



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

Dear Treasurer Osborn:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We have also audited the State's compliance with requirements applicable to major Federal award programs and have issued our report thereon dated February 10, 2009. 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 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.

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. 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, 2008.

COMMENTS RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Unclaimed Property – Cash and Investments on the General Ledger

Good internal controls require procedures to ensure all cash and investments not reported 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 \$1,432,884 of unclaimed property investments held in the State's name, and not recorded on the general ledger as of June 30, 2008, to State Accounting for inclusion in the State of Nebraska CAFR. Amounts reported for certain investments were from 2007 or as of August 6, 2008, rather than as of June 30, 2008. Additionally, the totals on the list of investments were not mathematically correct. As a result, assets in the Escheat Trust Fund were understated.

A similar finding was noted in our prior audit.

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

Management Response: The State Treasurer's Office Unclaimed Property Division has undertaken a thorough reconciliation for all stock and mutual fund records, which to our knowledge have not been properly balanced for many years. This past year we have reconciled our stock holding accounts, and we are currently in the process of reconciling mutual funds held by the Treasurer's Office. The under-reporting noted in the auditor's reporting is a result of this lack of balance in the accounts. The Treasurer's Office is working on reconciling the mutual fund accounts and should be able to provide more accurate amounts soon.

2. Reconciliation of Bank Records to the General Ledger

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's reconciliation at June 2008 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. State Accounting and the SDU continue to work on identifying the old variance to ensure proper adjustments to the general ledger.

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 on identifying the old variances to ensure the general ledger is correct.

Management Response: The SDU will continue to work with State Accounting and the Department of Health and Human Services in identifying all old variances in order to get the general ledger correct.

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.

Signed Original on File

Pat Reding
Assistant Deputy Auditor

Signed Original on File

Don Dunlap
Assistant Deputy Auditor