



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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February 28, 2008

Mr. Shane Osborn  
Nebraska State Treasurer  
State Capitol, Room 2003  
Lincoln, Nebraska 68509-4788

Dear Mr. Osborn:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2007, and have issued our report thereon dated December 28, 2007. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 13, 2008. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the federal Office of Management and Budget (OMB) Circular A-133 (the Single Audit) and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska State Treasurer (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Agency's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of the prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

A separate evaluation of the State's significant Information Technology (IT) systems was completed. The findings and recommendations noted as part of the evaluation were reported to management in a separately issued confidential summary of findings and recommendations.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Where no response has been

included, the Agency declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2007.

## **COMMENTS RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS**

### **1. Unclaimed Property - Cash and Investments on NIS**

Good internal controls require procedures to ensure all cash and investments not recorded on the general ledger are reported to Administrative Services State Accounting Division (State Accounting) for inclusion in the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska.

The Agency did not report \$1,829,800 of unclaimed property mutual funds held in the State's name, and not on the general ledger as of June 30, 2007, to State Accounting for inclusion in the State's financial statements as cash and investments. As a result, assets in the Escheat Trust Fund were understated.

We recommend the Agency ensure all amounts held as cash and investments, which are not recorded on the general ledger, be reported to State Accounting for inclusion in the State's financial statements.

*Agency's Response: We are actively reconciling and inventorying our mutual fund portfolio, and will report the total amount to DAS as soon as possible.*

### **2. Reconciliation of Bank Records to Nebraska Information System (NIS)**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information.

State Accounting completes a reconciliation of bank records to accounting records for all bank accounts except for the State Disbursement Unit (SDU) bank accounts. The Agency completes the reconciliation of the SDU bank accounts and submits it to State Accounting for review and consideration of the impact on the overall State bank reconciliation.

The SDU reconciliation at June 2007 showed no variance between the bank records compared to the accounting records; however, State Accounting made an adjustment of \$1,893,449 to the CAFR financial statements to account for prior years' bank transfers that have not yet been transferred from the State's bank account to the SDU bank account.

Until the old variances can be properly identified, the general ledger cannot be corrected. Once corrected, the reconciling items can be removed from the monthly reconciliations.

We recommend the Agency continue to work with State Accounting in identifying the old variances to ensure the general ledger is correct.

*Agency's Response: The Treasurer's State Disbursement Unit (SDU) has identified the old variances, finding that the general ledger is correct; currently the funds need to be transferred between the State's bank account and the SDU bank account. At this point the bank transfer has not been made, but should be completed as soon as DAS Accounting authorizes the transfer.*

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to you.

This letter is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this letter is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.



Pat Reding  
Assistant Deputy Auditor



Don Dunlap  
Assistant Deputy Auditor