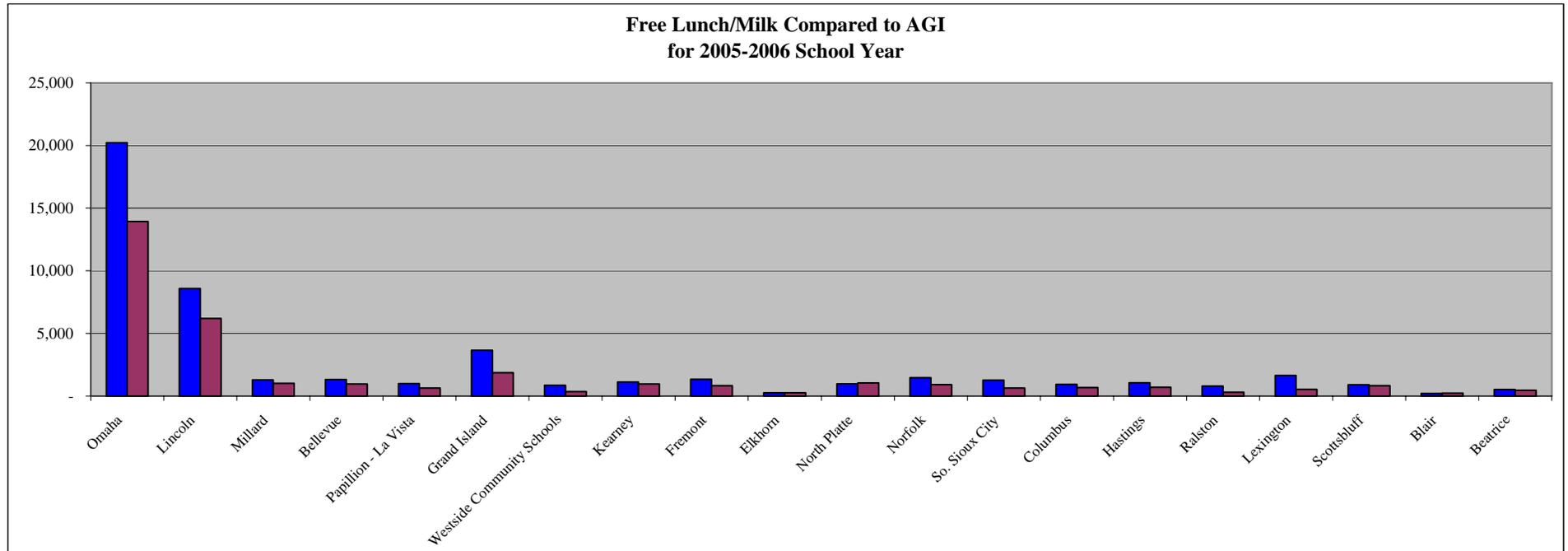
Distribution of State Aid was done in accordance with State Statutes; however, the allocation of funds distributed to schools for State Aid was less accurate than possible because the aggregate number of students receiving free lunch was used in part of the calculation of the poverty portion of the State Aid formula. The number of students eligible for free lunch was overstated due to ineligible students receiving free meals through the National School Lunch Program (NSLP).

The Department used the aggregate number of students receiving free lunch as part of the calculation of the poverty portion of State Aid as required by State Statute. During the examination of the State Aid calculation for the Department, it was noted there was a high risk the allocation of funding to schools for the poverty portion of State Aid was less accurate than possible because part of the calculation of the poverty portion of State Aid was based on the aggregate number of free lunch students. The results of the verification of free lunch students completed by schools and reported to the Department for the 2005-2006 school year and the 2006-2007 school year showed that 22 percent and 21 percent respectively, of students originally approved to receive free lunches were ineligible. Approximately \$21.5 million was allocated to schools based on the poverty portion of State Aid. Approximately 4.5 million in State Aid was allocated based on ineligible free lunch students. Reports from the State of Kansas and the United States Department of Agriculture - Office of Analysis, Nutrition, and Evaluation show the number of students receiving free lunch who were ineligible to be 17 and 20 percent respectively.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Calculation of the Poverty Portion of State Aid to Schools (Continued)



The number of students who received Federally subsidized Free Lunch/Milk
 The number of dependents, within the school district, whose household adjusted gross income (AGI) was less than or equal to \$15,000

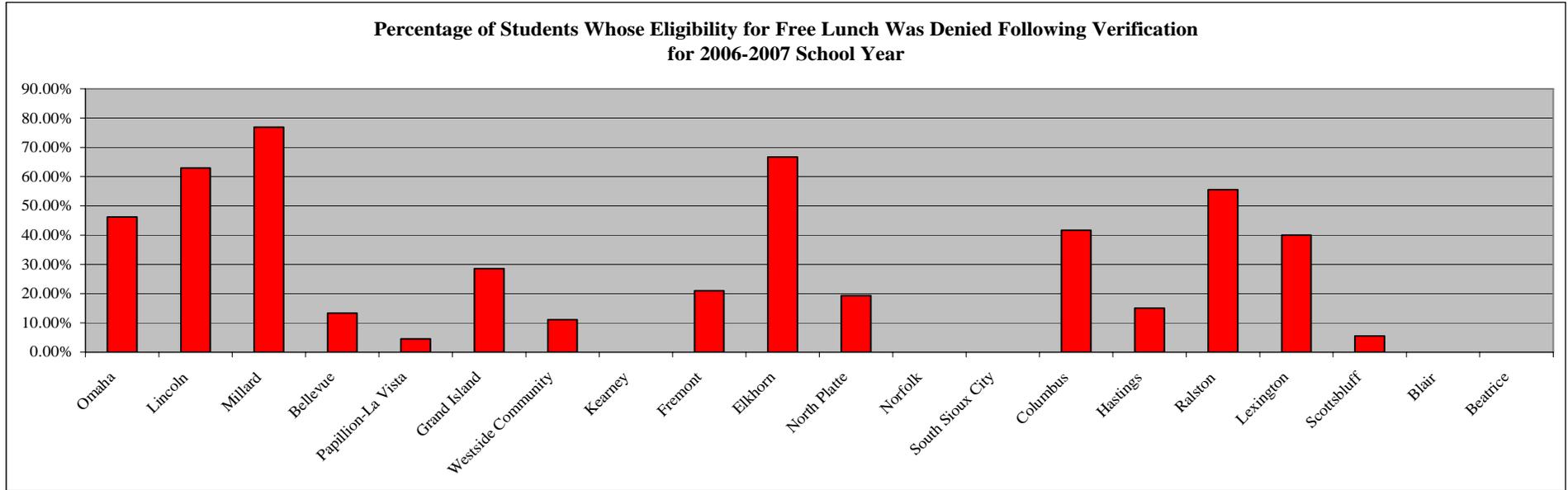
	Omaha	Lincoln	Millard	Bellevue	Papillion - La Vista	Grand Island	Westside Community	Kearney	Fremont	Elk-horn	North Platte	Norfolk	So. Sioux City	Columbus	Hastings	Ralston	Lexington	Scotts-bluff	Blair	Beatrice
	20,225	8,577	1,286	1,319	999	3,656	873	1,128	1,344	263	975	1,475	1,269	938	1,067	800	1,652	905	220	516
	13,935	6,198	1,010	961	641	1,865	358	969	826	255	1,041	908	640	685	702	318	531	840	230	464
Average Daily Membership	44,443	31,359	20,494	8,966	8,579	7,687	6,006	4,671	4,407	3,942	3,848	3,832	3,463	3,454	3,033	3,007	2,583	2,533	2,277	2,175

This graph includes the twenty school districts with the largest average daily membership (ADM). The Free Lunch recipients are the total number of students who received Federally subsidized Free Lunch/Milk. The adjusted gross income (AGI) less than or equal to \$15,000 number comes from the Nebraska Department of Revenue and indicates the total number of children under 19 residing in households, in the school district, that have an annual adjusted gross income of \$15,000 or less in 2005.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Calculation of the Poverty Portion of State Aid to Schools (Continued)



	Omaha	Lincoln	Millard	Bellevue	Papillion-La Vista	Grand Island	Westside Community	Kearney	Fremont	Elk-horn	North Platte	Nor-folk	South Sioux City	Columbus	Hastings	Ralston	Lexington	Scotts-bluff	Blair	Beatrice
Percentage Denied	46%	63%	77%	13%	5%	29%	11%	0%	21%	67%	19%	0%	0%	42%	15%	56%	40%	6%	0%	0%
Number of Students whose Free Lunch eligibility was denied due to the verification process	103	73	10	4	1	18	2	0	8	4	6	0	0	10	3	15	12	1	0	0
Number of students whose Free Lunch eligibility was verified by the School	223	116	13	30	22	63	18	12	38	6	31	23	21	24	20	27	30	18	5	11

The percentages in this graph show the percentage of students whose Free Lunch eligibility was denied during the verification process. School districts are required by Federal guidelines to verify at least 3% of applications to ensure students receiving free lunch meet the income requirements (income requirements are based upon household size and income) or are participating in other federal/state programs (Food Stamps or Temporary Assistance for Needy Families etc.) which make them eligible for Free Lunch. The top number is the number of students whose eligibility was denied following the verification process and the bottom number is the number of students whose eligibility was verified. Eligibility is determined by verifying the income of the household or by verifying household association with other federal/state assistance programs. Verification testing also includes testing of students receiving reduced prices.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Calculation of the Poverty Portion of State Aid to Schools (Concluded)

There is a risk the poverty portion of State Aid funds allocated to school districts was less accurate than possible due to the use of aggregate free lunch student numbers in the calculation of the poverty portion of State Aid.

We acknowledge the Department was allocating State Aid to Schools in accordance with State Statute; however, because of the inherent errors included in the free lunch/milk numbers, we recommend the Department work with the Legislature to revise the State Aid Formula Statutes to include a more accurate, reliable poverty factor.

Department's Response: The Legislature has addressed this issue with the passage of LB 1024 in 2006 legislative session and LB 641 in the 2007 legislative session. Poverty and Limited English Proficiency are now to be allowances in the State Aid formula. School districts will have to submit a plan on how they will spend the funds provided for Poverty and Limited English Proficiency programs. Then school districts will have to report the expenditures for Poverty programs and Limited English Proficiency programs on their Annual Financial Report. If the reported expenditures do not equal or exceed their planned expenditures the funds are recaptured in future State Aid Payments. Having said this, the Office of School Finance and Organization Services and with the assistance of the Department's Legal Counsel will work with the Education Committee's Legal Counsel to review this issue and determine if the statutes need to be changed.

Auditor's Response: We agree the Legislature has passed legislation which addresses the accountability of the Poverty and Limited English Proficiency portion of State Aid to Schools. However, the original allocation between schools of the poverty portion of State Aid to Schools is still based on the free lunch data which includes significant inherent errors.

3. State Aid

Good internal control requires adequate procedures be in place to ensure the Average Daily Membership (ADM) and the Limited English Proficiency (LEP) counts, reported by school districts, used in the State Aid calculation are accurate. During fiscal year 2006, the Department provided \$700,182,623 to school districts in the form of State Aid. The amount a school district receives for State Aid is based upon many factors including the school's ADM and the number of students with LEP.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. State Aid (Continued)

Title 92 Nebraska Administrative Code (NAC) Chapter 1-003.03, Rules and Regulations Governing the Audit of Nebraska Public School Districts, states, “The audit shall include tests for compliance with the calculation of Average Daily Membership reported on the Annual Statistical Summary Report...”

During our review of State Aid, we noted the Department did not verify the LEP numbers reported by the school districts and the tests of compliance performed for ADM did not always give adequate assurance the ADM reported to the Department was correct.

- The only action taken to verify LEP numbers was a reasonableness test. An Excel spreadsheet listing prior year numbers was compared to current numbers. If any significant variances exist, the school is contacted and the Department requests documentation supporting their numbers. During compliance reviews completed by the Department, reviewers have the option to request documentation for the LEP numbers but only do so if they have concerns, which are brought up during their discussion with the school, or if something was noted in the reasonableness test.
- Five of ten audit firms tested did not appear to have performed an adequate amount of compliance testing to conclude the school district’s ADM count, reported to the Department, was accurate.
- All ten audit firms did not verify the ADM count tested by the auditor was also the ADM Count submitted to the Department by the school district.

Not ensuring the accuracy of the LEP and ADM numbers increases the risk the State Aid distribution will be incorrect.

We recommend the Department implement procedures to ensure LEP and ADM counts are accurate. We further recommend the Department review the Nebraska Administrative Code governing tests of compliance of ADM and other guidance provided to school district auditors to determine what additional guidance is necessary to ensure school district auditors complete adequate compliance testing of ADM. Adequate compliance testing of ADM should include at a minimum the tracing of ADM numbers to supporting documentation, the recalculation of ADM numbers, verification of ADM numbers reported to the Department, and the documentation of this testing.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. State Aid (Concluded)

Department's Response: With the implementation of the Nebraska Staff and Student Record System (NSSRS), the counts from school districts will be more accurate. This would apply to both the Limited English Proficiency (LEP) counts and the Average Daily Membership (ADM) counts used in the calculation of State Aid (TEEOSA).

The Office of School Finance and Organization Services will work with the School Audit subcommittee of the Nebraska Society of Certified Public Accountants to provide school district auditors with additional guidance to complete adequate compliance testing of the ADM. We will also involve staff from the Auditor of Public Accounts in this process.

4. School Audit Requirements

Department of Education Rules and Regulations Title 92 Chapter 1 Section 003.05 states, "All school districts shall file with the Commissioner of Education on or before January 31, a copy of the auditor's letter to management, together with the district's responses, and any responses to compliance issues resulting from the audit." Section 004.01 states, "When any school district fails to file a financial (audit) report with the Nebraska Department of Education and, if required, any other State government agency, the Commissioner shall, after notice to the district and an opportunity to be heard, direct that any state aid granted pursuant to the Tax Equity and Educational Opportunities Support Act be withheld until such time as the district has complied with 79-1089 R.R.S. and this Chapter. In addition, the Commissioner shall direct the county treasurer to withhold all school money belonging to the school district until such time as the Commissioner notifies the county treasurer of compliance by the district with 79-1089 R.R.S. and this Chapter."

During testing of school districts compliance with Title 92 Chapter 1 audit and management letter requirements the following items were noted:

- Ten of fifteen school districts tested failed to meet the Department's management letter and responses January 31st deadline. Of these ten school districts, nine were correctly sent a letter in accordance with the Department's policy to inform them that if the school district's management letter or responses were not received by February 18th the Department would withhold State Aid payments and send a letter to the County Treasurer to notify them to withhold school monies collected until such items were received. Six of the nine school districts (Kewanee, Crookston, Merriman, Carver, Mills, and Valleyside) who received this letter failed to submit the required information by February 18th and had their State Aid withheld, and their respective County Treasurer notified to withhold school monies collected, in accordance with the Department's policy until such time as the required items were

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. School Audit Requirements (Concluded)

submitted. The only one of the ten school districts which did not receive a letter or have State Aid, and school money collected by the County Treasurer withheld in accordance with the Department's policy for missing the submission deadline was Omaha Public School District. Omaha's management letter responses were not received until April 20th.

The Department was not in compliance with Title 92 Chapter 1 Section 004.01 and was not holding all school districts to the same standard. Also, by not having a copy of the auditor's letter to management there is an increased risk that the school district will fail to respond to a compliance issue in accordance with the Department's policies and the Department will be unaware of this omission.

We recommend all school districts be required to follow the same audit regulations and requirements. If exceptions are to be made, regulations and requirements should be changed to allow for these exceptions. We also recommend all management letters be obtained along with any responses.

Department's Response: The Office of School Finance and Organization Services have reviewed their procedures and processes. The conditions, which resulted in the APA's comment and recommendation, were an anomaly that will not occur in the future.

5. Segregation of Duties Over Capital Assets

Good internal control requires procedures be in place to ensure an adequate segregation of duties over capital assets so that one individual is not in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires a plan of organization, procedures, and records designed to safeguard assets.

We noted one individual was responsible for maintaining capital asset records. This individual was responsible for adding items to the capital asset records, preparing Surplus Property Notification forms, initiating the disposal of assets, changing asset information, and maintaining the capital asset records. We also noted there was no regular documented independent review of the capital asset records or reports.

There is an increased risk of loss or misuse of state assets when an adequate segregation of duties over capital assets is not in place.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Segregation of Duties Over Capital Assets (Concluded)

We recommend the Department implement procedures to ensure an adequate segregation of duties exists over capital assets. Alternatively, a compensating control for the Department would be the completion of a documented periodic review of the Additions and Retirements report by an employee without the ability to add, change, or remove fixed assets from NIS.

Department's Response: The Department's Central Accounting does not generate payment for new items, which are required to be on the Department inventory, unless the item has been received and the payment request includes a copy of the fixed asset addition form.

Only DAS State Surplus can remove the asset from the NIS listing. If DAS Surplus does not have the proper documentation and/or receive the asset in question, they have indicated they will not remove it from NIS.

The Department's Central Accounting Manager will independently produce in NIS and review the UPFA (unposted fixed asset report), FANCIR (fixed asset no cost integrity report), and the A&R (Additions and Retirement report) for NDE. The Central Accounting Manger will work with the Department's Inventory Coordinator to reconcile all issues identified.

6. Contracts

Nebraska Department of Education Administrative Memorandum #110 page 5 Section 1.8 states, "Effective September 2003 a contract will not be more than one year in duration."

Good internal control requires procedures be in place to ensure contracts are signed prior to the date services are to begin.

During our review of expenditures, we noted:

- Three of ten contracts tested were for a duration of longer than one year or no waiver of the one year requirement was documented. One was for twenty-three months and the others were for two years.
- Seven of ten contracts tested were signed after the start date stated on the contract; they were signed from 4 days to 157 days after the start date. One of the three contracts did not have a date of when the vendor signed.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Contracts (Concluded)

The Department was not in compliance with their Department guidelines. There was also an increased risk of loss or misuse of state funds due to the possibility of work being done prior to the contract for services being finalized.

We recommend the Department implement procedures to ensure contracts are for the appropriate duration based on guidelines within the Department's administrative memorandums and are signed prior to the start date of the contract.

Department's Response: Administrative Memo #110 is the Commissioner's directive to Department employees regarding all service contracts of \$2,000 or more. For several years, the memo has provided in its very first section, (section 1.1), that "A contractor may not begin work under a contract until both the contractor and the approving authority of the Department of Education have signed the contract." In addition, the contract form itself, in the section above the signature lines, states, "this agreement is valid only when signed by both parties." Therefore, while the final signature(s) may have post-dated the original start date indicated on the contract, NDE submits that the net effect of the foregoing is that the contract did not begin on that date.

In addition, the Commissioner and Deputy Commissioner have the authority to waive non-statutory or non-regulatory requirements of any Administrative Memo. It is assumed that the signature of either the Commissioner or the Deputy Commissioner on a contract for longer than one year is a waiver of this requirement.

7. Travel

Meal Reimbursement/Expenditures

Good internal control requires procedures be in place to ensure employees are reimbursed for reasonable meal expenditures incurred while in travel status. The Federal General Service Administration (GSA) per diem rates provide guidance for reasonable meal expenses for a specific place of travel.

During our testing of travel expenditures, we examined sixteen documents for meal expenses incurred while traveling on State business. Ten of the sixteen documents tested included payments to employees/contractors/vendors for meals which did not appear reasonable. We noted the following during our review of documents:

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. **Travel** (Continued)

Meal Reimbursement/Expenditures (Continued)

- Three documents included reimbursement to employees for meals even though the meals were provided by the conference they were attending. A total of \$65 was reimbursed to employees for meals which were provided by the conference.
- Nine documents reimbursed employees or paid vendors for meals which exceeded the reasonable amount provided by GSA. Total amount paid in excess of the GSA guidelines was \$716.
- One document reviewed included credit card receipts signed by the employee's spouse as support for meal reimbursement. Some receipts were similar; however, the employee reduced the amount listed on the receipt for their spouse's portion of the bill. Receipts signed by the employee's spouse and claimed fully by the employee amount to \$100.
- Two documents reimbursed employees for meals when the employee arrived at a conference two days early. One employee arrived on a Saturday for a conference which began on Monday and was reimbursed \$12 for meals on Saturday. The other employee arrived on a Monday for a conference which began on Wednesday and was reimbursed \$45 for meals on Monday. There was no documentation supporting the necessity of early arrival.

A portion of this comment was noted in a prior report.

Without adequate procedures in place to ensure reimbursement to employees is reasonable and proper there is an increased risk of excessive travel expenses.

We recommend the Department implement policies or procedures to ensure meals being reimbursed are reasonable and appropriate.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. **Travel** (Continued)

Meal Reimbursement/Expenditures (Continued)

Department's Response:

- *Meals reimbursed when provided at a conference – We agree with the APA. Department Administrative Memo #205 (Commissioner's directive to Department employees on employee expense reimbursement), Appendix A, Section 18 provides in part that*

If meals are provided by the conference and paid through conference registration, employees are to make every effort to eat those meals and not eat elsewhere. If the conference provided meals are not eaten, provide a written explanation on the ERD as to why you are claiming reimbursement for those meals eaten elsewhere."

Department pre-audit procedures have been revised to require pre-auditors to check for the required explanation when pre-auditing employee expense reimbursement documentation.

- *Meals, which exceeded amounts provided by GSA guidelines – The following is an excerpt from an email dated 1/3/2006 from Paul Carlson, State Accounting Administrator, to Deann Haeffner, Deputy State Auditor.*

One agency has reported to me that the APA auditors are "telling" agencies that they must use the GSA breakdown of meal expenses (e.g., so much for breakfast, so much for lunch and so much for dinner). This is not true as you know the State uses actual costs and the GSA rate is only a guideline and exceeding the rate is very much OK, as long as it is reasonable. For your information, the GSA does not require federal employees using the per diem rates to use the breakdown. The fed employees get a flat per diem on a daily basis, and they get 75% on the days of travel. I have confirmed with GSA that fed employees do not have to keep track of meal costs and they only use the M&IE breakdown in case a meal is provided at a conference and then they have to subtract that specific breakdown meal cost from the per diem rate. The State is NOT using such a breakdown of meal costs.

I would appreciate your conveying this information to your auditors.

In an email dated 7/6/2007 from Paul Carlson, State Accounting Administrator, to Mike Stefkovich, the Department's Chief Financial Officer, Mr. Carlson stated

The State policy on meal reimbursement follows state statutes, in that actual expenses are to be reimbursed. State Accounting policy states that such costs should be reasonable and that the use of GSA rates as a guideline would give a measure of

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Travel (Continued)

Meal Reimbursement/Expenditures (Continued)

Department's Response, Continued:

reasonableness. Thus, expenses that are close to the GSA rates are reasonable. If the costs greatly exceed the GSA rates, such costs are considered reasonable and allowable if there are documented reasons. However, to properly use the GSA rates as a guideline, one has to understand that the GSA rates are a daily rate and the federal government does not care if you spend the entire amount on meals or spend nothing on meals, you still get the per diem. The government also does not care if you spend all the per diem on one meal or spread it out over the day. Under GSA rules, on the day you leave and the day you return, you get to charge in 75% of the daily per diem allowance, even if you leave at five in the afternoon. So in many cases, using the GSA rates can result in higher costs than what is normally perceived. The only time a per meal amount comes into play with the GSA rates is when you are at a conference/meeting and the meals are already paid by the government (thru the conference fee or otherwise), then you are to deduct the specific meal allowance for the meal provided from the daily per diem rate.

The Commissioner's directive to employees specified in Department Administrative Memo #205 is consistent with the State's Nebraska Information System (accounting) guidance and the guidance provided by Paul Carlson in the above emails.

Auditor's Response: Nebraska State employees traveling on state business are accountable to Nebraska taxpayers and owe a duty to Nebraska taxpayers to follow the federal GSA guidelines. There may be legitimate reasons to exceed the GSA guidelines and on those occasions, the reasons as to why those guidelines are exceeded should be documented.

Over \$500 identified in this comment is for meals served to attendees of a conference sponsored by the Department. While staff try to provide reasonably priced meals at Department sponsored conference, we do not believe the strict application of GSA meal guidelines to contracted meals from a vendor is appropriate or even possible given the location of the conference.

Auditor's Response: The cost of meals for Department sponsored conferences should be considered when determining the location to hold conferences. Alternative locations should be considered when the cost of meals is excessive.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Travel (Continued)

Meal Reimbursement/Expenditures (Concluded)

Department's Response, Concluded:

- *With regard to claiming expenses based on credit card receipts signed by the employee's spouse, we agree with the APA. Department pre-audit procedures have been revised requiring pre-auditors to check the appropriateness of all documentation and to request a written explanation for such occurrences as identified here.*
- *With regard to early arrival at a conference, in both instances, the travel was reasonable. In one instance, the employee was required to be at an association legislative committee meeting, which occurred on the day prior to the conference. In the other instance, early travel resulted in less total cost to the State because the airfare for travel on a Saturday was significantly less than travel on a Sunday.*

The Commissioner's directive to employees on employee travel in Administrative Memo #201, instructs the Department Leadership Council Member approving travel to retain documentation for such approval. Department pre-audit procedures have been revised requiring pre-auditors to request a written explanation for such occurrences as identified here, if none is included with the employee's request for reimbursement.

Lodging

Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 14, states "Sales to the State of Nebraska and its agencies are exempt from Nebraska sales tax."

Nebraska Department of Revenue Regulations – Title 316, Chapter 68-004.01 states, "Occupants granted an exemption from the lodging tax are the same entities which are exempt from the sales and use tax under Nebraska Revenue Act of 1967, as amended."

Good internal control requires procedures be in place to ensure the Department only reimburses reasonable lodging expenses.

During our travel testing, we examined eleven expenditure documents related to lodging. We noted the following related to lodging expenditures:

- Two of the eleven lodging expenditures tested included reimbursement to an employee for a hotel stay two days before an out of state conference began. One employee was reimbursed \$169 for staying at a hotel on Saturday when the conference began on

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Travel (Continued)

Lodging (Continued)

Monday. The other employee was reimbursed \$166 for staying at a hotel on a Monday when the conference did not begin until Wednesday. No documentation was present to explain why the additional hotel night was necessary.

- Two other lodging expenditures included payments for sales and lodging tax. State departments and agencies, including the Department of Education, are not required to pay sales and lodging taxes on lodging within the State as long as the State is the payee; however, when an employee pays for a hotel room, while on state business, the lodging and sales tax do apply. One expenditure document reimbursed an employee for lodging expenses which included \$22 in lodging taxes. The other expenditure document reviewed was a direct bill which included lodging tax for 5 rooms for two nights which amounted to \$159. This expenditure document also included payments for sales tax of \$103, for a total tax payment of \$262.

Paying for additional nights stay at a hotel increases the cost of travel expenditures. Direct billing hotel stays in Nebraska allows the Department to pay less for travel than if they reimburse their employees since the State does not have to pay sales and lodging tax.

We recommend the Department implement policies or procedures to ensure payments for lodging are reasonable and appropriate. We also recommend the Department implement procedures to ensure hotel stays in Nebraska are direct billed in order to reduce sale and lodging tax costs.

Department's Response:

- *Lodging expense due to early arrival at a conference - As stated under the comments on meals, in one instance, the individual was the chairperson of the Legislative Committee that met for two days prior to the conference. In the other instance, the Leadership Council Member approved the travel based on airline cost savings of traveling on a Saturday rather than on a Sunday and gave verbal approval to the employee for the travel. Department pre-audit procedures have been revised requiring pre-auditors to request a written explanation for such occurrences as identified here, if none is provided on the employee's request for reimbursement.*
- *Sales and lodging tax on lodging – DAS policies do not require lodging to be direct billed to an agency. In addition, many lodging vendors do not accept direct billing requests. If lodging is paid by the employee and claimed for reimbursement, sales and*

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Travel (Concluded)

Lodging (Concluded)

Department's Response, Concluded:

lodging tax are reimbursable. Department Administrative Memo #205 and training provided to staff encourages staff to have lodging direct billed to the Department to avoid the expense of Nebraska state sales tax and lodging tax.

We agree with the APA that the Department incorrectly paid sales and lodging tax on a direct-billed hotel expense. This has been shared with the Department's pre-audit team for their consideration.

8. Employee Timesheets

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur."

Three of twenty-five employees tested neither included actual hours worked on their timesheet nor did they have a note included on the timesheet indicating they worked or used approved leave for forty hours of work each week. This comment was noted in a prior report.

Without proper documentation the Department was not in compliance with State Statute.

We recommend the Department implement procedures to ensure employees are completing timesheets which meet State Statute.

Department's Response: The Department already meets this requirement for all but a select group of employees in the Vocational Rehabilitation program. The Department agrees with the auditor's comment and has added a statement to the time and leave reports in question, which reads "It is a further certification that the employee has worked or been on approved leave for at least 40 hours (or equivalent hours based on FTE) each week of this pay period."

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

9. Incorrect Retirement Makeup Contributions

Neb. Rev. Stat. Section 84-1308 R.R.S. 1999 states, "Each employee who is a member of the retirement system shall pay or have paid on his or her behalf a sum equal to four and thirty-three hundredths percent of his or her monthly compensation until such time as he or she has paid during any calendar year a total of eight hundred sixty-four dollars, after which time he or she shall pay a sum equal to four and eight-tenths percent of his or her monthly compensation for the remainder of such calendar year."

Good internal control requires procedures be in place to ensure any employees needing to make up their retirement contribution do so at the correct rate.

Both employees tested did not have correct makeup retirement contributions. One employee had \$71 less withheld and the other employee had \$89 less withheld than required. This was due to the makeup retirement contribution being calculated using an incorrect rate; 4.33% instead of 4.8%. This also resulted in the employees missing out on state match of \$111 and \$139 respectively.

The employee's retirement contribution and the State's match was less than it should have been based upon the employee's earnings.

We recommend the Department implement procedures to ensure the amount employees are contributing to retirement is correct and any who need to make up retirement contributions are doing so at the correct rate.

Department's Response: State retirement contributions were previously calculated using a two-tier rate schedule based on total wages to date within a fiscal year. In calculating the makeup contribution, the Department applied the changes in rates based on salary earned. NIS appears to have applied the change in rates based on the amount of contribution to date. The different methods of calculation of the makeup contribution and the timing of the calculation of the makeup contribution resulted in the difference. This will no longer be an issue in that there is now only one single contribution rate for State retirement.

10. Lack of Supporting Documentation for Adjusted Service Date

Good internal control requires supporting documentation be on file for factors which influence an employee's leave earnings.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

10. Lack of Supporting Documentation for Adjusted Service Date (Concluded)

We noted the Department did not have supporting documentation on hand to support the adjusted service date of one of twenty-three employees tested. The adjusted service date is used to determine the vacation and sick leave earnings of an employee. This comment was noted in a prior report.

Without documentation supporting the employee's adjusted service date there is an increased risk the employee is earning leave at an incorrect rate.

We recommend the Department implement procedures to ensure documentation exists to support an employee's adjusted service date even if it was adjusted prior to their employment with the Department.

Department's Response: NDE Human Resources has revised its documentation procedures to request verification and explanation from an employee's previous State agency of any service date adjustment.

11. Statewide Single Audit

In connection with the State-wide single audit performed for fiscal year 2006 by the Nebraska Auditor of Public Accounts, certain internal control and other operational matters related to the Department of Education were noted. The following three comments were discussed with the Department's management after completion of the audit and are summarized below:

- Special Milk Program for Children – Subrecipient Monitoring
Nebraska Department of Education Nutrition Services does not have a system to adequately monitor School Food Authorities that participate in the Special Milk Program for Children and do not participate in the National School Lunch Program.
- Special Education and Vocational Education – Special Tests
The Department did not notify its Local Education Agencies (LEAs) of the authority to consolidate Federal, State, and local funds in school-wide programs in a timely manner, and did not examine its fiscal and accounting procedures to remove any barriers preventing such consolidation of funds for the fiscal year audited.
- Special Education – Earmarking
The Department did not correctly allocate \$892,643 in Federal aid according to the prescribed formula.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

11. Statewide Single Audit (Concluded)

Department's Response: NDE has implemented corrective action for each of the three APA comments as identified in the agency response to the auditor's letter to management. With regard to the finding on Vocational Education – Special Tests, the Department received a letter dated June 26, 2007 from United State Department of Education, Office of Vocational and Adult Education that indicated the finding is considered resolved and closed.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF EDUCATION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Education
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Education (Department) for the fiscal year ended June 30, 2006. 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.

While conducting our fiscal year 2006 attestation examination of the Department, the Auditor of Public Accounts (APA) requested documentation supporting expenditures related to the Disability Determination Section (DDS). During our initial testing of DDS expenditures, the APA was allowed to view support for a sample of expenditures; however, a request for case file information supporting DDS medical consultant expenditures was denied because the documentation included Personal Identifiable Information (PII). This denial was based on the Department's interpretation of Federal regulations and recommendations of Federal authorities. The APA realizes the sensitivity of PII as well as the importance of keeping PII secure and nonpublic; however, we also believe it is within our authority, granted by the Nebraska Constitution, to observe PII data in order to assure and determine the correct financial information was reported and expended. Total DDS aid and medical consultant expenditures were \$2,624,293 and \$778,142, respectively for a total of \$3,402,435. While this issue does not rise to the level of a scope limitation, this paragraph was added to emphasize the access matter.

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 Education for the fiscal year ended June 30, 2006, 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 June 29, 2007, on our consideration of the Nebraska Department of Education's 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 that reads "Timothy J. Channer CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Assistant Deputy Auditor

June 29, 2007

NEBRASKA DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2006

	State General Fund 10000	Dept. of Education Cash Fund 21300	Professional Practices Comm. Fund 21310	Pvt. Postsecondary Career School Fund 21320	Teachers Certification Fund 21390	Tuition Recovery Fund 21480	School District Reorganization Fund 21485	Education Innovation Fund 21490
REVENUES:								
Appropriations	\$ 879,962,768	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	332,602	-	-	-	-	-	-
Sales & Charges	8,445	20,503	127,413	45,405	336,880	-	-	-
Miscellaneous	4,297	215,642	6,933	3,923	57,772	11,122	20,159	7,216
TOTAL REVENUES	879,975,510	568,747	134,346	49,328	394,652	11,122	20,159	7,216
EXPENDITURES:								
Personal Services	7,347,001	66,356	72,181	50,285	320,271	-	-	17,599
Operating	5,905,579	53,675	18,032	8,434	110,943	-	-	1,919
Travel	369,221	10,282	10,523	234	7,194	-	-	-
Capital Outlay	39,194	-	-	-	-	-	-	-
Government Aid	883,422,874	221,183	-	-	-	-	646,505	-
TOTAL EXPENDITURES	897,083,869	351,496	100,736	58,953	438,408	-	646,505	19,518
Excess (Deficiency) of Revenues Over (Under) Expenditures	(17,108,359)	217,251	33,610	(9,625)	(43,756)	11,122	(626,346)	(12,302)
OTHER FINANCING SOURCES (USES):								
Sales of Assets	6,463	-	-	-	-	-	-	-
Deposits from Common Fund (Note 7)	(19,205)	-	-	-	-	-	-	-
Operating Transfers In (Note 6)	17,121,101	1,468,176	-	-	-	-	1,000,000	6,030,172
Operating Transfers Out (Note 6)	-	(1,468,176)	-	-	-	-	-	(7,132,598)
TOTAL OTHER FINANCING SOURCES (USES)	17,108,359	-	-	-	-	-	1,000,000	(1,102,426)
Net Change in Fund Balances	-	217,251	33,610	(9,625)	(43,756)	11,122	373,654	(1,114,728)
FUND BALANCES, JULY 1, 2005	51,905	1,823,698	159,002	95,973	313,389	202,602	-	1,126,071
FUND BALANCES, JUNE 30, 2006	\$ 51,905	\$ 2,040,949	\$ 192,612	\$ 86,348	\$ 269,633	\$ 213,724	\$ 373,654	\$ 11,343
FUND BALANCES CONSIST OF:								
General Cash	\$ -	\$ 1,777,566	\$ 192,612	\$ 86,383	\$ 269,633	\$ 213,724	\$ 373,654	\$ 11,343
Petty Cash	50	-	-	-	-	-	-	-
Deposits with Vendors	51,855	-	-	-	-	-	-	-
Accounts Receivable Invoiced	-	304,682	-	-	-	-	-	-
Due From Other Funds	-	-	-	-	-	-	-	-
Loans Receivable	-	-	-	-	-	-	-	-
Due to Vendors	-	(6,024)	-	(35)	-	-	-	-
Deposits	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-	-
Due to Government	-	(35,275)	-	-	-	-	-	-
TOTAL FUND BALANCES	\$ 51,905	\$ 2,040,949	\$ 192,612	\$ 86,348	\$ 269,633	\$ 213,724	\$ 373,654	\$ 11,343

The accompanying notes are an integral part of the schedule

NEBRASKA DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2006

	Federal Letter of Credit Fund 40000	NDE Federal Projects Fund 41340	Dept. of Education Revolving Fund 51320	Dept. of Education Trust Fund 61310	Temporary School Fund 61360	Public Grazing Fund 71310	Forest Reserve Fund 71320	Flood Control Fund 71330	Totals (Memorandum Only)
REVENUES:									
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 879,962,768
Intergovernmental	272,472,551	3,071,713	3,060	-	-	-	-	-	275,879,926
Sales & Charges	-	-	375,136	-	-	-	-	-	913,782
Miscellaneous	104,064	221,593	16,838	97,914	639,654	-	-	-	1,407,127
TOTAL REVENUES	272,576,615	3,293,306	395,034	97,914	639,654	-	-	-	1,158,163,603
EXPENDITURES:									
Personal Services	18,474,311	1,647,980	348,840	-	-	-	-	-	28,344,824
Operating	10,096,644	653,168	31,364	106,502	-	-	-	-	16,986,260
Travel	931,965	71,452	-	19,143	-	-	-	-	1,420,014
Capital Outlay	197,696	11,460	10,956	16,802	-	-	-	-	276,108
Government Aid	242,875,999	240,432	-	-	23,389,161	-	-	-	1,150,796,154
TOTAL EXPENDITURES	272,576,615	2,624,492	391,160	142,447	23,389,161	-	-	-	1,197,823,360
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	668,814	3,874	(44,533)	(22,749,507)	-	-	-	(39,659,757)
OTHER FINANCING SOURCES (USES):									
Sales of Assets	-	-	-	-	-	-	-	-	6,463
Deposits from Common Fund (Note 7)	-	-	-	-	24,301,334	-	-	-	24,282,129
Operating Transfers In (Note 6)	-	4,011,869	-	2,248,641	18,886,812	-	-	-	50,766,771
Operating Transfers Out (Note 6)	-	(4,010,638)	(1,231)	(2,248,641)	(8,369,233)	-	-	-	(23,230,517)
TOTAL OTHER FINANCING SOURCES (USES)	-	1,231	(1,231)	-	34,818,913	-	-	-	51,824,846
Net Change in Fund Balances	-	670,045	2,643	(44,533)	12,069,406	-	-	-	12,165,089
FUND BALANCES, JULY 1, 2005	-	5,101,155	267,757	2,254,897	16,163,890	-	-	-	27,560,339
FUND BALANCES, JUNE 30, 2006	\$ -	\$ 5,771,200	\$ 270,400	\$ 2,210,364	\$ 28,233,296	\$ -	\$ -	\$ -	\$ 39,725,428
FUND BALANCES CONSIST OF:									
General Cash	\$ -	\$ 5,546,335	\$ 310,400	\$ 2,210,364	\$ 28,250,298	\$ 774	\$ 56,118	\$ 107,021	\$ 39,406,225
Petty Cash	-	-	-	-	-	-	-	-	50
Deposits with Vendors	-	-	-	-	-	-	-	-	51,855
Accounts Receivable Invoiced	-	140,543	-	-	-	-	-	-	445,225
Due From Other Funds	-	40,000	-	-	-	-	-	-	40,000
Loans Receivable	-	44,322	-	-	-	-	-	-	44,322
Due to Vendors	-	-	-	-	-	-	-	-	(6,059)
Deposits	-	-	-	-	(17,002)	-	-	-	(17,002)
Due to Fund	-	-	(40,000)	-	-	(35)	(1,904)	(3,643)	(45,582)
Due to Government	-	-	-	-	-	(739)	(54,214)	(103,378)	(193,606)
TOTAL FUND BALANCES	\$ -	\$ 5,771,200	\$ 270,400	\$ 2,210,364	\$ 28,233,296	\$ -	\$ -	\$ -	\$ 39,725,428

The accompanying notes are an integral part of the schedule

(Concluded)

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2006

1. Criteria

The accounting policies of the Nebraska Department of Education (Department) 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.S.Supp., 2004, 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 the Nebraska State Accounting Manual published by DAS – Accounting Division 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, 2006, includes only those payables posted to NIS before June 30, 2006, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2006, **does not** include amounts for goods and services received before June 30, 2006, which had not been posted to NIS as of June 30, 2006.

NIS also records other liabilities (primarily in the Distributive Fund Type) in accounts titled Deposits, Due to Fund, and Due to Government for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

The NIS system does not include liabilities for accrued payroll and compensated absences.

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

10000 – General Fund – accounts for all financial resources not required to be accounted for in another fund.

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.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

50000 – Revolving Funds – account for the operation of state agencies which provide goods and services to other departments or agencies within state government.

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

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

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

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

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.

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.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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, and receivable accounts. 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.

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 liabilities recorded on NIS for the Department's funds at June 30, 2006, included Deposits, Due to Fund, and Due to Government. The activity of these accounts are not recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts

Other Financing Sources – Operating transfers, deposits from common funds, and proceeds of fixed asset dispositions.

2. State Agency

The Nebraska Department of Education 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 Education 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.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

(Continued)

4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

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. 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 the asset's life is not capitalized.

Equipment is depreciated using the straight-line method with estimated useful lives of three to ten years.

Capital asset activity of the Department for the fiscal year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 3,992,284	\$ 276,108	\$ 565,948	\$ 3,702,444
Less accumulated depreciation for:				
Equipment				<u>3,170,442</u>
Total capital assets, Net of depreciation				<u>\$ 532,002</u>

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

(Continued)

6. Transfers

Transfers In includes \$6,030,172 transferred to the Education Innovation Fund from the proceeds of the Nebraska State Lottery per Neb. Rev. Stat. Section 9-812(1) R.R.S. 2000 and \$18,886,812 transferred to the Temporary School Fund from investment income earned in the Permanent School Fund. Transfers Out includes \$7,132,598 transferred from the Education Innovation Fund to the State General Fund per Neb. Rev. Stat. Section 9-812(2) R.R.S. 2000 and \$8,369,223 from the Temporary School Fund to the Board of Educational Lands and Funds for costs of administering the unsold school lands.

7. Deposits to Common Fund

Deposits to Temporary School Fund 61360 consisted of receipts collected by the following agencies and deposited to Fund 61360:

Board of Educational Lands and Funds	\$ 23,945,609
Liquor Control Commission	<u>355,725</u>
Total	<u>\$ 24,301,334</u>

8. Government Aid, Operating Transfers In

In accordance with Neb. Rev. Stat. Section 77-913(3) R.R.S. 2003, the State Treasurer allocates sixty percent of the Insurance Premium Tax funds to the Department for distribution to school districts as equalization aid. During the fiscal year ended June 30, 2006, \$17,121,101 in Insurance Premium Tax funds were transferred to the Department as a negative expenditure and then paid out as government aid in the State General Fund 10000. The schedule of revenues and expenditures was adjusted to show the transfer as Transfers In and increase Government Aid by \$17,121,101.

9. Reconciliation of Bank Records to the Nebraska Information System

Through their bank reconciliation procedures, DAS State Accounting Division (State Accounting) has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Department. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Department's balances; however, State Accounting believes it will not have a material impact on the Department's operations.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF EDUCATION
**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**

Nebraska Department of Education
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Education for the fiscal year ended June 30, 2006, and have issued our report thereon dated June 29, 2007. 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 Education's 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. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Education's 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 also noted certain additional items that we reported to management of the Nebraska Department of Education in the Comments Section of this report as Comment Number 1 (DDS Expenditures for Aid and Medical Consultants), Comment Number 2 (Calculation of the Poverty Portion of State Aid to Schools), Comment Number 3 (State Aid), Comment Number 4 (School Audit Requirements), Comment Number 5 (Segregation of Duties over Capital Assets), Comment Number 6 (Contracts), Comment Number 7 (Travel), Comment Number 8 (Employee Timesheets), Comment Number 9 (Incorrect Retirement Makeup Contributions), Comment Number 10 (Lack of Supporting Documentation for Adjusted Service Date), and Comment Number 11 (Statewide Single Audit).

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.

Handwritten signature of Timothy J. Chamber CPA in black ink.

Assistant Deputy Auditor

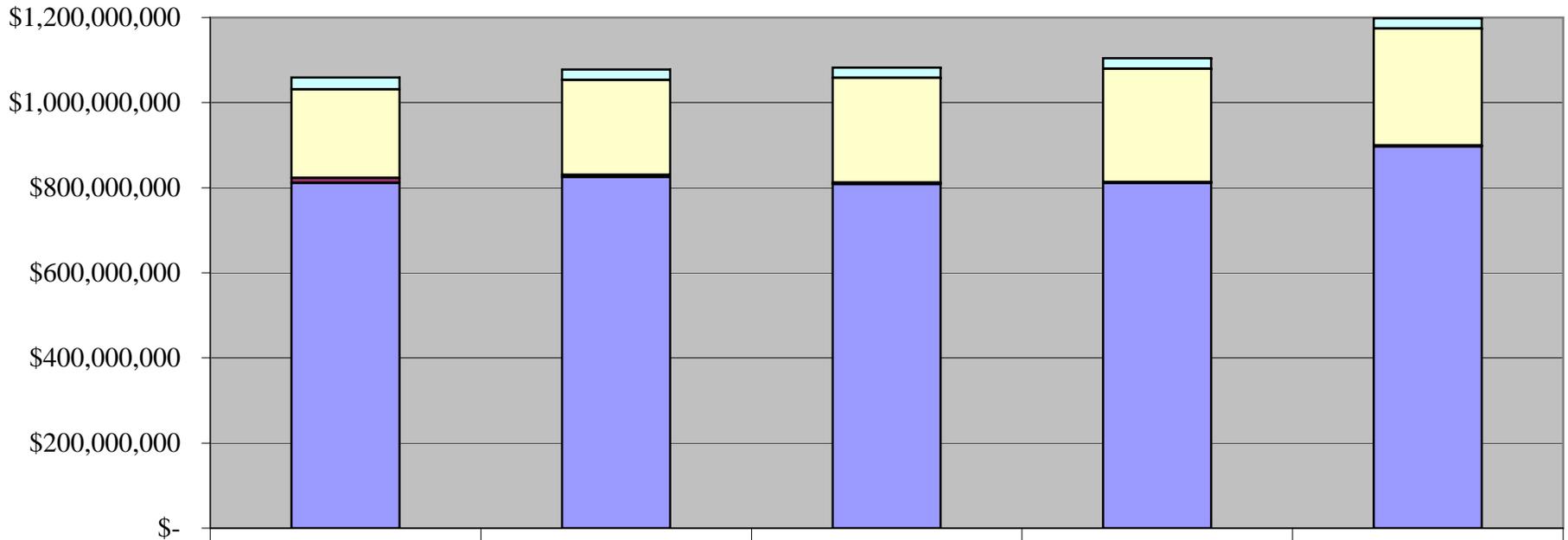
June 29, 2007

NEBRASKA DEPARTMENT OF EDUCATION

STATISTICAL SECTION

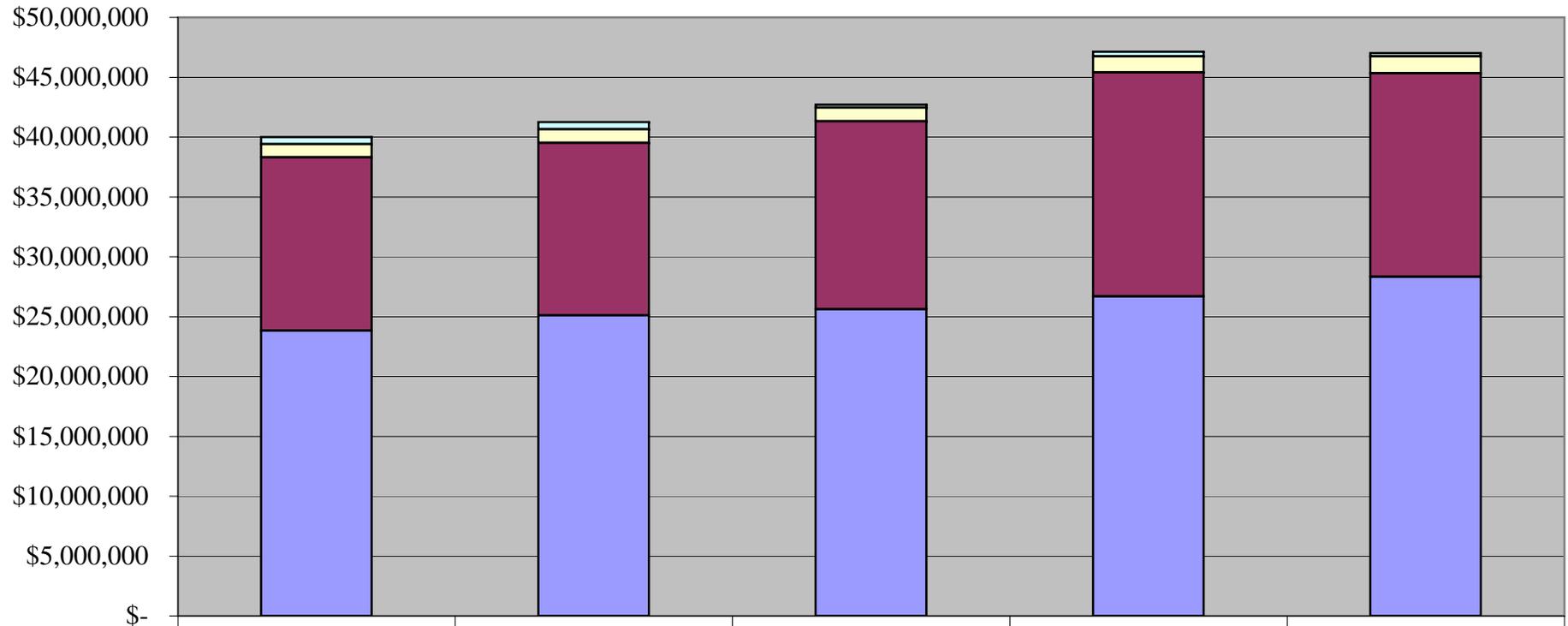
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

NEBRASKA DEPARTMENT OF EDUCATION
EXPENDITURES BY FUND TYPE
For the Fiscal Years Ended June 30, 2002 Through 2006



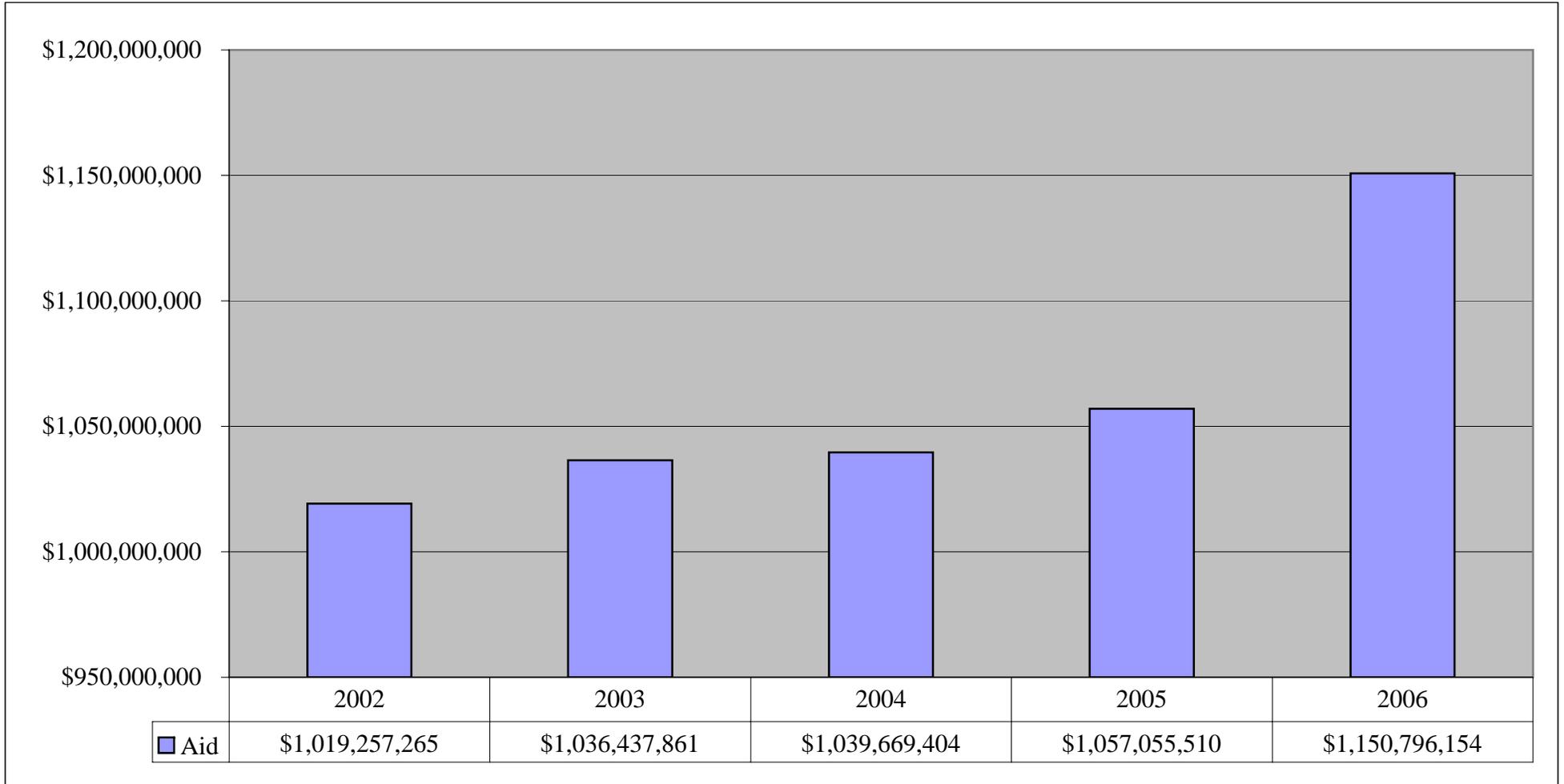
	2002	2003	2004	2005	2006
Trust	\$28,049,194	\$24,312,483	\$23,727,946	\$24,614,912	\$23,531,608
Federal	\$208,368,968	\$223,145,087	\$246,420,480	\$265,929,355	\$275,201,107
Cash & Revolving	\$11,480,354	\$5,274,376	\$3,836,937	\$2,960,347	\$2,006,777
General Fund	\$811,364,935	\$824,948,541	\$808,395,005	\$810,669,538	\$897,083,869

NEBRASKA DEPARTMENT OF EDUCATION
EXPENDITURES OTHER THAN GOVERNMENT AID
 For the Fiscal Years Ended June 30, 2002 Through 2006



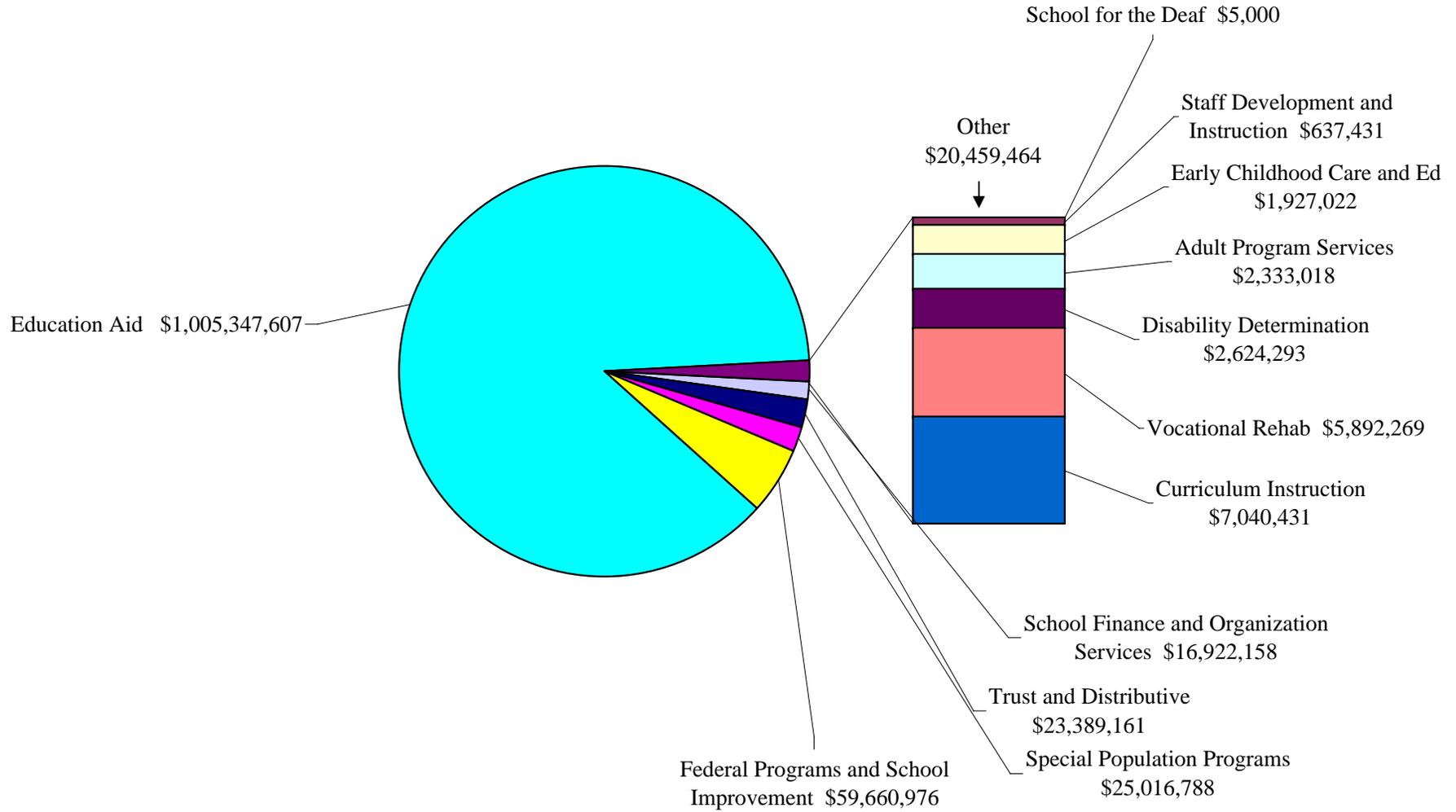
	2002	2003	2004	2005	2006
Capital	\$594,424	\$579,243	\$246,457	\$387,391	\$276,108
Travel	\$1,088,938	\$1,140,176	\$1,137,403	\$1,322,269	\$1,420,014
Operating	\$14,486,930	\$14,411,590	\$15,689,853	\$18,707,520	\$16,986,260
Personal	\$23,835,894	\$25,111,617	\$25,637,250	\$26,701,467	\$28,344,824

NEBRASKA DEPARTMENT OF EDUCATION
GOVERNMENT AID EXPENDITURES
 For the Fiscal Years Ended June 30, 2002 Through 2006

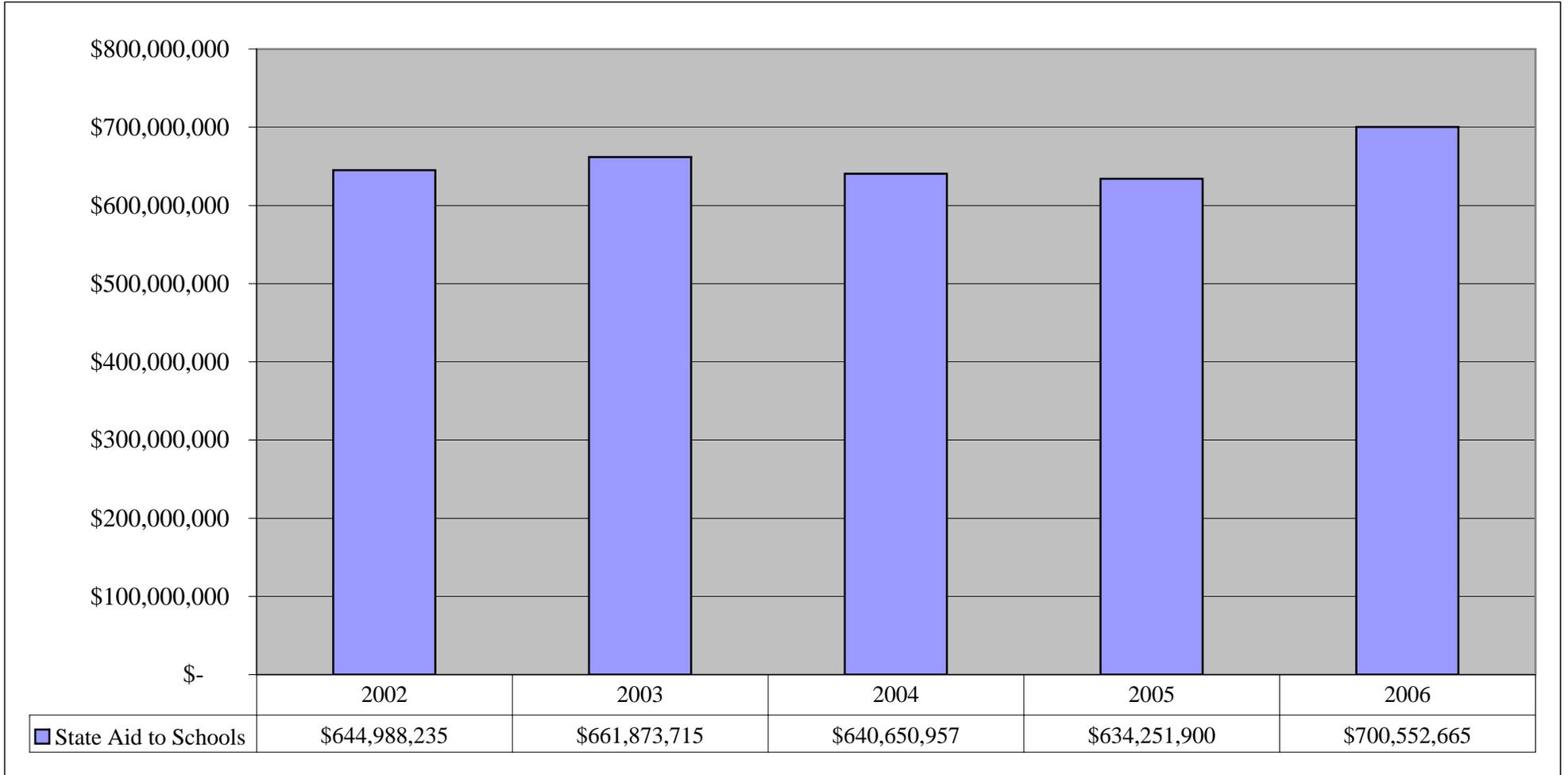


**NEBRASKA DEPARTMENT OF EDUCATION
GOVERNMENT AID EXPENDITURES BY PROGRAM**

For the Fiscal Year Ended June 30, 2006



NEBRASKA DEPARTMENT OF EDUCATION
TAX EQUITY AND EDUCATIONAL OPPORTUNITIES SUPPORT ACT
STATE AID TO SCHOOLS - EXPENDITURES
 For the Fiscal Years Ended June 30, 2002 Through 2006



NEBRASKA DEPARTMENT OF EDUCATION
TAX EQUITY AND EDUCATIONAL OPPORTUNITIES SUPPORT ACT
STATE AID TO SCHOOLS - STATISTICS
For the Fiscal Year Ended June 30, 2006

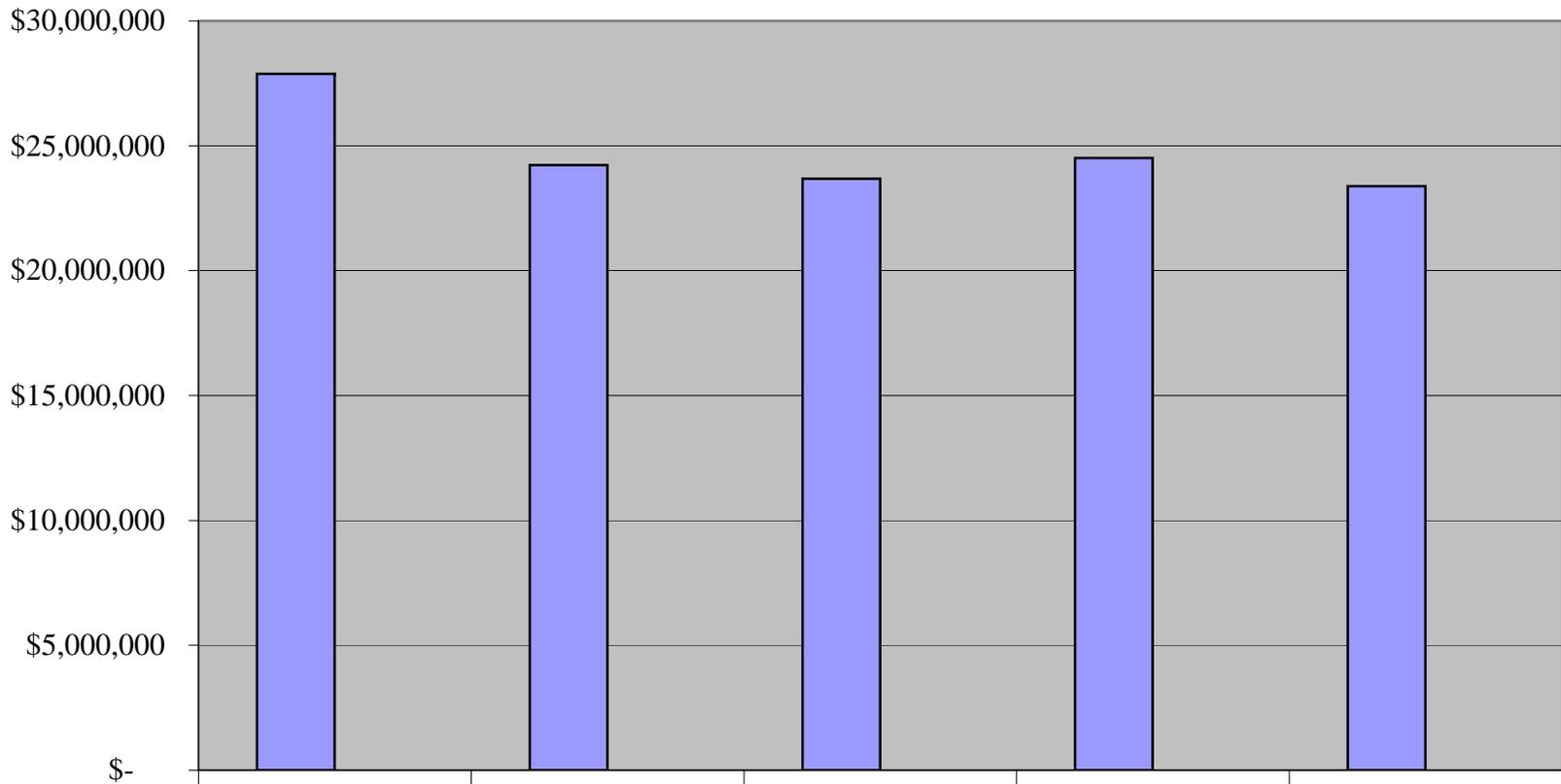
Districts receiving more than \$10 million in State Aid during the fiscal year ended June 30, 2006.

<u>County</u>	<u>District</u>	<u>School</u>	<u>State Aid</u>	<u>Formula Students</u>	<u>Average per Formula Student</u>
Adams	18	Hastings	\$ 10,858,226	3,050	\$ 3,560
Dakota	11	So. Sioux City	14,286,672	3,346	\$ 4,270
Dawson	1	Lexington	12,226,755	2,631	\$ 4,647
Dodge	1	Fremont	12,333,029	4,385	\$ 2,813
Douglas	1	Omaha	136,334,909	44,319	\$ 3,076
Douglas	17	Millard	48,181,190	19,978	\$ 2,412
Douglas	66	Westside	11,811,783	5,874	\$ 2,011
Hall	2	Grand Island	27,965,798	7,736	\$ 3,615
Lancaster	1	Lincoln	48,289,519	31,090	\$ 1,553
Lincoln	1	North Platte	11,643,019	4,065	\$ 2,864
Madison	1	Madison	10,839,031	4,249	\$ 2,551
Sarpy	1	Bellevue	37,371,918	8,950	\$ 4,176
Sarpy	27	Papillion-La Vista	26,400,722	8,319	\$ 3,174
			<u>408,542,571</u>	<u>147,992</u>	\$ 2,761
Remaining Schools			<u>292,010,094</u>	<u>129,831</u>	\$ 2,249
Total State Aid			\$ 700,552,665	277,823	\$ 2,522

To determine system formula needs, school districts are grouped into standard, sparse, and very sparse cost groupings. Each grouping has a formula cost per student determined which is used to calculate system needs.

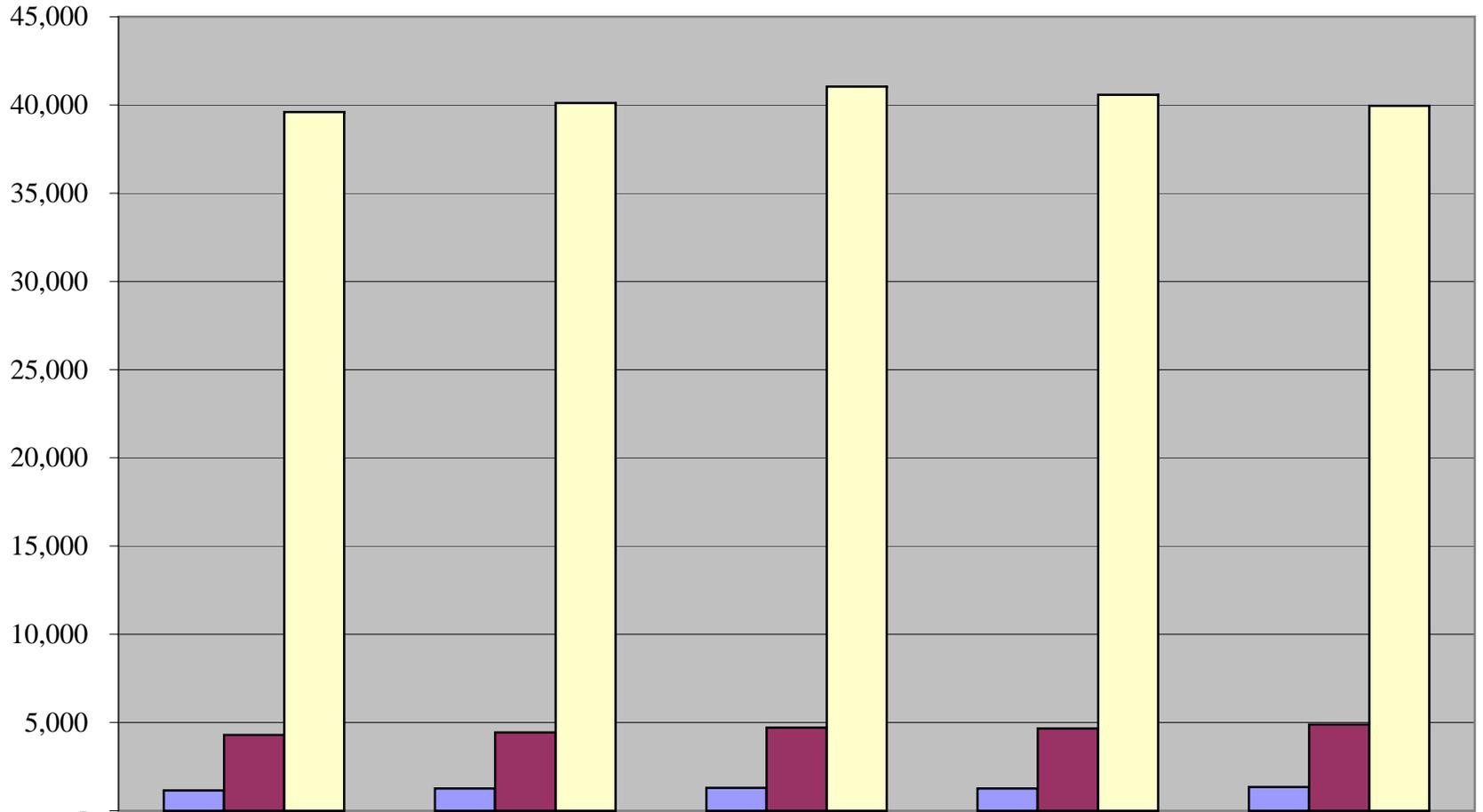
<u>Grouping</u>	<u>Formula Cost per Student</u>	<u>Number of Districts in Grouping</u>	<u>Number of Formula Students</u>	<u>Aid Distributed</u>	<u>Average Aid Per Student</u>
Standard	\$ 5,665	175	253,876	\$ 634,829,613	\$ 2,501
Sparse	7,052	57	17,952	50,831,330	\$ 2,832
Very Sparse	8,254	25	5,995	14,891,722	\$ 2,484
Total		257	277,823	\$ 700,552,665	

NEBRASKA DEPARTMENT OF EDUCATION
TEMPORARY SCHOOL FUND EXPENDITURES
For the Fiscal Years Ended June 30, 2002 Through 2006



	2002	2003	2004	2005	2006
Apportionment	\$27,883,569	\$24,229,589	\$23,676,968	\$24,509,735	\$23,389,161
In Lieu of School Land Tax	\$4,165	\$360	\$360	\$-	\$-

**NEBRASKA DEPARTMENT OF EDUCATION
SPECIAL EDUCATION POPULATIONS CHART**
For the School Years 2002 Through 2006



Birth through age 2
 3 through age 5
 6 to 21 years old
 Total

	2002	2003	2004	2005	2006
Birth through age 2	1,162	1,260	1,302	1,261	1,354
3 through age 5	4,295	4,445	4,707	4,665	4,886
6 to 21 years old	39,600	40,116	41,043	40,574	39,947
Total	45,057	45,821	47,052	46,500	46,187

**NEBRASKA DEPARTMENT OF EDUCATION
SPECIAL EDUCATION POPULATIONS AID EXPENDITURES**

For the Fiscal Years Ended June 30, 2002 Through 2006

