



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Catherine Lang, Commissioner
Nebraska Department of Labor
550 South 16th Street
Lincoln, NE 68509-4600

Dear Ms Lang:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2009, and have issued our report thereon dated December 28, 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 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 a certain internal control or compliance matter related to the activities of the Nebraska Department of Labor (the Agency) or another operational matter that is presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Agency's management, is 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 comment 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 comment and recommendation included in this letter. The formal response received has been incorporated into this letter. The response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2009.

1. Pledged Collateral

Neb. Rev. Stat. § 77-2395(3) (Reissue 2009) states, “If a bank...provides a deposit guaranty bond pursuant to the Public Funds Deposit Security Act, the custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured by the Federal Deposit Insurance Corporation, unless and until the depository has provided to the custodial official a deposit guaranty bond in an amount not less than the amount on deposit which is in excess of the amount so insured.”

The Agency did not have sufficient pledged collateral to cover bank balances for one day in July 2008. Uninsured deposit amounts on this day were \$5,770,459. Additional pledged collateral was obtained the following business day.

Without adequate pledged security to cover bank balances, there is an increased risk of loss of State funds.

We recommend the Agency ensure sufficient pledged collateral exists for all bank deposits not covered by FDIC in order to remain in compliance with State statute. Furthermore, we recommend the Agency obtain additional pledged collateral in advance of peak deposit time periods, especially when those peak deposit periods may cause the Agency’s funds to be uninsured.

Management Response: *The Nebraska Department of Labor (NDOL) has met with a representative of USBank, which holds the responsibility of monitoring and maintaining the collateral at the required level. Due to the fluctuations of the bank deposits as well as the timing of the deposits, it caused NDOL to have the above comment on the day mentioned above. As a mitigating factor to the pledged collateral requirement, the Transaction Account Guarantee Program/Temporary Liquidity Guarantee Programs were instituted on October 14, 2008. This bill established rules for the temporary and unlimited guarantee by the FDIC of certain types of non-interest bearing transaction accounts. This bill in essence removed the requirement due to the government’s explicit guarantee of the funds for NDOL to carry Pledged Collateral to guarantee any losses NDOL could have experienced.*

In addition, the Treasury Section of NDOL will be initiating a process to be informed of the daily balance by 1:00 p.m. each day in order to alert USBank of any issues. NDOL will track the ledger balance for each day and calculate the required pledged collateral as a method of replicating USBank’s process. However, one drawback we are experiencing is a way to track the individual securities on a day-to-day basis. At this time, we are reviewing various options. The timing of the deposits will require a process change that will be initiated in the near future.

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 the Agency.

This report 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 and is not intended to be and should not be used by anyone other than the specified parties. However, this report 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, CPA, CFE
Assistant Deputy Auditor