

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
VETERANS' AFFAIRS**

JULY 1, 1999 THROUGH JUNE 30, 2000

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

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NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

BACKGROUND

The Department of Veterans' Affairs, created in 1947, serves as the advocacy agency for Nebraska's 165,200 veterans. The Department is headed by a Director of Veterans' Affairs who is appointed by the Governor, subject to approval by the Legislature. The Department is responsible for aiding and assisting veterans and their eligible dependents in applying for and receiving state and federal veterans' benefits, and for supervising and administering various state programs.

The Department is located in Lincoln, but cooperates with veterans' organizations and county service officers throughout the state in making referrals and recommendations, and providing information to veterans.

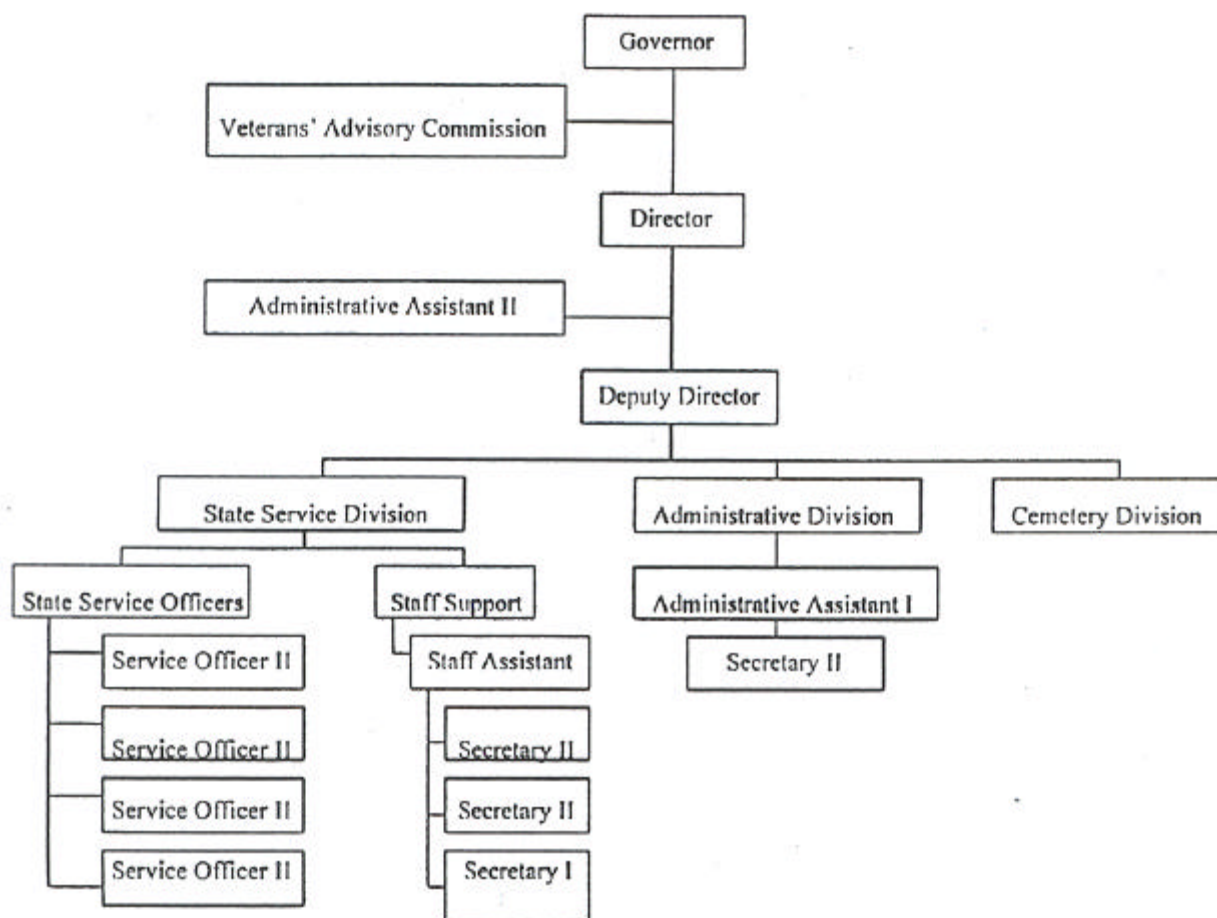
MISSION STATEMENT

The mission of the Department of Veterans' Affairs is to provide assistance to Nebraska veterans and their dependents in acquiring county, state, and federal benefits to which they are entitled by virtue of their service to this country.

1. Administer state benefit programs for qualified Nebraska veterans and eligible dependents.
2. Prepare and present cases on state and federal benefits for qualified Nebraska veterans and their dependents before the United States Department of Veterans' Affairs.
3. Serve as the state's chief advocate for the veterans' position on all issues, legislative or otherwise, that impact their benefits, their status or their social well-being.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

ORGANIZATIONAL CHART



(Rev.9/00)

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Veterans' Affairs, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Applications Approved by an Unauthorized Individual:*** Neb. Rev. Stat. Section 80-401.03, R.S.Supp., 2000 requires the director or a deputy designated by him or her to approve or disapprove applications for aid. An administrative assistant had approved applications for aid.
2. ***Internal Control Over Fixed Assets:*** Only one person maintained the fixed asset records, added and deleted items, ensured all items purchased were added to the listing, and prepared the surplus property forms.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Department declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

COMMENTS AND RECOMMENDATIONS

1. **Applications Approved by an Unauthorized Individual**

Neb. Rev. Stat. Section 80-401.03 R.S.Supp., 2000 states, "The director or a deputy designated by him or her shall receive and approve for payment or disapprove applications for aid which shall originate in any local post of any recognized veterans organization or with a county veterans service officer."

We noted an administrative assistant had approved applications in 17 of 25 aid payments tested.

The Department is not in compliance with the State Statute if an administrative assistant approves applications for aid.

We recommend the Department implement procedures to ensure only authorized individuals approve or disapprove applications for aid payments. The Department may wish to consider statutory changes to allow other personnel to approve and disapprove applications for aid payments.

Department's Response: The Department of Veterans' Affairs would like to thank the Auditor of Public Accounts for the comments and recommendations contained in the Audit Report. It was brought to the Department's attention that language contained in Neb. Rev. Stat. Section 80-401.03 R.S. Supp., 2000 is specific only to aid applications. The Department's authority to employ such clerical and other employees and assistants as it may deem necessary for the proper transaction of its business, in Neb. Rev. Stat. Section 80-401.11 R.S. Supp., 2000 does not apply to the procedure to process aid applications. Based on the recommendation contained in the Audit Report the Department has implemented procedures to change conflicting practices and will pursue statutory changes to allow other personnel authority to approve or disapprove applications for aid.

2. **Internal Control Over Fixed Assets**

Good internal control requires an adequate segregation of duties so no one person is in a position to handle all phases of a transaction from beginning to end. If proper segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation.

During our audit of the fixed assets, we noted the same person maintained the fixed asset records, added and deleted items on the fixed asset listing, ensured all items purchased were added to the listing, and prepared the surplus property forms. The Department did not receive the "Account Code 4800 Expenditures Not on Inventory" report from the Statewide Inventory System or the "History Report" of Statewide Inventory System transactions.

Without an adequate segregation of duties, or compensating controls, the possibility for undetected errors and for the loss or misuse of State assets greatly increases.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

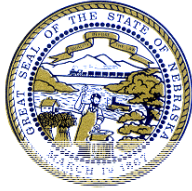
COMMENTS AND RECOMMENDATIONS

2. Internal Control Over Fixed Assets (Concluded)

We recommend the Department implement procedures to compensate for the lack of segregation of duties over fixed assets. Specifically, the Department should receive the "Account Code 4800 Expenditures Not on Inventory" report and reconcile inventory additions to 4800 account expenditures. Also, a "History Report" should be reviewed by an individual independent of the maintenance process at least annually.

Department's Response: Based on the recommendation contained in the Audit Report the Department will implement the procedure outlined to allow for compensating controls over fixed assets. In a Department with limited staff the use of the recommended reports will provide an appropriate alternative to incorporate adequate segregation of duties.

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Auditor of Public Accounts



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NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Department of Veterans' Affairs as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska Department of Veterans' Affairs, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Department of Veterans' Affairs as of June 30, 2000, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2001, on our consideration of the Nebraska Department of Veterans' Affairs' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, except for that portion marked "unaudited," on which we express no opinion, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 25, 2001

A handwritten signature in dark ink, appearing to read "Don Dunlap, CPA". The signature is fluid and cursive, with the initials "CPA" written in a slightly more formal, blocky style at the end.

Manager

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF ASSETS AND FUND BALANCES AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP
June 30, 2000

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Group</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	<u>General Fixed Assets</u>	Totals (Memorandum Only)
<u>Assets</u>					
Cash in State Treasury	\$ -	\$ 2,093	\$ 1,288,669	\$ -	\$ 1,290,762
Deposit with Vendors	532	-	-	-	532
Property, Plant, and Equipment	-	-	-	100,682	100,682
Total Assets	<u>\$ 532</u>	<u>\$ 2,093</u>	<u>\$ 1,288,669</u>	<u>\$ 100,682</u>	<u>\$ 1,391,976</u>
<u>Fund Balances and Other Credits</u>					
Other Credits:					
Investment in Fixed Assets	\$ -	\$ -	\$ -	\$ 100,682	\$ 100,682
Fund Balances:					
Reserved For Postage	532	-	-	-	532
Unreserved, Undesignated	-	2,093	1,288,669	-	1,290,762
Total Fund Balances and Other Credits	<u>\$ 532</u>	<u>\$ 2,093</u>	<u>\$ 1,288,669</u>	<u>\$ 100,682</u>	<u>\$ 1,391,976</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS
**STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2000

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund type</u>	Totals
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	<u>(Memorandum Only)</u>
RECEIPTS:				
Appropriations	\$ 596,905	\$ -	\$ -	\$ 596,905
Miscellaneous:				
Investment Interest	-	179	83,025	83,204
Other	79	-	5,131	5,210
TOTAL RECEIPTS	<u>596,984</u>	<u>179</u>	<u>88,156</u>	<u>685,319</u>
DISBURSEMENTS:				
Personal Services	494,823	-	-	494,823
Operating	69,805	241	-	70,046
Travel	18,605	1,555	-	20,160
Capital Outlay	13,672	-	-	13,672
Government Aid	-	-	1,386,965	1,386,965
TOTAL DISBURSEMENTS	<u>596,905</u>	<u>1,796</u>	<u>1,386,965</u>	<u>1,985,666</u>
Excess of Receipts Over (Under) Disbursements	<u>79</u>	<u>(1,617)</u>	<u>(1,298,809)</u>	<u>(1,300,347)</u>
OTHER FINANCING SOURCES (USES):				
Sales of Assets	47	-	-	47
Operating Transfers In (Note 7)	-	-	1,054,661	1,054,661
Deposits to State General Fund	(126)	-	-	(126)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(79)</u>	<u>-</u>	<u>1,054,661</u>	<u>1,054,582</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	(1,617)	(244,148)	(245,765)
FUND BALANCE, JULY 1, 1999	<u>532</u>	<u>3,710</u>	<u>1,532,817</u>	<u>1,537,059</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 532</u>	<u>\$ 2,093</u>	<u>\$ 1,288,669</u>	<u>\$ 1,291,294</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 General and Cash Funds
 For the Year Ended June 30, 2000

	GENERAL FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Appropriations		\$ 596,905	
Miscellaneous:			
Investment Interest		-	
Other		79	
TOTAL RECEIPTS		<u>596,984</u>	
DISBURSEMENTS:			
Personal Services		494,823	
Operating		69,805	
Travel		18,605	
Capital Outlay		13,672	
Government Aid		-	
TOTAL DISBURSEMENTS	<u>631,970</u>	<u>596,905</u>	<u>35,065</u>
Excess of Receipts Over (Under) Disbursements		<u>79</u>	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		47	
Deposit to State General Fund		(126)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>(79)</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-	
FUND BALANCES, JULY 1, 1999		<u>532</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 532</u>	

See Notes to Financial Statements.

CASH FUND			TOTALS (MEMORANDUM ONLY)		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
	\$ -			\$ 596,905	
	179			179	
	<u>-</u>			<u>79</u>	
	<u>179</u>			<u>597,163</u>	
	-		\$ 519,611	494,823	\$ 24,788
	241		78,384	70,046	8,338
	1,555		26,288	20,160	6,128
	-		11,687	13,672	(1,985)
	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
4,000	1,796	2,204	635,970	598,701	37,269
	<u>(1,617)</u>			<u>(1,538)</u>	
	-			47	
	<u>-</u>			<u>(126)</u>	
	<u>-</u>			<u>(79)</u>	
	(1,617)			(1,617)	
	<u>3,710</u>			<u>4,242</u>	
<u>\$ 2,093</u>			<u>\$ 2,625</u>		

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS
NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Department of Veterans' Affairs are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Reporting Entity.** The Nebraska Department of Veterans' Affairs (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 financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

These financial statements present the Nebraska Department of Veterans' Affairs. No component units were identified. The Nebraska Department of Veterans' Affairs is part of the primary government for the State of Nebraska's reporting entity.

- B. Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Assets and Fund Balances for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds and expendable trust funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Under the cash receipts and disbursement basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental and expendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

- C. **Fund Accounting.** The accounts and records of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP, and include:

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by state government and which are not accounted for in any other fund.

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Trust and Agency Funds. Reflect transactions related to assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

General Fixed Assets Account Group. Used to account for general fixed assets of the Department, exclusive of assets held by certain trust funds.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Department are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the general and cash fund types are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general and cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Department utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Department's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Department's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

There are no annual budgets prepared for Trust Funds, and, as a result, no budgetary comparisons are presented.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2000 follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES		
		PRIMARY GOVERNMENT		
	Total	General	Special Revenue	Trust and Agency
PERSPECTIVE DIFFERENCES:				
Classifications of budgetary fund balances into Financial Statement fund structure:				
General	\$ 532	\$ 532	\$ -	\$ -
Cash	2,093	-	2,093	-
Budgetary fund balances classified into Financial Statement fund structure	<u>\$ 2,625</u>	532	2,093	-
Entity Difference:				
Record funds not budgeted		-	-	1,288,669
Financial Statement Fund Balances, June 30, 2000		<u>\$ 532</u>	<u>\$ 2,093</u>	<u>\$ 1,288,669</u>

E. Fixed Assets. General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2000 have been recorded at cost by the Department. Generally, equipment which has a cost in excess of \$50 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure, such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

F. Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department were designated for investment during fiscal year 2000.

G. Compensated Absences. All permanent employees working for the Department earn sick and annual leave. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

H. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Appropriations. Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Miscellaneous. Receipts from sources not covered by other major categories, such as investment interest.

I. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

Operating. Disbursements directly related to a program's primary service activities.

Travel. All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character, owned or held by the government.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Concluded)**

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

J. Fund Balance Reservations. Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as postage.

2. **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 since interfund balances and transactions have not been eliminated.

3. **Contingencies and Commitments**

Risk Management. The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, natural disasters, and health care insurance. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

1. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments (Concluded)**

4. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$100,000 per loss occurrence. The perils of flood and earthquake are covered up to \$9,000,000. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Worker's compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Department of Veterans' Affairs' financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgment against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

4. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service, and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and completion of twelve months of service within a five-year period, except any individual appointed by the Governor may elect to not become a member of the Plan.

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **State Employees Retirement Plan (Plan) (Concluded)**

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2000, employees contributed \$16,534 and the Department contributed \$25,793.

5. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 1999	Additions	Retirements	Balance June 30, 2000
Equipment	\$ 98,550	\$ 2,132	\$ -	\$ 100,682

6. **Full Accountability of the General Fund**

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedules reflect appropriations. Appropriations do not represent cash transactions.

General Fund	
Beginning (Reappropriated) Balance July 1, 1999	\$ 14,818
New Appropriations	617,152
Total Appropriations	<u>631,970</u>
Disbursements	(596,905)
Ending (Appropriations) Balance June 30, 2000	<u>\$ 35,065</u>

NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. Operating Transfers In

Operating Transfers In includes net investment income received by the Nebraska Veterans' Aid Fund (Fund 6333). Net investment income is transferred to the Veterans' Aid Income Fund (Fund 6320) according to Neb. Rev. Stat. Section 80-401, R.R.S. 1996. The Nebraska Veterans' Aid Fund is accounted for in the Nebraska Board of Educational Lands and Funds, a state agency of the State of Nebraska.

A map of Nebraska with its 93 counties outlined and colored according to the average annual household income. The colors represent five income brackets, with a legend provided in the bottom left corner. The map shows a clear trend where counties in the western and central parts of the state generally have higher average incomes (yellow and green), while counties in the eastern part, particularly along the Missouri border, have lower average incomes (pink and red).

Legend:

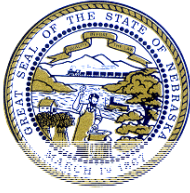
- \$999.99 & Under (Pink)
- \$1,000 to \$9,999 (Yellow)
- \$10,000 to \$19,999 (Green)
- \$20,000 to \$99,999 (Blue)
- \$100,000 & Greater (Red)

Counties and their corresponding income bracket:

- \$999.99 & Under (Pink):** Sioux, Cherry, Grant, Hooker, Thomas, Blaine, Loup, Garfield, Wheeler, Morrill, Garden, Arthur, McPherson, Logan, Keith, Lincoln, Perkins, Chase, Hayco, Frontier, Gosper, Phelps, Kearney, Adams, Clay, Fillmore, Saline, Thayer, Jefferson, Pawnee, Richardson.
- \$1,000 to \$9,999 (Yellow):** Dawes, Box Butte, Brown, Rock, Holt, Knox, Cedar, Dixon, Dakota, Thurston, Burt, Washington, Colfax, Dodge, Saunders, Douglas, Sarpy, Cass, Otoe, Nemaha.
- \$10,000 to \$19,999 (Green):** Antelope, Pierce, Waverne, Madison, Stanton, Cuming, Boone, Platte, Nance, Merrick, Polk, Butler, Seward, Lancaster, Hamilton, York, Seward, Hamilton, York, Seward, Lancaster, Hamilton, York, Seward.
- \$20,000 to \$99,999 (Blue):** Sheridan, Scotts Bluff, Banner, Kimball, Cheyenne, Deuel, Custer, Sherman, Howard, Nance, Merrick, Polk, Butler, Seward, Lancaster, Hamilton, York, Seward, Hamilton, York, Seward.
- \$100,000 & Greater (Red):** Douglas, Sarpy, Cass, Otoe, Nemaha.



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**NEBRASKA DEPARTMENT OF VETERANS' AFFAIRS
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Department of Veterans' Affairs as of and for the year ended June 30, 2000, and have issued our report thereon dated May 25, 2001. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Veterans' Affairs. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Veterans' Affairs' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, and are described in the Comments Section of our report as Comment Number 1 (Applications Approved by an Unauthorized Individual).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Veterans' Affairs' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial

reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Department of Veterans' Affairs in the Comments Section of this report as Comment Number 2 (Internal Control Over Fixed Assets).

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

May 25, 2001

A handwritten signature in dark ink that reads "Don Dunlap CPA". The signature is written in a cursive, flowing style.

Manager