

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF EDUCATION
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

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Issued on July 11, 2016

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NEBRASKA DEPARTMENT OF EDUCATION

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Key Officials and Agency Contact Information	2
Comments Section	
Summary of Comments	3 - 4
Comments and Recommendations	5 - 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 - 37
Supplementary Information	38
Exhibit of Revenues, Expenditures, and Changes in Fund Balances for the Fiscal Year Ended June 30, 2015, and Calendar Year Ended December 31, 2015	39
Tax Equity and Educational Opportunities Support Act – State Aid to Schools – Statistics	40
Tax Equity and Educational Opportunities Support Act – State Aid to Schools – Expenditures	41
Special Education Aid – Expenditures	42

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 directives 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 and nonpublic school systems. The staff of the Department interacts with schools and institutions of higher education to develop, coordinate, and improve educational programs.

Within the Department is the Vocational Rehabilitation program, 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 program 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 him or her retain or advance in employment. Vocational Rehabilitation staff work with disabled students as young as 14 years old. 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 has a Disability Determinations Section (DDS), which 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 social security field offices across the State and forwarded to the DDS office in Lincoln. DDS 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

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Nebraska State Board of Education

Rachel Wise – President
District 3 – Oakland
Term Ending January 2017

Lillie Larsen – Vice President
District 1 – Lincoln
Term Ending January 2017

Glen Flint
District 2 – Springfield
Term Ending January 2017

John Witzel
District 4 – Papillion
Term Ending January 2017

Patricia Timm
District 5 – Beatrice
Term Ending January 2019

Maureen Nickels
District 6 – Chapman
Term Ending January 2019

Molly O’Holleran
District 7 – North Platte
Term Ending January 2019

Patrick McPherson
District 8 – Omaha
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NEBRASKA DEPARTMENT OF EDUCATION

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Education (Department), we noted certain deficiencies and other operational matters that are presented here. The following comment is required to be reported in accordance with *Government Auditing Standards*: Comment #1, which is considered to be a significant deficiency.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Average Daily Membership Verification:*** The testing of Average Daily Membership counts by school district auditors was not adequate. Average Daily Membership is a significant factor in the State Aid formula.
2. ***Poverty Allowance Calculation:*** The Poverty allowance of the State Aid formula calculated based on free lunch/milk data had inherent errors. Aid calculated from the Poverty allowance was overstated by 9.33 percent, as students who qualified for free lunch/milk on an income basis were ineligible.
3. ***Unsupported Aid Payments:*** The Department did not have policies or procedures to verify costs claimed by residential setting providers. The Department provided \$4,109,282 in aid to residential setting providers during calendar year 2015.
4. ***Inadequate Supporting Documentation:*** The Department failed to maintain adequate supporting documentation for several expenditure and receipt transactions. The lack of support prevented the APA from being able to determine whether the expenditures or revenues were appropriate and accurate.
5. ***Education Innovation Fund Transfers:*** The Department did not complete a statutorily required transfer from the Education Innovation Fund to the Early Childhood Education Endowment. Also, a \$1 million temporary transfer to the Education Innovation Fund was not returned to the School District Reorganization Fund in a timely manner.
6. ***Contracts Not on the State Contract Database or Accounting System:*** Multiple Department contracts were not available on the State's contract database or were not entered into the State's accounting system, as required by State statutes.
7. ***Appropriations Exceeded:*** The Vocational Rehabilitation program exceeded General fund and Cash fund appropriations authorized by the Legislature by \$27,409 and \$71,057, respectively.
8. ***Disability Determination Section (DDS) Rate Support:*** DDS did not have documentation on file to support how 8 of 15 DDS rates used to reimburse service providers were determined.
9. ***Textbook Loan Program:*** The Department did not sufficiently monitor the public school administration of the Textbook Loan program.

NEBRASKA DEPARTMENT OF EDUCATION

SUMMARY OF COMMENTS

(Concluded)

10. ***Purchasing Procedures:*** A Department employee used elevated system access in the State's accounting system to circumvent the required Materiel Division of Administrative Services purchasing approval to purchase \$56,017 worth of computers.
11. ***Journal Entries:*** The Department duplicated \$182,245 of expenditures in fund 41340 due to its method of recording, allocating, and reimbursing indirect costs. In addition, entries for allocating rent expense and network fees did not reconcile to the underlying support.
12. ***Expired Warrants:*** The Department did not properly follow up on outstanding warrants before they expired. Seventy-two warrants paid with Federal funds, totaling \$15,672, expired during the calendar year and were inappropriately remitted to the State's General Fund.
13. ***Capital Assets:*** The Department lacked an adequate segregation of duties over capital assets, as one employee was responsible for maintaining capital asset records. The Department did not review the additions and retirements report, failed to capitalize properly seven assets, totaling \$5,131, and posted the incorrect value to another asset.
14. ***Developer Access to Production Environment:*** Two DDS application developers and two QE2 (Vocational Rehabilitation System) application developers had access to their respective production environments, allowing them to develop code and move changes into production.
15. ***Information Technology (IT) User Access:*** One user had access to approve applications in the Child Nutrition Program (CNP), but it was not required for her job duties. Access for one Grants Management System (GMS) application user and one DDS application user was not removed timely after their termination.
16. ***Information Technology (IT) Risk Assessment:*** The Department performed an overall risk assessment but did not include application-specific risk information. The Department has multiple applications, which may have different levels of risk.

More detailed information on the above items is provided hereinafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Department

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

1. Average Daily Membership Verification

During our review of State Aid, we noted all five audit firms tested did not appear to perform adequate compliance testing of school districts' Average Daily Membership (ADM) to provide sufficient assurance that amounts reported to the Department were correct. The testing of ADM compliance by district auditors was also inconsistent.

ADM is an integral figure used within the State Aid formula to determine the amount of aid provided to school districts.

The Department distributed \$932,971,842 of State Aid in the State fiscal year ended June 30, 2015.

The Department's administrative rules and regulations, Title 92 Nebraska Administrative Code (NAC) Chapter 1-003.03, state the following, in relevant part:

The audit shall include tests for compliance with the calculation of Average Daily Membership reported on the Annual Statistical Summary Report.

A good internal control plan requires procedures to ensure adequate reviews of ADM are performed.

Not ensuring the accuracy of ADM submitted by school districts increases the risk of the State Aid distribution being incorrect.

We recommend the Department ensure that school district auditors perform adequate compliance testing of ADM. At a minimum, such testing should include the tracing of ADM to supporting documentation, the recalculation of ADM, verification of ADM reported to the Department, and the documentation of all testing procedures performed.

Department's Response: As noted in the finding, Rule 1 does require independent school district auditors to test average daily membership (ADM). Per discussion with independent auditors who are performing school district audits, they are testing ADM but there have been no findings related to Membership/Attendance and thus no documentation of their testing is noted in the audit reports per auditing standards.

School districts submit attendance and membership information to the state and then average daily membership is calculated by the Department based on the submitted data. For schools to inflate their membership they would have to create fake students with unique IDs. These students would then need to have attendance records kept; test scores entered and would be on a list that teachers and others staff would review. The Department also performs analytical tests on membership information to confirm that the membership and attendance information submitted is reasonable.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Average Daily Membership Verification (Concluded)

The Department has worked with the Nebraska Society of CPA's to develop a new form which outlines the tests independent auditors performed on membership and attendance and notes if the information submitted to the Departments was accurate. The department now requires confirmation of membership and attendance testing to be submitted along with the audit before considering the audit submission complete.

APA Response: The APA understands that independent school auditors had no findings related to membership/attendance to report. The APA obtained documentation or explanation of testing performed for five school districts tested. None of the testing performed included all of the procedures suggested in our recommendation. Therefore, the lack of school district findings pertaining to membership/attendance may correlate with the observations in our finding.

2. Poverty Allowance Calculation

The Department used the aggregate number of students receiving free lunch/milk as part of the calculation of the poverty portion of State Aid, as required by State statute. During testing of the State Aid calculation, we noted that the imprecise method of calculating the poverty portion of State Aid leaves the calculation susceptible to errors. The poverty portion of State Aid is based on the aggregate number of free lunch/milk students, directly certified through Nebraska Department of Health and Human Services resources or through income based applications completed by the parents/guardians of the children.

Due to the nature and timing of the State Aid calculation, data from the 2012-2013 school year was used to calculate the 2015-2016 school year poverty allowance. A verification of free lunch/milk students completed by school districts and reported to the Department for the 2012-2013 school year identified that 9.33 percent of students originally approved to receive free lunch/milk through income-based applications submitted by parents/guardians were ineligible. Approximately \$125.6 million of formula need was allocated to schools based on the poverty portion of State Aid. A projected \$8.4 million in formula need was allocated based on ineligible free lunch/milk students. The poverty allowance is one piece of the school district formula need calculation explained in Neb. Rev. Stat. § 79-1007.11 (Supp. 2015). In 2015, the United States Department of Agriculture (USDA) released a study evaluating 2012-2013 school year free and reduced lunch certifications. The study reported a 9.8 percent certification error in the total reimbursements made through the National School Lunch Program (NSLP).

To mitigate the risk of overstating State Aid provided through the poverty allowance, State statute provides for the recapturing of funds in future State Aid payments through a poverty correction calculation, as well as allowing schools to submit estimated poverty expenditures. The lower of the poverty calculation or a school's estimated poverty expenditures is used; however, the original allocation is still based on free lunch/milk data, which includes inherent errors.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Poverty Allowance Calculation (Concluded)

Neb. Rev. Stat. § 79-1003(32) (Supp. 2015) states, in relevant part, the following:

Poverty students means (a) for school fiscal years prior to 2016-17, the number of low-income students or the number of students who are free lunch and free milk students in a district plus the difference of the number of low-income students or the number of students who are free lunch and free milk students in a district, whichever is greater, minus the average number of poverty students for such district, prior to such addition, for the three immediately preceding school fiscal years if such difference is greater than zero

Good fiscal policy and internal control requires the use of accurate data to calculate State Aid.

Using data with a high inherent risk of error may cause the poverty portion of the State Aid formula to be overstated in the initial aid payments made to school districts.

We acknowledge the Department was allocating State Aid to Schools in accordance with State statute and has the ability to recapture some of the overstated funds in future aid payments; however, because of the inherent errors included in the free lunch/milk figures, we recommend the Department work with the Legislature to revise the State Aid formula statutes to include a more accurate, reliable poverty allowance.

Department's Response: NDE was required by statute to use the free lunch counts as noted in this finding. The report used was the latest and most accurate information available at that time. Starting with the 2016/17 certification of state aid the Department began using the US Department of Agriculture's School Food Authority Verification Summary Report (FNS Form 742) as its data source which is a new report with more accurate information.

The Department will continue to work closely with the Commissioner, the Board of Education, legislative staff, and educational partners to review and revise the state aid formula and its statutes, implementing efficiency measures and accountability to all its components including the poverty allowance.

3. Unsupported Aid Payments

The Department did not have policies or procedures to verify costs claimed by residential setting providers. The Department provided aid to residential setting providers on a daily rate, per student, based on the previous year's total expenditures and the average number of daily students for whom services were provided. The Department did not receive audited financial statements or other supporting documentation to support the expenditures incurred by service providers or the average number of daily students served.

The only verification procedure used by the Department to ensure the accuracy of both expenditures and student counts reported was to compare prior year figures to current figures to determine if the changes were reasonable; however, the Department's initial figures used to establish reasonableness of expenditures and student counts were not verified either.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Unsupported Aid Payments (Concluded)

A total of \$4,109,282 was paid to residential providers in calendar year 2015.

Neb. Rev. Stat. § 79-215(10)(a) (Reissue 2014) states, in relevant part, the following:

When a student is not a ward of the state or a ward of any court and is residing in a residential setting located in Nebraska for reasons other than to receive an education and the residential setting is operated by a service provider which is certified or licensed by the Department of Health and Human services . . . the student shall remain a resident of the district in which he or she resided immediately prior to residing in such residential setting.

Neb. Rev. Stat. § 79-215(10)(c) states the following, as is relevant:

If a student is residing in a residential setting as described in subdivision (10)(a) of this section . . . the department shall reimburse such residential setting for the provision of all educational services, including all special education services and support services, with the amount of payment for all educational services determined pursuant to the average per pupil cost of the service agency

Neb. Rev. Stat. § 79-1142(5) (Reissue 2014) states, in relevant part, the following:

On and after August 1, 2010, residential settings described in subdivision (10)(c) of section 79-215 shall be reimbursed for the educational services The department may audit any required documentation and subtract any payments made in error from future reimbursements.

A good internal control plan requires periodic reviews of supporting documentation to ensure reimbursements for educational services are proper.

Without procedures for the verification or review of costs claimed and other data submitted by residential setting providers to support aid payments, there is an increased risk for the loss or misuse of State funds.

We recommend the Department implement procedures to ensure the verification or review of costs claimed and other data submitted by residential setting providers to support aid payments.

Department's Response: Beginning with the 2016-17 fiscal year, the Special Education Office will require additional fiscal and student attendance documentation that supports the calculation of any educational "per pupil cost" that any residential setting reimbursement payments are based on. Documentation will be reviewed to verify calculations and appropriateness of educational costs included.

4. Inadequate Supporting Documentation

During testing, we noted the following:

- For one expenditure tested, adequate supporting documentation was not kept on file. The Department could not provide support for \$1,415,343 expended, as the Department's system that calculates Special Education (SPED) school age payments did not have a record of how the supplemental aid payment to schools was calculated.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Inadequate Supporting Documentation** (Continued)

- The Department did not have adequate supporting documentation on file for four expenditures related to the Early Childhood Education Endowment (Endowment) Board of Trustees.
 - One contract tested, totaling \$493,815, was to provide technical assistance for the Endowment from November 15, 2013, through November 8, 2015. The payment tested totaled \$55,489 for the period September 1, 2015, through November 4, 2015. Supporting documentation included only an invoice and a general summary of the funds requested. For example, the contractor claimed \$6,230 in meal, transportation, lodging, and registration expenses for the period; however, the Department had no receipts, hotel folios, or mileage logs on hand to support these amounts before payment was approved.
 - One contract tested, totaling \$124,886, was for the collection, analysis, and evaluation of data for the Endowment from July 1, 2014, through June 30, 2015. The payment tested totaled \$26,311, of which \$25,152 was for payroll. The remaining \$1,159 of the payment was for telephone equipment, printing expenses, a library subscription, and mileage. Supporting documentation was not detailed and included only a printout from the vendor's system.
 - Two payments to school districts from the Innovation Cash Fund and the General Fund for \$103,118 and \$131,422, respectively, were not adequately supported. The Department received expenditure reports and invoices, but no supporting receipts for travel, training, and supply costs. These payments were originally approved by a contractor that ran the administration part of the Endowment. According to the Department, staff would have requested supporting receipts if an amount looked questionable on the expenditure report, but there was no regular monitoring of the payments approved by the contractor to ensure that unallowable expenses were not approved.
- There was a lack of supporting documentation for 1 of 20 State grant expenditures tested. A payment from the Career Education Grant to a school district for \$26,075 was tested; of that amount, \$23,119 was supported by invoices from the vendor. The remaining \$2,956 did not have support, so the APA could not determine what the costs were for or whether those costs were allowable per the State grant.
- For one payment tested to a school district from Title I funds, adequate supporting documentation was not on file. The payment was for \$63,905, of which \$5,637 was for travel costs associated with a conference. The Department did not obtain detailed receipts or other supporting documentation to ensure the travel expenditures were allowable.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Inadequate Supporting Documentation (Continued)

- A subrecipient payment of \$7,986 for an education certification study was made without adequate supporting documentation. Per the grant agreement, “Properly detailed documentation specifying the grant expenditures must accompany all requests for reimbursement. (i.e. computer printouts, system generated documentation.)” An invoice was obtained; however, computer printouts and system generated documentation normally observed with other payments was not obtained.
- For one of three Vocational Rehabilitation travel expenditures tested, no documentation was available. The document for catering expenses, totaling \$285, paid with Federal funds, could not be located.
- For 2 of 27 receipts tested, adequate supporting documentation was not kept on file. For one transaction, the revenue was a \$46 receipt from Chadron State College, but the purpose of the receipt could not be determined, as the batch originator had disposed of the records. The other transaction was a \$2,779 refund from McGraw-Hill that could not be verified, as supporting documentation was not kept on file.

Good business practices include maintaining documentation on file to support calculations upon which payments are made and to ensure transactions are appropriate for the Department.

OMB Circular A-87 requires costs to be adequately documented.

When supporting documentation of calculations are not on file, it is possible that payments may not have been calculated correctly, resulting in a loss or misuse of State funds. Additionally, such a lack of supporting documentation increases the risk of noncompliance with Federal requirements. Finally, failure to maintain adequate supporting documentation increases the risk that the underlying transactions themselves may be improper.

We recommend the Department maintain sufficient documentation, including proper backup of electronic systems, to ensure that all transactions are adequately supported.

Department’s Response: The Department will review and update its procedures to maintain adequate supporting documentation for expenditures as needed. The following contain additional information about the exceptions noted:

- *There was a report available for the \$1,415,343 Special Education expenditure from the date the payment was processed but the underlying data was subsequently overwritten in the computer system. The Department will review data backup procedures specifically related to this system.*

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Inadequate Supporting Documentation (Concluded)

- *The Early Childhood Education Endowment Board is a separate legal entity that the Department is the fiscal agent for. The Department will recommend to the board that they review and approve contract payments to their vendors in greater detail and document their approval of the payments in their meeting minutes in the future.*
- *The Department feels that supporting documentation obtained from subrecipients for the Career Education Grant, Title I, and Title IIA expenditures was sufficient relative to the amounts being reimbursed as it is impractical to review all supporting documentation for all subrecipients and vendors and would not provide an assurance benefit commensurate with the associated costs.*
- *The documentation for the McGraw-Hill receipt was from an expenditure in 2007 that had been disposed of in compliance with State records retention rules and regulations.*
- *The documentation for the Vocational Rehabilitation expenditure was located and provided to the Auditor subsequent to their fieldwork being completed.*

APA Response: The two payments to the school districts were from the Department's Innovation Cash Fund and the General Fund. These payments were processed after approval from a contractor; however, there was no monitoring of the contractor to ensure they were approving appropriate expenditures.

The Department's response brings into question as to why the Department received a refund in 2015 for an expenditure in 2007, or 8 years later.

5. Education Innovation Fund Transfers

During testing, we noted the following issues with the Education Innovation Fund (Innovation Fund) transfers:

- A transfer required by State statute from the Innovation Fund to the Early Childhood Education Endowment Fund (Endowment Fund) was not made.

The Endowment Fund expenditures were mistakenly paid directly out of the Innovation Fund. Early Childhood Education Grants are administered by two groups. The Endowment Fund runs the program for children from birth to age three, and the Department runs the program for preschool age children. Both grants receive an allocation of funds from the Innovation Fund. The Department grants are to be paid directly out of the Innovation Fund. Meanwhile, the Endowment's grant allocation is to be transferred from the Innovation Fund to the Endowment Fund and paid out to subrecipients from there. Since July 1, 2013, when the transfer was established, the Endowment's payments have been paid directly out of the Innovation Fund.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Education Innovation Fund Transfers (Concluded)

- The Department made a \$1 million transfer from the Innovation Fund to the School District Reorganization Fund (Reorganization Fund), as directed by State statute. However, the transfer was made in advance of the required distribution for high-ability learners. As a result, the Department transferred \$1 million back to the Innovation Fund from the Reorganization Fund to cover the annual distribution of aid to districts for High Ability Learner programs made in October 2015. The transfer was noted as temporary within the State's accounting system; however, the funds were not returned to the Reorganization Fund until March 2016, after the APA brought it to the Department's attention. The Innovation Fund balance was large enough to repay the Reorganization Fund as of January 4, 2016, after the second quarterly deposit of State Lottery proceeds was received.

Neb. Rev. Stat. 9-812(4)(c) (Supp. 2015) states, in relevant part, the following:

For fiscal year 2015-16, the Education Innovation Fund shall be allocated, after administrative expenses, as follows: . . . (ii) the next allocation shall be distributed to local systems as grants for approved accelerated or differentiated curriculum programs for students identified as learners with high ability pursuant to section 79-11008.02 in an aggregated amount up to the amount distributed in the prior fiscal year for such purposes increased by the basic allowable growth rate pursuant to section 79-1025; . . . (iv) the next one million dollars shall be transferred to the Early Childhood Education Endowment Cash Fund for use pursuant to section 79-1104.02; . . . (vii) the next one million dollars shall be transferred to the School District Reorganization fund; . . . Except for funds transferred to the School District Reorganization fund, . . . no funds received as allocations from the Education Innovation Fund pursuant to this subdivision may be obligated for payment to be made after June 30, 2016, and such funds received as transfers or allocations from the Education Innovation Fund that have not been used for their designed purpose as of such date shall be transferred to the Nebraska Education Improvement Fund on or before August 1, 2016.

When Innovation Fund transfers are not made in accordance with applicable statutory requirements, and temporary transfers between funds are not returned in a timely manner, there is an increased risk for the loss or misuse of State funds.

We recommend the Department perform Innovation Fund transfers in accordance with applicable State statutes. We also recommend temporary transfers between funds be returned to the appropriate fund as soon as possible.

Department's Response: The Department will review its procedures to ensure that statutorily required transfers are made as required in the future and that temporary transfers are returned in a timely manner.

6. Contracts Not on the State Contract Database or Accounting System

The APA found multiple instances of the Department not placing its contracts on the State's contract database or accounting system, as required by State statutes. The contracts in question were not written based on the regular Department contract template. The APA found four different types of contracts that were not consistently entered into the State's contract database or

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Contracts Not on the State Contract Database or Accounting System (Continued)

accounting system: letter contracts; booking contracts; contracts between vendors and the Early Childhood Education Endowment's Board of Trustees; and special service contracts for disciplinary investigations. Also, the APA tested contracts for services provided to individuals through the Vocational Rehabilitation Program that were not placed on the State's contract database or accounting system.

The following contracts tested were not entered into the State's contract database or accounting system:

- One letter contract tested was for compensation of \$50 per hour plus expenses for a Routines Based Interview (RBI) boot camp. According to the Department's internal administrative memorandum on letter contracts, "Letter contracts may only be used if the total payment to the contractor, including expenses, is less than \$2,000. An activity that may be provided under one contract may not be broken down into multiple letter contracts." If the letter contract provides "monetary consideration beyond expenses," the administrative memorandum on letter contracts states that these contracts should be entered into the State's accounting system. The letter contract tested was not entered into the system.
- One hotel payment tested for conference expenses was paid pursuant to letter contracts and a booking contract. These contracts were not uploaded into the State's contract database or accounting system. The amount of this payment for letter contracts was \$5,743. The cost to rent the hotel conference room was \$1,200, and \$785 was paid for rental equipment, which would have been covered under the terms of the booking contract.
- Two contracts tested between vendors and the Early Childhood Education Endowment Board of Trustees were not uploaded into the State's contract database or accounting system. According to Department representatives, contracts between the Board and vendors did not need to be uploaded into the State's contract database or accounting system because the Endowment's Board of Trustees is not part of the Department. One contract was worth \$439,815, and the other was worth \$124,886. The Department has since placed the current contracts with these two vendors on the database and in the State's accounting system.
- One contract between the Professional Practices Commission and their legal counsel was not entered into the State's contract database or accounting system. The contract was for a maximum of \$12,000 per year. Payments for this contract during the period of testing totaled \$3,976. The commission advises the State Board of Education regarding rules and regulations for the standards of ethics and competency for Nebraska public school educators, promotes understanding of and adherence to the standards and provides an orderly method of resolving disputes arising over alleged failure of an educator to adhere to the standards.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Contracts Not on the State Contract Database or Accounting System** (Continued)

- Two contracts for services provided to individuals through the Vocational Rehabilitation Program were not entered into the State's accounting system. One contract totaled \$7,000, and the other contract totaled \$25,000.

Neb. Rev. Stat. § 73-503(1) (Cum. Supp. 2014) states the following:

All state agencies shall process and document all contracts for services through the state accounting system. The Director of Administrative Services shall specify the format and type of information for state agencies to provide and approve any alternatives to such formats. All state agencies shall enter the information on new contracts for services and amendments to existing contracts for services. State agency directors shall ensure that contracts for services are coded appropriately into the state accounting system.

Neb. Rev. Stat. § 73-503(2) (Cum. Supp. 2014) states the following:

The requirements of this section also apply to the courts, the Legislature, and any officer or state agency established by the Constitution of Nebraska, but not to the University of Nebraska.

Neb. Rev. Stat. § 84-602.02(3)(a) (Supp. 2015) states the following, in relevant part:

Beginning July 1, 2014, the web site described in this section shall include a link to the website of the Department of Administrative Services. The department's web site shall contain: (i) A data base that includes a copy of each active contract that is a basis for an expenditure of state funds, including any amendment to such contract and any document incorporated by reference in such contract The data base shall be accessible by the public and searchable by vendor, by agency, board, commission, or department, and by dollar amount. All agencies, boards, commissions, and departments of the state shall provide to the Department of Administrative Services, in electronic form, copies of such contracts for inclusion in the data base beginning with contracts that are active on and after January 1, 2014; and (ii) A data base that includes copies of all expired contracts which were previously included in the data base described in subdivision (3)(a)(i) of this section and which have not been disposed of pursuant to policies and procedures adopted under subdivision (3)(e) of this section. The data base required under this subdivision shall be accessible by the public and searchable by vendor, by agency, board, commission, or department, and by dollar amount.

Subsection (6) of § 84-602.02 defines "expenditure of state funds" as follows:

- (a) *For purposes of this section, expenditure of state funds means all expenditures of appropriated or nonappropriated funds by an agency, board, commission, or department of the state from the state treasury in forms including, but not limited to:*
 - (i) *Grants;*
 - (ii) *Contracts;*
 - (iii) *Subcontracts;*
 - (iv) *State aid to political subdivisions; and*
 - (v) *Tax refunds or credits that may be disclosed pursuant to the Nebraska Advantage Act, the Nebraska Advantage Microenterprise Tax Credit Act, the Nebraska Advantage Research and Development Act, or the Nebraska Advantage Rural Development Act.*
- (b) *Expenditure of state funds does not include the transfer of funds between two agencies, boards, commissions, or departments of the state or payments of state or federal assistance to an individual*

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Contracts Not on the State Contract Database or Accounting System (Concluded)

Neb. Rev. Stat. § 79-1104.03 (Reissue 2014) states the following:

To administer the Early Childhood Education Grant Program with respect to children from birth to age three, the Early Childhood Education Endowment Board of Trustees is created. For administrative support and budgetary purposes only, the board of trustees shall be within the State Department of Education.

By failing to enter its contracts into the State's contract database or accounting system, the Department is not only noncompliant with State statutes but also inadvertently preventing both the Legislature and the general public from having access to valuable financial information.

We recommend that the Department enter all required contracts into the State's contract database and accounting system.

Department's Response: The Department will review its contract reporting procedures to ensure compliance with State statute. The following contain additional information about the exceptions noted:

- *The Department will work with DAS Material to review processing related to entering letter and booking contracts into the State Contract Database.*
- *The Department will work with the Early Childhood Education Endowment Board and the Public Practices Commission as their fiscal agents to ensure their contracts are reported as required.*
- *VR annually receives direct purchase authority from DAS Material that exempts goods and services purchased for individual clients from EI Procurement, therefore they are not entered into the accounting system.*

Contracts of similar nature for UNL, State Colleges, Veteran Affairs, the Energy Office, and others are exempted from the State's Contract database in the Taxpayer Transparency Act, and VR believed the exclusion of VR from that list was an oversight. In Legislative session 2016, LB694 amended the Taxpayer Transparency Act to exempt contracts entered into by the Department of Education (VR) for the purpose of providing specific goods, services, or financial assistance on behalf of or to a specifically named individual from the State Contract database.

APA Response: The VR direct purchase authority does not relate to services and furthermore it does not exempt purchases from being entered into the State's accounting system. The VR purchases tested were not on the State Contract Database, which did not comply with State statute at that time.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Appropriations Exceeded

The Legislature makes appropriations for each fiscal year. An appropriation is an authorization to make expenditures and incur financial obligations. This authority is granted by the Legislature, and each agency is expected to operate within those limits.

Program 351 – Vocational Rehabilitation General Fund expenditures for fiscal year 2015, including expenditures obligated in fiscal year 2015 and paid in fiscal year 2016, totaled \$4,981,788. The Department exceeded its appropriated General Fund spending authority by \$27,409 for Program 351.

Program 351 – Vocational Rehabilitation Cash Fund expenditures for fiscal year 2015, including expenditures obligated in fiscal year 2015 and paid in fiscal year 2016, totaled \$391,840. The Department exceeded its appropriated Cash Fund spending authority by \$71,057 for Program 351.

The 103rd Legislature, Legislative Bill 195						
Program 351 - Vocational Rehabilitation						
	Appropriation	Re-appropriation	Total Authorization	FY15 Expenditures	Exceeded Authority	
General Fund	\$ 4,756,703	\$ 197,676	\$ 4,954,379	\$ 4,981,788	\$ 27,409	
Cash Fund	249,777	71,006	320,783	391,840	71,057	
Total	\$ 5,006,480	\$ 268,682	\$ 5,275,162	\$ 5,373,628	\$ 98,466	

The Department did not adequately monitor its appropriation level. At June 30, 2015, the Department had \$590 of appropriations remaining in the Vocational Rehabilitation Cash Fund. Over the next six months, however, \$71,647 was expended for prior year obligations, on what appears to have been a variety of transactions in the normal course of business.

When expenditures and obligations exceed appropriations, the Department is not in compliance with spending limitations established by the State Legislature.

We recommend the Department operate Program 351 within the spending limitations established by the State Legislature.

Department's Response: The Department acknowledges that the appropriations were exceeded on an accrual basis but there were sufficient Federal Fund appropriations available that these transactions could have been coded to. The Department will review its procedures to ensure that prior year obligations paid in the current year are properly coded.

8. Disability Determination Section (DDS) Rate Support

The Disability Determination Section (DDS) did not have support for 8 of 15 service rates tested. Service rates set the maximum allowed reimbursement that providers can receive for medical procedures performed. DDS did not maintain documentation to support how these reimbursement rates were determined.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Disability Determination Section (DDS) Rate Support (Concluded)

DDS is able to set its own rates based on what other State agencies are paying for those same types of services. For five of the eight rates noted, DDS was reimbursing providers more than specified by either the Department of Health and Human Services (DHHS) Practitioner Fee Schedule or the Federal Medicaid Physician Fee Schedule (FMPFS). For three of the eight rates noted, DDS developed its own rates, as neither DHHS nor FMPFS listed rates for those or similar services.

20 C.F.R. § 404.1624 (April 1, 2015) states the following:

The State will determine the rates of payment for purchasing medical or other services necessary to make determinations of disability. The rates may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar type of service. The State will maintain documentation to support the rates of payment it uses.

Good internal controls require documentation to support how reimbursement rates were determined and periodic reviews of those rates.

When no documentation is maintained to support how reimbursement rates were determined, and no periodic review of those rates is performed, there is an increased risk of both overpayment for services and noncompliance with Federal regulations.

We recommend the Department implement procedures to ensure both the maintenance of supporting documentation for reimbursement rates and the periodic review of those rates.

Department's Response: The Department will take the recommendation under advisement as they evaluate processes moving forward.

9. Textbook Loan Program

The Department did not sufficiently monitor the public school administration of the Textbook Loan Program (Program). During our review, we noted the following issues:

- The Department did not have procedures in place to confirm the public school district cash fund balances maintained for the Program. The cash fund balances consisted of funds received from parents of private school children for lost/damaged books, cash received from the sale of books that were no longer used, and any excess Program money received from the Department representing the difference between textbook purchase prices and price quotations submitted to the Department.
- The APA questions the legal authority of public school districts to carry over unexpended Program funds. Instead of being deposited back with the State Treasurer, as required by statutes, the unexpended funds are retained by the public school districts until the following Program year. For example, one public school district did not expend \$94,104 of Program funds requested in 2014. The funds were carried over by the public school district and effectively reduced the 2015 Program funds requested from \$177,868 to \$83,764. Additionally, when public school districts are allowed to carry over funds, the achievement of current year Program goals may be limited.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Textbook Loan Program (Continued)

- For the one public school tested, we noted the following:
 - Program textbooks were not returned to the designated inventory site within 15 days after the close of the public school year classes. In fact, Program textbooks were not returned at all. The public school district allowed the private schools to maintain Program inventory at their locations, which was not in compliance with the public school's policy.
 - The school allowed private schools to continue to use Program textbooks that were no longer used by the public district. Twenty-two of 34 books on the inventory of one private school tested in the public school district were no longer used by the public school district.
 - The school allowed private schools to maintain inventory at levels higher than needed. For example, one second grade class in a private school tested had 30 books on hand, but there were only 27 students in that grade. Because the books were not returned to the public school at the end of the year, excess inventory will fluctuate year-to-year depending on class size.

Neb. Rev. Stat. § 79-734(2) (Reissue 2014) states, in relevant part, the following:

School boards and boards of education shall purchase and loan textbooks to all children who are enrolled in kindergarten to grade twelve of a public school and, upon individual request, to children who are enrolled in kindergarten to grade twelve of a private school which is approved for continued legal operation under rules and regulations established by the State Board of Education pursuant to subdivision (5)(c) of section 79-318. The legislature may appropriate funds to carry out the provisions of this subsection The State Department of Education shall adopt and promulgate rules and regulations to carry out this section

Neb. Rev. Stat. § 84-602 (Reissue 2014) states the following, as is relevant:

It shall be the duty of the State Treasurer: (1) To receive and keep all money of the state not expressly required to be received and kept by some other person[.]

Neb. Rev. Stat. § 72-1243(1) (Cum. Supp. 2014) states, in relevant part, the following:

Except as otherwise specifically provided by law, the state investment officer shall direct the investment and reinvestment of money in all state funds not currently needed . . . and order the purchase, sale, or exchange of securities for such funds.

Title 92 NAC Chapter 4 contains the following provisions:

§ 003.01 - *Return of Textbooks.* A parent, legal guardian, or authorized parent representative of a private school student shall return textbooks to the designated inventory site as provided in 004.07 within 15 days after the close of the public school year classes.

§ 004.01 - *Local procedures.* Each school district shall have local rules and regulations for the distribution of textbooks and the management of funds under this chapter, which shall include, but not be limited to:

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

9. **Textbook Loan Program** (Continued)

§ 004.01A - *Making available, no later than November 15, a list of textbooks designated for use in the public schools of the district during the current school year, a list of any new textbooks that the school district has determined by November 15 shall be used during the next school year, and a list showing, by title (including edition and copyright), the number of all textbooks previously purchased for the textbook loan program and still available for loan.*

* * * *

§ 004.01E - *Procedures for establishing and maintaining a separate inventory of textbooks for loan to private school children.*

§ 004.04 - *Distribution of funds. Boards of education shall make application for funds from the Department of Education The board of education shall specify in the application:*

* * * *

§ 004.04E - *If applicable, the amount of carryover funds remaining from the previous year if the total amount received was not expended (and an explanation of the reasons for the carryover), the amount of funds on hand from any sale of unused textbooks (per section 004.01F), and the amount of funds on hand from reimbursements received for damaged textbooks (per Section 004.08).*

§ 004.07 - *Textbooks purchased with funds appropriated for purposes of this chapter shall be maintained in a separate inventory and shall be made available to private school children so long as the textbook titles remain on the list required in 004.01A, and the textbooks are not lost, stolen, destroyed, or damaged beyond repair. Such inventory may be maintained at a facility of the school district which purchased the textbooks or at an alternative site or sties agreed upon by the school district and the authorized parent representative(s) responsible for such textbooks. If an alternative inventory site is designated, the authorized parent representative(s) shall be deemed to have custody of such textbooks, be personally liable for the safekeeping of such textbooks, and shall maintain a documented inventory-control system as agreed upon with the school district.*

When recipients of Program funds are not adequately monitored, there is an increased risk for abuse of the Program by participants. There is also an increased risk that the Program will not be operated in accordance with applicable State statutes and Department rules and regulations. Additionally, failure to remit unused Program funds to the State Treasurer for investment with the Nebraska Investment Council may violate State statute.

We recommend the Department implement monitoring procedures to ensure that schools are in compliance with Program requirements. We also recommend the Department revise its policies and procedures to require the return of excess Program funds for redistribution to other schools that did not receive full funding for the period or for investment in the State Investment Pool. Additionally, we recommend the Department amend Title 92 NAC Chapter 4 or obtain an Attorney General's opinion on the clause allowing excess Program funds to be held by public school districts.

Department's Response: The Department will take the State Auditor's recommendations into consideration as we evaluate our role in monitoring the textbook loan program going forward.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Textbook Loan Program (Concluded)

Rule 4 is currently in the process of being updated which will include an Attorney General review. We will request the Attorney General's review of the carryover funds during their review of the updated Rule 4.

10. Purchasing Procedures

The Department purchased 55 Apple computers for a total of \$56,017 without proper approval from the Materiel Division of Administrative Services (DAS), as required by State statute. Within the State's accounting system, an employee used an elevated level of access to circumvent the purchasing approval routes to directly route the purchase back to the Department after the Office of the Chief Information Officer (OCIO) approved the purchase. The Department purchased the computers on December 30, 2015, a week before the statewide contract with Apple went into effect.

Neb. Rev. Stat. § 81-1118(5) (Reissue 2014) states the following:

The state purchasing bureau shall be responsible for all purchases by all state agencies other than the University of Nebraska. The materiel division shall administer the public notice and bidding procedures and any other areas designated by the Director of Administrative Services to carry out the lease or purchase of personal property. All purchases of and contracts for materials, supplies, or equipment and all leases of personal property shall be made in the following manner except in emergencies approved by the Governor: (a) By a competitive formal sealed bidding process through the materiel division in all cases in which the purchases are of estimated value in the amount of twenty-five thousand dollars or more[.]

The Department's purchase of computers was not in compliance with State statute, which increases the risk of loss or misuse of State funds.

We recommend the Department implement procedures to ensure that all purchases are made in compliance with State statute.

Department's Response: This purchase order to PCMG was entered into E1 on 12/10/15, and paid on 12/30/15. At the time of the purchase, there was no state contract with Apple. The state contract had expired on 9/30/15 and DAS Material did not yet have a new contract in place. Three bids were obtained, as required, and PCMG had the lowest bid. Without a state contract, Nebraska VR purchased from the lowest bid. The requisition from which this purchase order was generated was approved by OCIO on 12/9/15. Since the purchase was authorized by the OCIO, the procurement routing was altered to ensure the purchase would be obligated during the proper period authorized by the grant which ended December 31, 2015. The Department will continue to review its purchasing processes to ensure compliance with State statute.

APA Response: Entering a requisition too close to a funding end date does not justify the violation of statutory due process.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

11. Journal Entries

For 4 of 25 journal entries tested, we noted the following:

- Two entries tested were for the recording of indirect costs and the recognition of the Federal reimbursement. We noted the Department is doubling the amount of expenditures and revenues recorded in Fund 41340. The Department uses Fund 41340 to pool indirect costs. The Department records the payment for expenditures in Fund 41340. When allocating indirect costs, the Department recognizes revenue to Fund 41340 and indirect costs to various funds. Then, when costs are reimbursed by the Federal government, the Department recognizes revenue to the specific grant. These entries result in the doubling of expenditures and revenues on the financial schedule in Fund 41340 for some expenditures, as some Federal grants are tracked within the same fund. The total amount of expenditures duplicated in Fund 41340 for the calendar year was \$182,245.
- Two entries allocated rent expense in the amount of \$36,730 and network fees in the amount of \$165,100 to various programs. The Department allocated the expenses based on employees' time spent working on the various programs; however, the allocation spreadsheet provided did not agree to employee time splits for the periods tested.

OMB Circular A-87, Attachment A, § Section C(3)(a), states the following:

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

A good internal control plan requires procedures to ensure expenditures and revenues related to indirect costs are recorded properly. Additionally, a good internal control plan includes procedures to ensure allocations agree to supporting documentation.

When indirect costs are double recorded, there is an increased risk of material misstatement to the financial schedule. Also, when allocation percentages do not agree to supporting documentation, there is an increased risk the Department is not in compliance with Federal requirements.

We recommend the Department implement procedures to ensure expenditures and revenues are not recorded twice. We also recommend the Department implement procedures to ensure cost allocation percentages are properly supported and reconcile to supporting documentation.

Department's Response: The Department will review its procedures related to indirect costs for those grants that are initially funded through indirect costs and subsequently reimbursed by the Federal government. The Department will also review its rent and network fees to ensure they are compliant with Federal regulations.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

12. Expired Warrants

The Department did not properly follow up on outstanding warrants before they expired. We noted the Department had 72 warrants paid with Federal funds that expired during the calendar year for a total amount of \$15,672, which were incorrectly remitted to the State's General Fund.

Also, as of March 4, 2016, there were 63 current outstanding warrants paid from Federal funds totaling \$11,300.

Neb. Rev. Stat. § 77-2205 (Reissue 2009) states, in relevant part, the following:

The State Treasurer shall not pay any warrant . . . one year after the date of its issuance if issued on or after October 1, 1992, and any such warrant shall cease to be an obligation of the State of Nebraska and shall be charged off upon the books of the State Treasurer. Except as otherwise provided by law, the amount stated on such warrant shall be credited to the General Fund.

A good internal control plan requires procedures to ensure outstanding warrants are properly followed up on.

When outstanding warrant review procedures are not followed, there is an increased risk that warrants paid with Federal funds will expire and automatically be remitted to the General Fund.

We recommend the Department implement procedures to review and follow up on outstanding warrants.

Department's Response: The Department believes that the federally funded warrants noted were handled appropriately and any subsequent claim for the funds would be handled through DAS Risk Management and the State Claims Board.

APA Response: Per Neb. Rev. Stat. § 69-1307.01 (Reissue 2009) and Op. Att'y Gen. No. 98043 (October 26, 1998), monies received by the State on behalf of another entity are to be treated as unclaimed property and are not payable to the General Fund upon expiration of the warrants. Furthermore, the differing regulations of Federal awards require a proper review of outstanding warrants to ensure correct treatment.

13. Capital Assets

During our review of fixed assets, we noted the following:

- There was an inadequate segregation of duties over capital asset record keeping. One individual was responsible for maintaining all capital asset records, which included adding items to the State's accounting system, preparing Surplus Property Notification forms, initiating the asset disposable process, making correcting entries, and tagging assets.
- The additions and retirement reports were not being reviewed to ensure capital assets were appropriately added to or removed from the accounting system.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

13. Capital Assets (Concluded)

- The Department incorrectly recorded an asset's value at \$3,000 when the actual value of the asset was \$3,045. The Department then created a reversing entry to remove the incorrect amount; however, the transaction was passed on and the incorrectly recorded value of \$3,000 remained in the accounting system's fixed asset ledger. The Department then recorded the asset value at \$3,045, which resulted in the asset being valued at \$6,045 in the accounting system's fixed asset ledger.
- Seven computers purchased in October 2015 were listed on the February 2016 Unposted Fixed Asset Report, meaning they were not identified as capital assets in the State's accounting system. When brought to the Department's attention, they passed on posting the computers as capital assets since their individual costs were below \$1,500, the capitalization threshold. Effective July 2015, however, DAS had implemented new capital asset requirements that directed all computers to be capitalized. Regardless, the computers at issue, which have a combined worth of \$5,131, were not properly capitalized.

The July 1, 2015, DAS memorandum referenced above states the following:

All computer towers, laptops, notebook computers, and tablet computers purchased from the date of this letter are required to be listed in EnterpriseOne as a fixed asset regardless of their cost.

Good internal controls require procedures to be in place to ensure an adequate segregation of duties over capital assets, so one individual is not in a position both to perpetrate and to conceal errors or irregularities. Such procedures should include a monthly review of fixed asset reports to ensure capital assets are appropriately added to or removed from the accounting system. Finally, the procedures should ensure that asset costs are accurately recorded in the accounting system, and DAS asset recording requirements are being followed.

Without these procedures, there is an increased risk for misuse or theft of State assets or errors in the reporting of assets. Additionally, when computer purchases are not capitalized, those costs may not be accurately reflected on the financial schedule or in the footnotes to the schedule.

We recommend the Department implement procedures to ensure an adequate segregation of duties over capital assets, a monthly review of fixed asset reports, the accurate recording of asset costs in the accounting system, and adherence to DAS asset recording requirements.

Department's Response: The Director of Finance and Organizational Services will begin reviewing the additions and retirement reports on a monthly basis effective immediately. The appropriate object codes and business rules were not available in E1 until February 2016 (eight months after the DAS memorandum). Non-Code Agencies were not notified or invited to the training provided by DAS. The appropriate process is currently being used.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

14. Developer Access to Production Environment

One Disability Determination System (DDS) application developer and one DDS contracted developer at the Department had full access to the production environment.

Two QE2 (Vocational Rehabilitation System) application developers had access to develop code and move changes into production.

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101 (December 10, 2013), Section 4.3.2.3, Separation of Duties, states the following:

To reduce the risk of accidental or deliberate system misuse, separation of duties must be implemented where practical. Whenever separation of duties is impractical, other compensatory controls such as monitoring of activities, audit trails and management supervision must be implemented. At a minimum the audit of security must remain independent and segregated from the security function.

NITC Standards and Guidelines, Information Security Policy 8-101 (December 10, 2013), Section 4.9.11, Change Control Management, states the following:

To protect information systems and services, a formal change management system must be established to enforce strict controls over changes to all information processing facilities, systems, software, or procedures. Agency management must formally authorize all changes before implementation and ensure that accurate documentation is maintained. These change control procedures will apply to agency business application as well as systems software used to maintain operating systems, network software, hardware changes, etc.

Good internal controls require procedures to ensure application changes are approved and documented. This includes implementing a segregation of duties in the change management process when migrating changes to production environments. If a segregation of duties cannot be maintained due to staff size, compensating controls should be implemented, including the review of audit logs, code changes, or automatic notifications by someone other than the developer(s) to identify all changes made to the production environment.

Without such controls, application developers with access to the database and the production environments will have the ability to circumvent the standard change control process and implement modifications that may be inconsistent with management's intentions and could result in unauthorized changes to data.

We recommend the Department implement procedures to ensure the approval and documentation of application changes. Additionally, a proper segregation of duties should be implemented in the change management process when migrating changes to production environments. Absent such a segregation of duties, we recommend implementing appropriate compensating controls.

Department's Response: The Department will take the recommendation under advisement and has changed the following process. The IT Supervisor will move changes to production after they have been approved by the Change Committee. The IT Supervisor does not develop code.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS
(Continued)

15. Information Technology (IT) User Access

The APA noted a variety of issues with IT user access in the Department.

For one Grants Management System (GMS) application user, access to the application was not removed timely (within three business days) after termination of employment. Instead, the application user retained access for 17 business days afterwards.

For one of three DDS application users, access to the application was not removed timely after termination of employment. Instead, the application user retained access for five business days afterwards.

For 1 of 16 users with access to approve applications in the Child Nutrition Program (CNP), such access was not required for her job duties.

NITC Standards and Guidelines, Information Security Policy 8-101 (December 10, 2013), Section 4.7.2, User Account Management, states the following, in relevant part:

A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification, and deletion of user accounts. Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges Agencies or data owner(s) should perform annual user reviews of access and appropriate privileges.

A good internal control plan includes procedures to ensure that IT user access is removed within three business days following termination of employment. Those procedures should also restrict IT access to those employees whose job duties require it. Finally, the procedures should entail a periodic review by management to ensure the continued propriety of all IT user access.

Without such procedures, the opportunity exists for unauthorized access to IT systems and the unapproved processing of transactions.

We recommend the Department establish procedures to ensure that users have only the necessary and appropriate IT access needed to perform their job functions and that application access is removed timely when employees terminate. We also recommend a periodic review by management to ensure the continued propriety of all IT user access.

Department's Response: The Department will review its procedures to ensure that users have appropriate access and that terminated employees have their access removed in a timely manner.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Continued)

16. Information Technology (IT) Risk Assessment

We noted the Department prepared an IT risk assessment report; however, it lacked application-specific risk information. The Department has multiple applications, which may have different levels of risk.

NITC Standards and Guidelines, Information Security Policy 8-101 (December 10, 2013), Section 4.5.1, Physical Security Perimeter, states, in relevant part, the following:

Agencies will perform a periodic threat and risk assessment to determine the security risks to facilities that contain State information

NITC Standards and Guidelines, Information Security Policy 8-101 (December 10, 2013), Section 4.9.3, Risk Assessment, states, in relevant part, the following:

Security requirements and controls must reflect the value of the information involved, and the potential damage that might result from a failure or absence of security measures The framework for analyzing the security requirements and identifying controls to meet them is associated with a risk assessment, which must be performed by the data owner(s) and Agency management. A process must be established and implemented for each application to:

- *address the business risks and develop a data classification profile to help to understand the risks;*
- *identify security measures based on the criticality and data sensitivity and protection requirements;*
- *identify and implement specific controls based on security requirements and technical architecture;*
- *implement a method to test the effectiveness of the security controls; and*
- *identify processes and standards to support changes, ongoing management and to measure compliance.*

A good internal control plan requires procedures to ensure that an IT risk assessment is completed and updated periodically. Those procedures should require the assessment to address application-specific risk information.

Without such procedures, there is an increased risk that an application's threats will not be identified. This increases the risk of preventable security vulnerability and threat exploitation, causing such issues as downtime, loss of productivity, unauthorized access, compromise of confidential information or data integrity, or interference with other State or Federal systems.

We recommend the Department implement procedures to ensure the periodic performance of an IT risk assessment that addresses application-specific risk information.

Department's Response: The Department recognizes the importance of the IT risk assessment to ensure protection from security vulnerability and threat exploitation, causing such issues as downtime, loss of productivity, unauthorized access, compromise of confidential information or data integrity, or interference with other State or Federal systems.

To that end, the Department is taking the following steps to expand the IT security audit procedures.

NEBRASKA DEPARTMENT OF EDUCATION

COMMENTS AND RECOMMENDATIONS

(Concluded)

16. Information Technology (IT) Risk Assessment (Concluded)

1. *The first step includes the implementation of security and audit work group as part of the overall data governance work of the Department. The formalization of data governance and operations works to ensure a clear expectation of tasks, responsibilities, and time lines. The specific audit and security work group is responsible for providing oversight, review, and management of the processes associated with data security audits and any subsequent recommendations for mitigations of risk. The process also includes an evaluation of all applications developed and establishes a consistent review cycle for the audit.*
2. *Using the NITC standards as a resource, the department is undergoing a review and revision of all policy and procedures associated with the IT operations of the department. These revised Administrative Policy and Procedures will include the consistent application of processes for achieving standards across a multitude of IT based products and services.*
3. *As part of the biennium technology plan, a core focus or work stream, focused on the privacy and security of IT operations and data. The work focus identifies both a review of current practices and policies internally, but also provides guidance, awareness and support for school districts on appropriate practices and procedures as well.*

The Department is confident that through accomplishing these three steps and the related tasks that we will be in a better position to identify and mitigate the risks associated with the applications developed and several additional areas of security will be enhanced as well.



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NEBRASKA DEPARTMENT OF EDUCATION

INDEPENDENT ACCOUNTANTS' 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 calendar year ended December 31, 2015. The Department's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the schedule referred to above presents, in all material respects, revenues, expenditures, and changes in fund balances of the Department for the calendar year ended December 31, 2015, based on the accounting system and procedures prescribed by the State of Nebraska Department of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies and material weaknesses in internal control; instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and abuse that has a material effect on the subject matter

or an assertion about the subject matter of the examination engagement. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed a certain finding that is required to be reported under Government Auditing Standards, and the finding, along with the views of management, is described in the Comments Section of the report.

This report is intended solely for the information and use of management, the State Board of Education, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink, appearing to read "C. J. Janssen", with a long horizontal flourish extending to the right.

Charlie Janssen
Auditor of Public Accounts

July 1, 2016

NEBRASKA DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
January 1, 2015, through December 31, 2015

	State General Fund 10000	State Department of Education Cash Fund 21300	Professional Practices Commission Fund 21310	Prvt Postsecondary Career Schools Cash Fund 21320	Excellence In Teaching Cash Fund 21330	High School Equivalency Grant Fund 21335	Early Childhood Program Training Fund 21360	Early Childhood Education Endowment Cash Fund 21365	Certification Fund 21390	Tuition Recovery Cash Fund 21480
REVENUES:										
Appropriations	\$ 1,174,997,208	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	5,556	42,203	-	-	-	-	-	-	-	-
Sales & Charges	3,988	122,016	132,393	92,322	-	-	42,625	-	467,157	-
Miscellaneous	4,651	36,315	8,386	1,932	20,910	2,036	1,620	69,493	66,090	6,921
TOTAL REVENUES	1,175,011,403	200,534	140,779	94,254	20,910	2,036	44,245	69,493	533,247	6,921
EXPENDITURES:										
Personal Services	11,139,640	42,674	96,656	56,528	-	-	-	-	369,394	-
Operating	10,269,831	115,778	23,001	10,514	40	-	22,459	251	191,316	-
Travel	769,138	30,379	8,432	1,149	-	-	-	710	102	-
Capital Outlay	12,686	-	-	-	-	-	-	-	-	-
Government Aid	1,179,302,877	259,626	-	-	1,463,825	-	-	133,313	-	-
TOTAL EXPENDITURES	1,201,494,172	448,457	128,089	68,191	1,463,865	-	22,459	134,274	560,812	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,482,769)	(247,923)	12,690	26,063	(1,442,955)	2,036	21,786	(64,781)	(27,565)	6,921
OTHER FINANCING SOURCES (USES):										
Sales of Assets	20,365	-	-	-	-	-	-	-	-	-
Deposit to General Fund	(34,560)	-	-	-	-	-	-	-	-	-
Deposit to Common Fund (Note 8)	-	-	-	-	-	-	-	-	-	-
Operating Transfers In (Note 7)	26,496,964	-	-	-	1,297,400	400,000	-	1,170,402	-	-
Operating Transfers Out (Note 7)	-	-	-	-	(97,400)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	26,482,769	-	-	-	1,200,000	400,000	-	1,170,402	-	-
Net Change in Fund Balances	-	(247,923)	12,690	26,063	(242,955)	402,036	21,786	1,105,621	(27,565)	6,921
FUND BALANCES, January 1, 2015	51,905	1,162,726	390,190	92,850	918,887	-	68,201	2,899,787	701,859	296,093
FUND BALANCES, December 31, 2015	\$ 51,905	\$ 914,803	\$ 402,880	\$ 118,913	\$ 675,932	\$ 402,036	\$ 89,987	\$ 4,005,408	\$ 674,294	\$ 303,014
FUND BALANCES CONSIST OF:										
General Cash	\$ -	\$ 948,809	\$ 402,720	\$ 118,913	\$ 639,792	\$ 402,036	\$ 89,987	\$ 4,005,408	\$ 674,294	\$ 303,014
Petty Cash	50	-	-	-	-	-	-	-	-	-
Deposits with Vendors	51,855	-	-	-	-	-	-	-	-	-
Accounts Receivable Invoiced	-	42	160	-	-	-	-	-	-	-
Due From Other Funds	-	-	-	-	-	-	-	-	-	-
Due From Other Government	-	-	-	-	-	-	-	-	-	-
Loans Receivable	-	-	-	-	70,190	-	-	-	-	-
Long-Term Investments	-	-	-	-	-	-	-	-	-	-
Due to Vendors	-	(5)	-	-	(34,050)	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-	-	-	-
Due to Government	-	(34,043)	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	\$ 51,905	\$ 914,803	\$ 402,880	\$ 118,913	\$ 675,932	\$ 402,036	\$ 89,987	\$ 4,005,408	\$ 674,294	\$ 303,014

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
January 1, 2015, through December 31, 2015

	School District Reorganization Fund 21485	Education Innovation Fund 21490	Federal Letter of Credit Fund 40000	NDE Federal Projects Fund 41340	State Department of Education Revolving Fund 51320	State Department of Education Trust Fund 61310	Temporary School Fund 61360	Early Childhood Education Endowment Fund 61365	Totals (Memorandum Only)
REVENUES:									
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,174,997,208
Intergovernmental	-	-	359,009,689	5,876,663	184	-	-	-	364,934,295
Sales & Charges	-	-	-	-	357,470	-	-	-	1,217,971
Miscellaneous	-	65,744	205,598	234,705	6,021	67,872	489,706	363,700	1,651,700
TOTAL REVENUES	-	65,744	359,215,287	6,111,368	363,675	67,872	489,706	363,700	1,542,801,174
EXPENDITURES:									
Personal Services	-	91,304	19,347,186	4,125,400	-	-	-	-	35,268,782
Operating	-	180,401	17,110,136	1,546,947	192,404	61,452	-	52,635	29,777,165
Travel	-	-	916,834	105,034	-	18,508	-	-	1,850,286
Capital Outlay	-	-	14,040	8,117	2,849	10,856	-	-	48,548
Government Aid	600,000	6,403,471	321,827,091	1,891,886	-	500	49,348,137	-	1,561,230,726
TOTAL EXPENDITURES	600,000	6,675,176	359,215,287	7,677,384	195,253	91,316	49,348,137	52,635	1,628,175,507
Excess (Deficiency) of Revenues Over (Under) Expenditures	(600,000)	(6,609,432)	-	(1,566,016)	168,422	(23,444)	(48,858,431)	311,065	(85,374,333)
OTHER FINANCING SOURCES (USES):									
Sales of Assets	-	-	-	-	-	-	-	-	20,365
Deposit to General Fund	-	-	-	-	-	-	-	-	(34,560)
Deposit to Common Fund (Note 8)	-	-	-	-	-	-	48,230,279	-	48,230,279
Operating Transfers In (Note 7)	1,000,000	12,872,883	-	9,529,458	-	-	15,424,256	-	68,191,363
Operating Transfers Out (Note 7)	(1,000,000)	(8,538,756)	-	(9,529,458)	-	-	(15,768,443)	(1,170,402)	(36,104,459)
TOTAL OTHER FINANCING SOURCES (USES)	-	4,334,127	-	-	-	-	47,886,092	(1,170,402)	80,302,988
Net Change in Fund Balances	(600,000)	(2,275,305)	-	(1,566,016)	168,422	(23,444)	(972,339)	(859,337)	(5,071,345)
FUND BALANCES, January 1, 2015	600,000	2,614,061	-	10,512,885	208,384	1,495,767	49,350,575	50,128,639	121,492,809
FUND BALANCES, December 31, 2015	\$ -	\$ 338,756	\$ -	\$ 8,946,869	\$ 376,806	\$ 1,472,323	\$ 48,378,236	\$ 49,269,302	\$ 116,421,464
FUND BALANCES CONSIST OF:									
General Cash	\$ -	\$ 2,110,362	\$ -	\$ 8,933,794	\$ 376,806	\$ 1,472,323	\$ 48,364,788	\$ -	\$ 68,843,046
Petty Cash	-	-	-	-	-	-	-	-	50
Deposits with Vendors	-	-	-	-	-	-	-	-	51,855
Accounts Receivable Invoiced	-	-	-	10,040	-	-	13,448	-	23,690
Due From Other Funds	-	-	-	2,000	-	-	-	-	2,000
Due From Other Government	-	-	-	(642)	-	-	-	-	(642)
Loans Receivable	-	-	-	-	-	-	-	-	70,190
Long-Term Investments	-	-	-	-	-	-	-	49,269,302	49,269,302
Due to Vendors	-	-	-	3,677	-	-	-	-	(30,378)
Deposits	-	(1,771,606)	-	-	-	-	-	-	(1,771,606)
Due to Fund	-	-	-	(2,000)	-	-	-	-	(2,000)
Due to Government	-	-	-	-	-	-	-	-	(34,043)
TOTAL FUND BALANCES	\$ -	\$ 338,756	\$ -	\$ 8,946,869	\$ 376,806	\$ 1,472,323	\$ 48,378,236	\$ 49,269,302	\$ 116,421,464

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2015

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 Director of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) 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[.]

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2014), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public.

The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows. State Accounting does not require the Department to record all accounts receivable and related revenues in EnterpriseOne; as such, the Department's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of December 31, 2015, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2015, **does not** include amounts for goods and services received before December 31, 2015, which had not been posted to the general ledger as of December 31, 2015.

Other liabilities are recorded in accounts entitled Due to Vendors, 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.

Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Continued)

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

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

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.

40000 – Federal Funds – account for the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

50000 – Revolving Funds – account for the operation of State agencies that 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.

The major revenue account classifications established by State Accounting and 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 account classifications established by State Accounting and used by the Department are:

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

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE
(Continued)

1. **Criteria** (Concluded)

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

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

Other significant accounting classifications and procedures established by State Accounting 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 resulting in 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 in the general ledger. Long-term investments (investments) are stated at fair value, based on quoted market prices. Law or legal instruments may restrict these investments. Investments are under the control of the State Treasurer or other administrative bodies, as determined by law.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Department’s funds at December 31, 2015, included amounts recorded in Due to Vendors, Deposits, Due to Fund, and Due to Government. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

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

2. **Reporting Entity**

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

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

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE
(Continued)

3. Totals

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

4. 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, which 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

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

For the CAFR, the State requires the Department to value 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 \$5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct capital assets 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 in the CAFR using the straight-line method with estimated useful lives of 3 to 10 years.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

Capital asset activity of the Department recorded in the State Accounting System for the December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 2,945,519	\$ 48,296	\$ (269,833)	\$ 2,723,982
Less accumulated depreciation for:				
Equipment				<u>(2,522,882)</u>
Total capital assets, net of depreciation				<u>\$ 201,100</u>

6. Investments

Long-Term Investments represent the balance reflected on EnterpriseOne. These investments are part of the Early Childhood Education Endowment Fund. The State Treasurer is the custodian of all funds for the State; however, investment of the Endowment fund is the responsibility of the Nebraska Investment Council. The Endowment fund is invested 50 percent in equities and 50 percent in fixed income. Interest income is distributed quarterly into the Early Childhood Education Endowment Cash fund and realized capital gains are reinvested. The quarterly distributions totaled \$1,170,402 during the calendar year.

7. Transfers

Operating Transfers In included \$26,496,964 transferred to the General Fund from the Insurance Premium Tax Fund for distribution to school districts as equalization aid per Neb. Rev. Stat. 77-913(3) (Reissue 2009), \$12,872,883 transferred to the Education Innovation Fund from the proceeds of the Nebraska State Lottery per Neb. Rev. Stat. 9-812 (Supp. 2015), and \$15,424,256 transferred to the Temporary School Fund from investment income earned in the Permanent School Fund per Neb. Rev. Stat. 79-1035.02 (Reissue 2014).

Operating Transfers Out included \$8,538,756 transferred from the Education Innovation Fund to the State General Fund per Neb. Rev. Stat. 9-812, and \$15,768,443 from the Temporary School Fund to the Board of Educational Lands and Funds for costs of administering the unsold school lands per Neb. Rev. Stat. 72-232.02 (Reissue 2009).

Operating Transfers In/Out will not balance within the Department's financial statements, as the Department represents only part of the State's primary government.

NEBRASKA DEPARTMENT OF EDUCATION

NOTES TO THE SCHEDULE
(Concluded)

8. Deposits to Common Fund

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

Board of Educational Lands and Funds	\$ 47,740,080
Department of Labor	34,900
Liquor Control Commission	<u>455,299</u>
Total	<u>\$ 48,230,279</u>

NEBRASKA DEPARTMENT OF EDUCATION

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary 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
EXHIBIT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2015 and Calendar Year Ended December 31, 2015

	July 1, 2014 through December 31, 2014	January 1, 2015 through June 30, 2015	Total Fiscal Year Ended June 30, 2015	July 1, 2015 through December 31, 2015	Total Calendar Year Ended December 31, 2015
REVENUES:					
Appropriations	\$ 415,440,356	\$ 756,094,075	\$ 1,171,534,431	\$ 418,903,133	\$ 1,174,997,208
Intergovernmental	167,436,036	184,169,798	351,605,834	180,764,497	364,934,295
Sales & Charges	369,349	645,575	1,014,924	572,396	1,217,971
Miscellaneous	2,225,971	1,749,150	3,975,121	(97,450)	1,651,700
TOTAL REVENUES	585,471,712	942,658,598	1,528,130,310	600,142,576	1,542,801,174
EXPENDITURES:					
Personal Services	17,060,752	17,212,047	34,272,799	18,056,735	35,268,782
Operating	11,847,886	13,513,791	25,361,677	16,263,374	29,777,165
Travel	906,169	839,760	1,745,929	1,010,526	1,850,286
Capital Outlay	43,457	17,140	60,597	31,408	48,548
Government Aid	582,245,961	960,077,887	1,542,323,848	601,152,839	1,561,230,726
TOTAL EXPENDITURES	612,104,225	991,660,625	1,603,764,850	636,514,882	1,628,175,507
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,632,513)	(49,002,027)	(75,634,540)	(36,372,306)	(85,374,333)
OTHER FINANCING SOURCES (USES):					
Sales of Assets	5,620	9,166	14,786	11,199	20,365
Deposit to General Fund	(12,274)	(17,415)	(29,689)	(17,145)	(34,560)
Deposit to/from Common Fund	29,633,299	17,867,512	47,500,811	30,362,767	48,230,279
Operating Transfers In	35,323,850	30,637,385	65,961,235	37,553,978	68,191,363
Operating Transfers Out	(17,995,089)	(16,718,204)	(34,713,293)	(19,386,255)	(36,104,459)
TOTAL OTHER FINANCING SOURCES (USES)	46,955,406	31,778,444	78,733,850	48,524,544	80,302,988
Net Change in Fund Balances	20,322,893	(17,223,583)	3,099,310	12,152,238	(5,071,345)
BEGINNING FUND BALANCES	101,169,916	121,492,809	101,169,916	104,269,226	121,492,809
ENDING FUND BALANCES	\$ 121,492,809	\$ 104,269,226	\$ 104,269,226	\$ 116,421,464	\$ 116,421,464
FUND BALANCES CONSIST OF:					
General Cash	\$ 70,714,514	\$ 52,964,076	52,964,076	\$ 68,843,046	68,843,046
Petty Cash	50	50	50	50	50
Deposits with Vendors	51,855	51,855	51,855	51,855	51,855
Accounts Receivable Invoiced	828,592	779,227	779,227	23,690	23,690
Due From Other Funds	-	-	-	2,000	2,000
Due From Other Government	215	(4,935)	(4,935)	(642)	(642)
Loans Receivable	60,865	64,085	64,085	70,190	70,190
Long-Term Investments	50,128,639	50,438,312	50,438,312	49,269,302	49,269,302
Due to Vendors	(131,432)	(23,444)	(23,444)	(30,378)	(30,378)
Deposits	-	-	-	(1,771,606)	(1,771,606)
Due to Fund	-	-	-	(2,000)	(2,000)
Due to Government	(160,489)	-	-	(34,043)	(34,043)
TOTAL FUND BALANCES	\$ 121,492,809	\$ 104,269,226	\$ 104,269,226	\$ 116,421,464	\$ 116,421,464

Source: Information obtained from the State accounting system, EnterpriseOne.

NEBRASKA DEPARTMENT OF EDUCATION
TAX EQUITY AND EDUCATIONAL OPPORTUNITIES SUPPORT ACT
STATE AID TO SCHOOLS – STATISTICS
For the Fiscal Year Ended June 30, 2016

Districts receiving more than \$5 million in Equalization Aid during the fiscal year ended June 30, 2016:

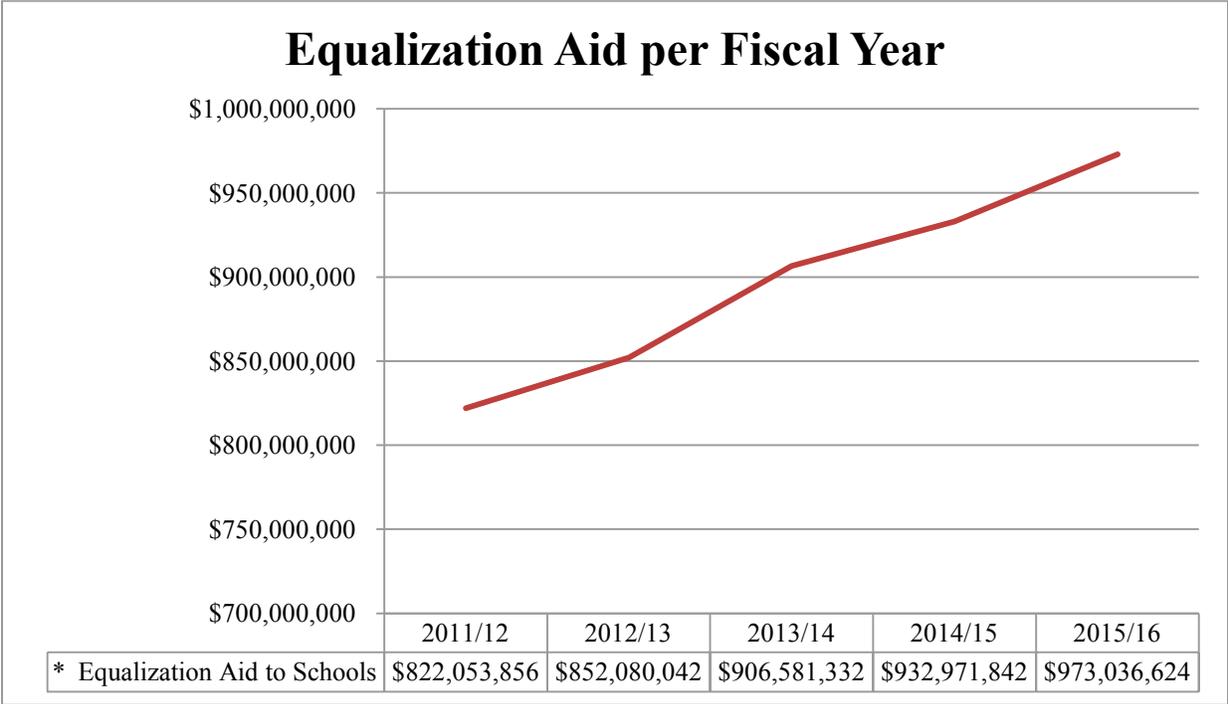
	County	District	School	State Aid	Formula Students	Average per Formula Student
1	Douglas	1	Omaha	\$ 213,112,872	49,638	\$ 4,293
2	Lancaster	1	Lincoln	127,869,381	37,664	3,395
3	Douglas	17	Millard	89,955,513	23,124	3,890
4	Hall	2	Grand Island	47,430,924	9,061	5,235
5	Sarpy	27	Papillion-La Vista	41,964,885	11,059	3,795
6	Sarpy	1	Bellevue	41,092,180	9,688	4,242
7	Douglas	66	Westside	31,033,742	5,954	5,212
8	Douglas	10	Elkhorn	28,174,950	7,352	3,832
9	Dakota	11	So. Sioux City	26,580,233	3,764	7,062
10	Adams	18	Hastings	19,969,556	3,500	5,706
11	Dawson	1	Lexington	18,953,010	2,713	6,986
12	Dodge	1	Fremont	18,248,292	4,511	4,045
13	Sarpy	37	Gretna	14,644,263	3,837	3,817
14	Douglas	54	Ralston	13,143,209	3,062	4,292
15	Platte	1	Columbus	12,530,744	3,568	3,512
16	Scotts	32	Scotts Bluff	12,452,471	3,157	3,944
17	Lincoln	1	North Platte	11,511,028	4,114	2,798
18	Madison	2	Norfolk	11,190,091	4,076	2,745
19	Buffalo	7	Kearney	10,680,479	5,214	2,048
20	Scotts Bluff	16	Gering	9,301,776	1,975	4,710
21	Saline	1	Crete	7,533,879	1,694	4,447
22	Douglas	59	Bennington	7,477,825	1,895	3,946
23	Cass	1	Plattsmouth	7,158,866	1,648	4,344
24	Hall	82	Northwest	6,235,658	1,409	4,426
25	Gage	15	Beatrice	6,074,122	1,997	3,042
26	Lancaster	16	Norris	5,419,428	2,112	2,566
27	Thurston	17	Winnebago	5,361,225	541	9,910
				845,100,602	208,327	4,057
	Remaining Schools			127,936,022	90,254	1,418
	*Total State Aid			\$ 973,036,624	298,581	\$ 3,259

The 27 districts receiving more than \$5 million in Equalization Aid (11% of school districts) received 87% of all Equalization Aid distributed for the 2015/16 school year.

**Equalization aid payments are based on the State's fiscal year, as aid payments are distributed September through June. Presenting Equalization Aid payments on a calendar year basis would not give an accurate account of aid payments made, as two separate years of calculated equalization aid would be included in the calendar year's data.*

Source: Department report titled, "2016/17 State Aid to be Paid by System Compared to 2015/16 Paid."

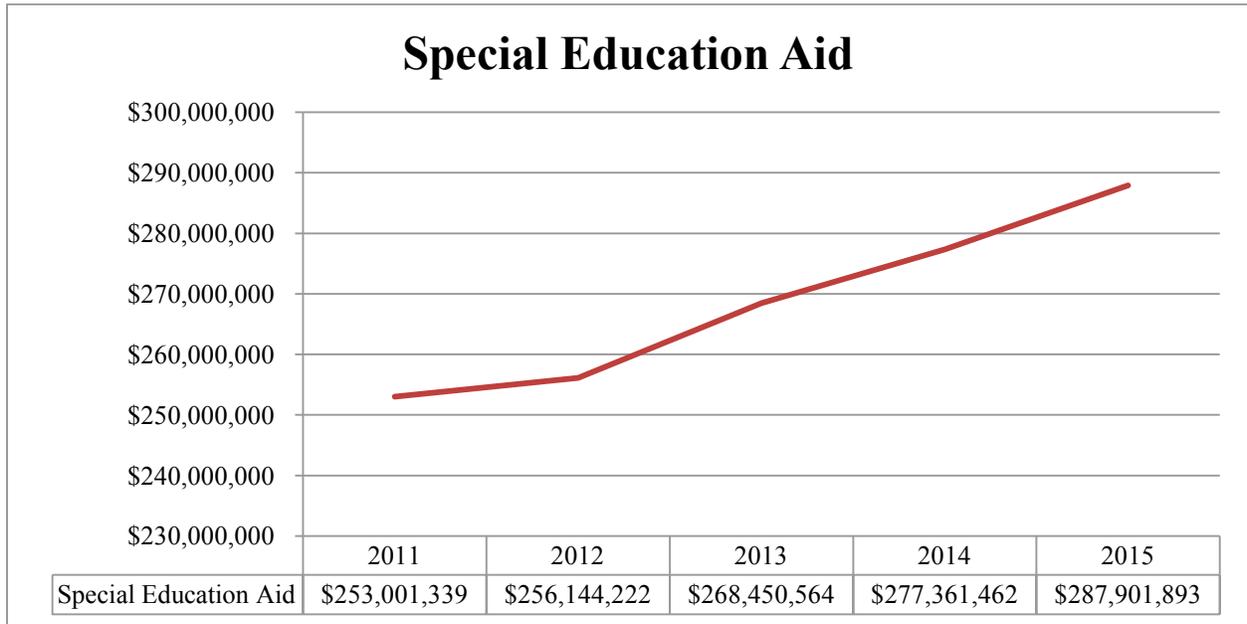
NEBRASKA DEPARTMENT OF EDUCATION
TAX EQUITY AND EDUCATIONAL OPPORTUNITIES SUPPORT ACT
STATE AID TO SCHOOLS – EXPENDITURES
 For Fiscal Years Ended June 30, 2012 through 2016



**Equalization aid payments are based on the State’s fiscal year, as aid payments are distributed September through June. Presenting Equalization Aid payments on a calendar year basis would not give an accurate account of aid payments made, as two separate years of calculated equalization aid would be included in the calendar year’s data.*

Source: Annual, State Aid paid compared to State Aid to be paid by System, Department reports.

NEBRASKA DEPARTMENT OF EDUCATION
SPECIAL EDUCATION AID – EXPENDITURES
 For the Calendar Years ended December 31, 2011 through 2015



Source: State's accounting system