ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
ECONOMIC DEVELOPMENT

JULY 1, 2005 THROUGH JUNE 30, 2006

Issued on July 13, 2007

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

TABLE OF CONTENTS

BACKGROUND

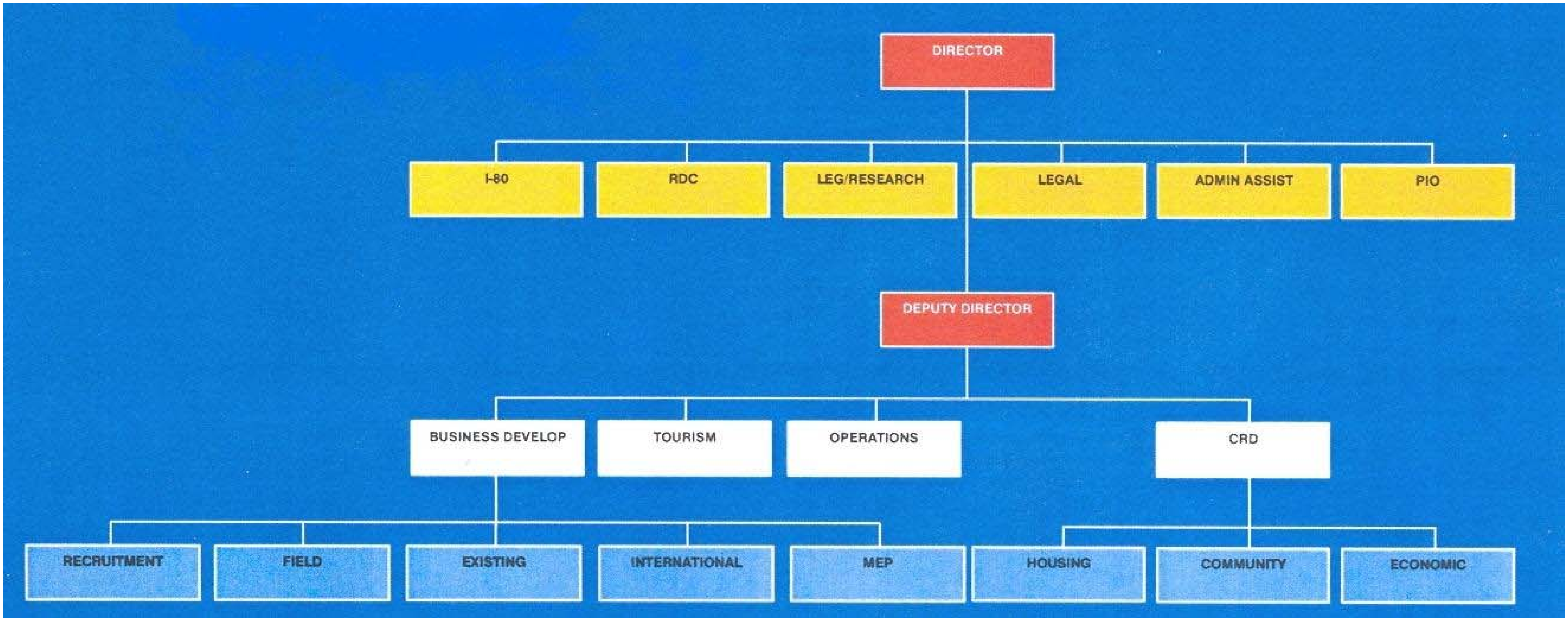
The Department of Economic Development was created in 1967. The Director is appointed by the Governor. A nine-member Economic Development Commission serves as an advisory body to the Director. Commission members are also appointed by the Governor and serve six-year terms. The members are from each of Nebraska's three congressional districts (three from each district). The Department promotes the growth of industry, commerce, and tourism within Nebraska, has responsibilities in community development and technical assistance, and is mandated to cooperate with other agencies and organizations in statewide economic development.

MISSION STATEMENT

To develop economic opportunities by keeping Nebraska business, communities, and people globally competitive.

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held July 5, 2007, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Economic Development were:

NAME	TITLE
Richard J. Bair	Director
Gary Hamer	Deputy Director
Don Fertig	Legal Counsel
Jennifer Long	Federal Administrator
Anissa Rasmussen	Administrative Assistant

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Economic Development, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Government Aid:*** The Department did not have adequate procedures and documentation, for seven aid programs tested expending $13,126,630, to ensure grant applications were appropriately reviewed, scored, and approved; aid expenditures were properly approved and supported; and grantees met all grant requirements.

2. ***Community Development Assistance Act:*** The Department did not have adequate segregation of duties over the issuance of tax credits.

3. ***Fixed Assets:*** The Department's capitalization policy was not consistently applied, resulting in 83 items with an original cost of $206,936 being removed from the asset listing; 19 items totaling $56,262 were still in the possession of the Department and 64 items totaling $150,674 were still unaccounted for.

4. ***Residual Receipt Loan Agreements:*** The Department had outstanding residual receipt loan agreements that did not have complete terms of repayment and the intent of the agreements was not clear or concise.

5. ***Receipts:*** Internal controls over receipts could be improved. In addition, the Department does not perform a reconciliation of the deposit documents to the general ledger to ensure all transactions were properly posted.

6. ***Contracts:*** Contracts tested did not have a signed final copy on file and were not entered into the State accounting system.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature as 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 that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

COMMENTS AND RECOMMENDATIONS

1. Government Aid

The Department was established to promote the growth of industry, commerce, and tourism within Nebraska, has responsibilities in community development and technical assistance, and is mandated to cooperate with other agencies and organizations in statewide economic development. To meet this mandate the Department works with and sends funding (accounted for as government aid) to many entities, both governmental and non-governmental. During our examination, we reviewed certain procedures and processes the Department had in place to administer these programs. We found common problems among several of the programs. These problems related to the lack of monitoring the grantee, approval of the application for funding, and lack of documenting approval for payment. Other problems were also noted and relate to a specific program, such as, advance funding issues, grant selection documentation, documentation of match requirements, and grantee reporting requirements. The following is a summary of the seven programs we reviewed where we noted problems, specific detailed information on the problems noted, and our recommendations to correct these problems.

The following procedures should be followed when processing aid payments:

A. **Funding --** Sound accounting practices require the Department minimize the time funds are held by grantees to ensure all potential interest earnings are receipted by the State. Further, sound accounting practices require funds advanced be based on immediate cash needs.

B. **Monitoring --** Procedures and documentation the Department has to ensure program expenditures were actually made by the entity and service was provided as outlined in the grant agreement or contract. Good internal control and sound accounting practices require adequate grantee monitoring to ensure grants are operating as intended and are modified as appropriate for changes in conditions.

C. **Selection of Grantee --** Procedures and documentation the Department has to ensure the selection of entities for funding was performed in a fair and unbiased manner based on pre-established criteria. Good internal control requires documentation supporting the scoring and ranking of grant applications be maintained.

D. **Submission and Approval of Application --** Good internal control requires applications are appropriately reviewed and approved.

E. **Support for and Approval of Payment --** Good internal control requires documentation is sufficient to support the aid payment is an allowable expenditure for the program and the payment is appropriately approved.

We specifically noted the following during our testing:

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Government Aid (Continued)

Microenterprise Aid -- The Department provides aid for technical assistance and loans for microenterprises under the Microenterprise Development Act (Act). The purpose of the microenterprise aid is to assure that micro businesses realize the full potential to create jobs, enhance entrepreneurial skills and activities, and increase low-income households' capacity to become self-sufficient; and to facilitate the development of a permanent, statewide infrastructure of microlending support organizations. The Act authorizes the Department to contract its implementation to a statewide microlending support organization provided that such an organization provides a 25% match to funds provided by Neb. Rev. Stat. Section 81-12,102 R.S.Supp., 2006. The Department has selected the Nebraska Microenterprise Partnership Fund (NMPF) a private, non-profit organization as the contractor. NMPF was selected as the contractor through a sole source provider process following the guidelines established by and with the approval of the Department of Administrative Services. The "first tier" or statewide match is provided by NMPF and this combined amount is then leveraged a second time by a required "second tier" of 25% matching by the grantee microlending delivery organizations. These delivery organizations provide business plan development training and micro loans to individuals/businesses classified as micro enterprises. A micro enterprise is a business with five or fewer employees.

The total expenditures for Microenterprise Aid for the fiscal year ended June 30, 2006, were $482,749, which was all paid to NMPF. The total number of delivery organization aid applications received by NMPF during the year was 12 and the total aid applied for was $563,452. The total number of awards granted by NMPF for the year was 12 and the total awarded amount was $447,750.

We selected one payment to NMPF for testing in the amount of $447,750. In our review we noted:

A. The Department made an advance payment of funds to NMPF for $447,750 on September 29, 2005. The interest earned or possible interest earned on this amount by NMPF was not tracked or reported by NMPF to the Department. NMPF had a remaining balance of advanced funds of $335,813 as of December 31, 2005, and $156,563 as of June 30, 2006. As a result, the State lost interest earnings by advancing money to NMPF.

B. The Department did not monitor the expenditures made by NMPF, the expenditures NMPF made to microlending delivery organizations or the expenditures/loans made by the delivery organizations. As of September 2005 there were 13 delivery organizations selected by NMPF to provide services to selected businesses. Without strong monitoring procedures by the Department, there is a high risk of State funds being wasted or misused.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Government Aid (Continued)

C. The Department did not maintain documentation of the selection of delivery organizations. The selection of the delivery organizations was performed by NMPF. Two Department staff members were involved in the process for determining which delivery organizations would receive funding from NMPF; however, the Department did not request or maintain any documentation of the process. Without procedures to acquire, review, and maintain documentation of application rankings and selection, it is more difficult to support the selection process was performed in a fair and unbiased manner.

D. The Department was not monitoring NMPF to ensure funding was being matched/leveraged according to State statute. NMPF was statutorily required to provide a 25% match of funds provided by the Department and the delivery organizations were required to provide an additional 25% match. The Department did not verify NMPF or the delivery organizations were matching expenditures as required by State statute. Without procedures to ensure funds are being appropriately matched, there is a greater risk NMPF is not in compliance with State statute matching requirements.

E. The Act did not indicate the Department's responsibilities for monitoring or tracking the loans issued, repaid, and subsequently re-issued. In addition, the Department did not have procedures in place to monitor these loans. Without a clear understanding of the Department's responsibilities and without procedures in place to meet those responsibilities, there is a risk the purposes of the Act will not be fully met and State assets may be lost or misused.

We recommend the Department:

- provide advanced funding only when it is necessary to administer the program;
- acquire, review, and maintain the ranking of delivery organizations on an on-going basis;
- establish monitoring procedures to ensure grant expenditures are in accordance with the grant agreement and the microlending support organization is providing the statutorily required match; and
- determine their responsibilities for tracking and monitoring program loans and establish appropriate procedures to meet these responsibilities.

Department's Response: The advanced funding situation cited was a one-time occurrence. Funding payments to the NMPF are made on a reimbursement basis, rather than being advanced.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Government Aid</u> (Continued)

Department's Response, Concluded:
Monitoring procedures regarding grant expenditures, and regarding the NMPF providing its match, will be strengthened.

Tourism Marketing -- The Department provides grants to individuals and organizations who market tourism for regions, events, or entities, in the State of Nebraska. Marketing grants are awarded from a pool of $125,000 taken directly from the Department's cash funds, which are collected as part of the State's lodging tax.

The total expenditures for Tourism Marketing for the fiscal year ended June 30, 2006, were $156,585. There were a total of 68 applications for $463,797 of aid during the year. A total of 31 applications for $136,301 were at least partially approved.

We selected one grant for testing with expenditures of $6,400. In our review, we noted:

A. The Department did not have all documentation on file which verified the grant was approved by the grant judges and did not maintain documentation for ranking of grant applications. The Department only had one judge's score sheet on file. Without documentation of the evaluation of grant applications, there is an increased risk applications are not judged consistently.

B. The Department received a Tourism Marketing grant application dated January 8, 2004, and we were unable to verify the application was submitted prior to the deadline. The application was not dated with a received or postmarked date. The grant required applications be postmarked by January 9, 2004. There was no verification the application was received timely. Failure to date time sensitive materials when received could result in an ineligible application receiving funding.

We recommend the Department:

- document and maintain the decisions of the judges and
- date all time sensitive materials when received or postmarked depending on application specifications.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Government Aid</u> (Continued)

Job Training -- The Department provides grants for companies expanding into Nebraska, new Nebraska businesses, and existing businesses hiring on new positions who mainly sell to a non-Nebraska market. The purpose of the Nebraska Customized Training Grant Program is to provide employee training assistance to businesses that maintain, expand, and diversify the State's economic base and, in the process, retain and create quality jobs for Nebraska residents.

The total expenditures for Job Training for the fiscal year ended June 30, 2006, were $2,527,739. There were 28 total applications received for the aid during the year and 28 total applications were awarded. The total dollar amount awarded during the fiscal year was $4.8 million.

We selected three grants for testing with expenditures of approximately $825,000. In our review, we noted:

A. The Department did not require an on-site review for all projects, which had received their final drawdown payment, and there was no documented procedure to determine which projects would not require an on-site review. Two Job Training grantees, who received $475,000, requested and received their final drawdown payments, but the Department did not complete on-site monitoring procedures. Without documented procedures to indicate which grants need monitoring upon completion, there is a risk grants which require monitoring will not be monitored.

B. For one grant application the Department did not have documentation of the scoring/ranking of the grant and the approval by the review committee of that grant. Failure to document the scoring/ranking of a grant application by the grant review committee and the approval of the application could result in ineligible grants being funded. Without documented criteria for the evaluation of grant applications there is an increased risk applications may not judged consistently.

C. For one grant, the grantee did not file an annual report as required by Neb. Rev. Stat. Section 81-1205 R.R.S. 1999. Department staff indicated the requirement was waived; however, there was no documentation on file to support the waiver.

We recommend the Department:

- determine which grants require on-site monitoring and document procedures to that effect;
- establish scoring/ranking procedures, that those procedures be documented and implemented to ensure applications are evaluated on a consistent basis, and the application be properly approved; and

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Government Aid (Continued)

- require all grantees to file annual reports in accordance with statute.

Department's Response: DED has recently changed and increased its staffing associated with job training (particularly in light of substantially increased funding of this activity by the Legislature), and this will allow improved evaluative and monitoring functions.

Affordable Housing -- The Department provides aid for organizations to provide affordable housing for low income individuals through the Nebraska Affordable Housing Trust Fund (NAHTF). The grants are available to local or regional nonprofit 501(c) (3) or 501(c) (4) housing or related service organizations, local units of government, reservation-based non-profit organizations, and public housing authorities. Funding is provided by documentary stamp tax collections.

The total expenditures for the Affordable Housing Trust Fund for the fiscal year ended June 30, 2006, were $4,476,500. The total number of applications received for Affordable Housing and HOME Investment Partnership aid during the year was 72 and the total amount of aid applied for was $19,066,015. There were 37 applications approved for funding from the Affordable Housing Trust during the year for a total of $8,605,200.

We selected five grants for testing with expenditures of approximately $984,137. In our review, we noted:

A. Monitoring procedures were not adequate. The Department indicated they were performing undocumented on-site monitoring procedures. However, we noted four of the five grants tested had not been subjected to an on-site review. The Department did indicate that two of the grants were currently scheduled for an on-site review. In addition, the Department performed desk monitoring of the grantees; however, one of the five grants tested was not subjected to this desk monitoring procedure. Failure to monitor grantees increases the risk grants are not operating as intended, unallowable expenditures are being made, and required changes to the activities of the grantee can not be initiated.

B. Four of the five grants tested did not have documentation of approval of the request for funds at the division level. Without division approval of grant payments, the risk increases payments will be made for unallowable expenditures by the grantee or be made prior to completion of the grant project.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Government Aid</u> (Continued)

We recommend the Department:

- implement standard procedures for an on-site review and the procedures be documented;
- complete and document desk reviews of all projects; and
- require division approval for all grant payments.

HOME Investment Partnership -- The Department provides aid for organizations to provide affordable housing for low-income individuals through the HOME Investment Partnerships program. The grants are available to local or regional nonprofit 501(c) (3) or 501(c) (4) housing or related service organizations, local units of government, reservation-based non-profit organizations, and public housing authorities.

The total expenditures for the HOME Investment Partnership Program for the fiscal year ended June 30, 2006, were $4,651,778. The total number of applications received for Affordable Housing and HOME Investment Partnership aid during the year was 72 and the total amount of aid applied for was $19,066,015. There were 17 applications approved for funding from the HOME Investment Partnership Program for a total of $4,820,981. Funding comes from Federal grants.

We selected four grants for testing. In our review, we noted all four grant payments made did not have documentation of approval of the request for funds at the division level. Without division approval of grant payments, the risk increases payments will be made for unallowable expenditures by the grantee or be made prior to completion of the grant project.

We recommend the Department require division approval for all grant payments.

Convention Center -- The Department provides grants to support the development of civic, cultural, and convention centers in Nebraska municipalities, particularly centers that attract new civic, cultural, and convention activity to Nebraska from outside of the State. The aid is to be used for construction activity, which includes new construction and/or improvements and has to be matched dollar-for-dollar by the applicant. The match has to be 80% cash and 20% in-kind services (e.g. labor, materials). The aid cannot be used for planning, programming, marketing, advertising, and related activities. The program is funded by lodging and sales tax income attributable to out-of-state use of the Qwest Center (located in Omaha) for new meetings, etc. The income is divided between the Qwest Center bonds and the Convention Center Financing Fund with 70% going to the bonds and 30% going to the Fund.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Government Aid</u> (Concluded)

The total expenditures for the Convention Center Fund for the fiscal year ended June 30, 2006, were $330,665. There were 23 total applications received for the fiscal year ended June 30, 2004. The Department has not accepted applications since 2004. The total number of awards conditionally granted for the fiscal years ended June 30, 2005, and 2006, respectively was one and seven.

We selected one grant for testing with expenditures of approximately $120,000. In our review, we noted:

A. The grant tested had a lower rank and was funded prior to a grant which was ranked higher. The fourth ranked grant application was funded prior to the second ranked application. Department staff indicated the second ranked project contacted the Department via phone and indicated they no longer wished to pursue their project; however, there was no documentation provided to us to support this statement. Without adequate documentation to support the grantee declined State funding, there is a greater risk of a misunderstanding occurring about the Department's grant selection process.

B. The Department sent a signed contract to a grantee, who then decided against funding a project. The Department did not require the applicant to send the signed contract back. Failure to obtain contracts, which have been signed by the Department, could result in disagreements arising about the State's obligations.

C. For the grant tested, the payment was not approved at the division level. Without division approval of grant payments, the risk increases payments will be made for unallowable expenditures by the grantee or be made prior to completion of the grant project.

We recommend the Department:

- require a signed verification an applicant has decided against funding a project;
- sign contracts after being signed and returned by the applicant; and
- require division approval for all grant payments.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Community Development Assistance Act

The Department provides aid to encourage financial support by businesses to community betterment organizations in their efforts to implement community service and development projects in chronic economically distressed areas. The Department is empowered by statute to distribute 40 percent State tax credits to businesses, corporations, insurance firms, or financial institutions, which make eligible contributions of cash, services, or materials to approved community betterment projects.

For the fiscal year ended June 30, 2006, there were 13 applicants, a total of $351,500 credits awarded, and $124,727 credits claimed.

In our review of one applicant, we noted:

- Department or Division management did not approve tax credits claimed. One person was able to issue, approve, and send out tax credits for the Department.
- The awarded community did not comply with the contract's requirement to submit semi-annual progress reports and no reports were on file.
- The maximum yearly allowable tax credit authorized was $350,000, which was exceeded by the Department by $1,500.

Good internal control requires an adequate segregation of duties or compensating control to prevent a single person from perpetrating and concealing errors. Sound accounting practices require procedures to ensure all parties are in compliance with contracts. Good internal control requires policies and procedures to ensure the maximum tax credits authorized are not exceeded.

Without adequate segregation of duties there is an increased risk one person can perpetrate and conceal errors. Failure to monitor contracts increases the risk not all parties are in compliance with the contract terms.

> We recommend the Department review their procedures to ensure one person is not able to receive, approve, and issue tax credits and the statutory limit on tax credits not be exceeded. We also recommend the Department monitor all contracts to ensure each community is in compliance with all contract terms.

Department's Response: Multi-person involvement in the CDAA tax credit-issuance process has been instituted by DED. Also noteworthy is that the individual DED staff member previously responsible for CDAA administration is no longer employed by DED, and those staff members who have now assumed CDAA duties are committed to proper administration of the program.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Fixed Assets

Nebraska State Accounting Manual, AM-005, Capital Outlay, Section 28 states the Department of Administrative Services (DAS) Materiel Administrator established $1,500 as the minimum for capitalization of property. Agencies have the option to capitalize items under $1,500.

Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 requires notification to DAS of property lost, stolen, or missing.

Sound accounting practice requires the Department to properly record the fund of origination, item code, and cost account, properly remove items from the Passed Transaction Report, and maintain all documentation to support the addition of assets.

During the testing of fixed assets, we noted:

- The capitalization policy was not consistently applied. The Department amended their capitalization policy during the fiscal year. The new policy required assets that had been fully depreciated regardless of original cost be removed from the asset listing. Due to the change in policy, 165 items over $1,500 were removed from the fixed asset listing for a total original cost of $398,656. Of the 165 items removed from the listing, 19 were destroyed and 63 were surplused. The destroyed items had a total original cost of $42,635, and the surplused items had a total original cost of $149,085. At the completion of our field work management of the Department could not verify the disposition of the remaining 83 items, with a total original cost of $206,936. Further work performed by the Department determined 19 items totaling $56,262 were still in the possession of the Department and 64 items totaling $150,674 were still unaccounted for.

- The fund of origination was not correct for two of three assets tested. The proceeds from the sale of both assets were deposited into the General Fund.

- The Department removed items totaling $12,079 from the Passed Transaction Report without making the proper correcting entries. This resulted in an overstatement of capital outlay expenditures.

- The item code, cost account, and depreciation were not correct for one of five assets tested.

- There was no documentation to support the addition of one of three assets tested.

- One of ten items tested during the list to floor verification could not be located. This was noted in the prior report.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Fixed Assets</u> (Continued)

Without adequate procedures over fixed assets, there is an increased risk of loss or misuse of State assets.

> We recommend the Department comply with State Statue and the Nebraska State Accounting Manual. We also recommend the Department ensure the correct fund of origination, item code, cost account, and depreciation are recorded, items are properly removed from the Passed Transaction Report, and all documentation be maintained to support the addition of assets.

Department's Response: Regarding the first bulleted item in the Fixed Asset comments, DED's further follow-up work resulted in a determination by DED that rather than there being $150,674 in "unaccounted for" assets which had been removed from the books, the number is $49,455.

In summary of DED's view of the status of this matter, $398,656 (of original cost, not present market value) assets were removed from DED's asset listing per the fixed assets policy as having been previously destroyed or surplused or as having no book value after accounting for normal depreciation or obsolescence.

The status of those assets is as follows:

$398,656	*starting amount to explain*
-191,720	*records reflect proper destruction or surplus to satisfaction of Auditors (represented by the Auditor's numbers of $42,635+$149,085 above).*
$206,936	*subtotal remaining to be explained*
-56,263	*assets still "in house" and accounted for, which will be rebooked*
-43,568	*assets with a reasonably well-documented disposition of having been destroyed or surplused, in DED's view*
-34,691	*assets which have been destroyed or surplused as can be best determined by existing records including past file notations and NIS fixed asset notes, in DED's view*
-22,959	*assets which DED no longer has and which DED reasonably believes have been surplused in past years, but for which past documentation is not as complete as it should have been*
$ 49,455	*residual portion for which insufficient information is available from the past records to determine the past physical disposition of such assets. We do not physically have these assets at DED. These assets are listed on asset records as being 20 various obsolete computer equipment pieces which show acquisition dates in the mid-to-late 1990's. Thus the newest of them is at least 8 years old and the oldest of them is*

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Fixed Assets (Continued)

Department's Response, Concluded:

nearly 15 years old. The market values of such old computer equipment pieces is, in DED's considered judgment, nominal to nil. The most likely explanation of the disposition of these items is that they were surplused as obsolete during the many computer equipment upgrades which have occurred over the past decade at DED.

4. Residual Receipt Loan Agreements

The Department was responsible for the implementation of and is responsible for the continued administration of the Nebraska Affordable Housing Act (Act), which created the Nebraska Affordable Housing Trust Fund (AHTF). This Act was adopted by the Legislature and signed by the Governor in 1996. This Act noted the lack of affordable housing affects the ability of communities to maintain and develop viable and stable economies in Nebraska. A portion of the AHTF is provided to nonprofit entities and profit/nonprofit partnerships as loans or grants to develop low-income housing. In addition to AHTF, the Department obtains Federal "HOME" program funding for the same purpose.

The Department had on its records 79 AHTF and HOME loans, which they describe as "residual receipt loans" with a balance of principal and interest of $24,255,696 as of June 30, 2006. Residual receipt loans assert residual receipts or net operating income, if available, must be used to pay off the loans.

We reviewed in detail 1 of the 79 residual receipt loan agreements. However, management of the Department indicated the other residual receipt loan agreements were constructed in a similar manner. Our review of this agreement noted the following:

- No debt service payments were made on these loans during the fiscal year ended June 30, 2006. Limited residual receipt payments were received; however, these payments only partially covered loan interest due. The Department indicated this was expected since the loans were made to nonprofit entities or profit/nonprofit partnerships.

- The loan agreement reviewed did not have complete terms of repayment. The loan agreement reviewed stated, "The term of the HOME Loan will be for 35 years. Borrower's obligation to make debt service payments prior to maturity is limited to the extent of "Residual Receipts" … generated by the HOME project." The only other reference in the agreement to loan repayment stated, "Residual receipts-generated annual payments to principal and interest on the HOME Loan shall begin on the July 1st following the initial Residual Receipts determination (as above), and shall continue to be

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Residual Receipt Loan Agreements (Concluded)

paid on the same day and every day thereafter until the entire indebtedness is paid in full." This loan agreement did not indicate whether the loan would be repaid or whether the loan would be forgiven.

Sound business practice requires loan agreements to have stated terms of repayment and the intent of those agreements should be clear and concise.

> We recommend the Department review all of their residual receipt loan agreements and ensure the terms of repayment are clearly and concisely documented. If the terms of repayment are not clear and concise, the Department should amend the agreements.

5. Receipts

Good internal controls require two individuals be involved in opening mail and a listing of checks received be prepared to account for funds received. Additionally, good internal controls require the deposit documents be reconciled to the general ledger to ensure all transactions were properly posted.

During the testing of receipts, we noted one person opened the mail, but a list of checks was not prepared to initially record all checks received in the Department. The person opening the mail would then distribute the checks to various staff within the Department to process. This distribution, without initial control of what checks have been received by the Department, adds to the risk that checks could be lost or misappropriated. In addition, the Department does not perform a reconciliation of the deposit documents to the general ledger to ensure all transactions were properly posted. A total of $114,035 in cash was receipted during the fiscal year by the Department.

Without proper internal controls, there is an increased risk of loss or misuse of State funds and the deposits for the Department will not be properly recorded.

> We recommend two individuals open the mail and a list of all checks received be prepared. We also recommend the Department reconcile the deposit documents to the general ledger to ensure all transactions are properly posted.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Contracts

Neb. Rev. Stat. Sections 73-501 through 73-509 R.R.S. 2003 requires service contracts no matter the dollar amount be entered into the procurement section of the State accounting system. Good business practice requires current contracts to be on file and the contracts be signed by both the Department and the contractor. Good business practices also require when a competitive bid is used to select a vendor, the criteria used for selecting the bidder should be on file.

Our review of the Department's contractual expenditures noted the following:

- Four expenditures did not have a signed final copy of the contract on file. Of these four, one had a contract that expired in 2003, two had unsigned draft contracts on file, and one had an unsigned letter of agreement on file. The largest of these four had a contract amount of $228,467.

- Two expenditures did not have the agreement entered into the State accounting system.

- One expenditure did not have documentation that a competitive process was used to select the vendor.

Without adequate procedures to ensure contracts are specific and documented, there is an increased risk of loss or misuse of State funds. When contracts are not entered into the State accounting system, there is an increased risk contracts are not properly monitored and payments are not made in accordance with the contract terms.

> We recommend the Department implement procedures to ensure the terms of all contracts are specific, the original contract documentation is on file, both parties sign the contracts, and the contracts are entered into the State accounting system as required by statute. We also recommend documentation of all bidding procedures be maintained.

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NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Economic Development
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Economic Development (Department) for the fiscal year ended June 30, 2006. 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, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Economic Development for the fiscal year ended June 30, 2006, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards,* we have also issued our report dated June 26, 2007, on our consideration of the Nebraska Department of Economic Development's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Don Dunlap CPA

June 26, 2007 Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2006

	General Fund 10000	Economic Development Cash Fund 21830	Administrative Cash Fund 21860	Visitors Promotion Fund 27210	Job Training Fund 27230	Affordable Housing Trust Fund 27240
REVENUES:						
Appropriations	$ 4,485,620	$ -	$ -	$ -	$ -	$ -
Taxes	-	-	-	3,008,103	-	10,130,229
Intergovernmental	-	-	-	-	-	8,570
Sales & Charges	-	-	70,092	201	-	-
Miscellaneous	1,872	5,385	57,392	19,268	742,657	452,707
TOTAL REVENUES	4,487,492	5,385	127,484	3,027,572	742,657	10,591,506
EXPENDITURES:						
Personal Services	2,628,055	-	-	768,887	25,074	168,796
Operating	757,743	11,421	78,201	2,015,209	1,162	10,910
Travel	311,034	3,914	6,389	89,631	212	2,859
Capital Outlay	20,262	-	-	1,626	-	-
Government Aid	768,526	15,000	-	156,585	2,527,739	4,476,500
TOTAL EXPENDITURES	4,485,620	30,335	84,590	3,031,938	2,554,187	4,659,065
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,872	(24,950)	42,894	(4,366)	(1,811,530)	5,932,441
OTHER FINANCING SOURCES (USES):						
Sales of Assets	3,965	-	-	-	-	-
Deposit to General Fund	(5,837)	-	-	-	-	-
Operating Transfers In	-	-	-	-	15,000,000	-
Operating Transfers Out	-	-	-	-	-	(3,500,000)
TOTAL OTHER FINANCING SOURCES (USES)	(1,872)	-	-	-	15,000,000	(3,500,000)
Net Change in Fund Balances	-	(24,950)	42,894	(4,366)	13,188,470	2,432,441
FUND BALANCES, JULY 1, 2005	19,574	142,413	76,570	284,034	4,897,580	11,680,109
FUND BALANCES, JUNE 30, 2006	$ 19,574	$ 117,463	$ 119,464	$ 279,668	$ 18,086,050	$ 14,112,550
FUND BALANCES CONSIST OF:						
General Cash	$ -	$ 117,438	$ 114,755	$ 263,584	$ 18,086,050	$ 14,112,550
Petty Cash	-	-	25	-	-	-
NSF Items	-	-	3,440	-	-	-
Deposits with Vendors	19,574	25	1,534	16,355	-	-
Accounts Receivable Invoiced	-	-	100	-	-	-
Due to Vendors	-	-	-	107	-	-
Due to Fund	-	-	(390)	(378)	-	-
TOTAL FUND BALANCES	$ 19,574	$ 117,463	$ 119,464	$ 279,668	$ 18,086,050	$ 14,112,550

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2006

	Research Cash Fund 27250	Civic Cult. & Convention Center Fin. Fund 27260	Community Development Block Grants Fund 47210	107 Tech Assistance Fund 47220	HOME Fund 47230	Federal Miscellaneous Fund 47240
REVENUES:						
Appropriations	$ -	$ -	$ -	$ -	$ -	$ -
Taxes	-	-	-	-	-	-
Intergovernmental	-	-	13,835,675	-	5,115,130	1,175,240
Sales & Charges	-	-	-	-	-	-
Miscellaneous	2	4,006	27,819	119	10,210	10,081
TOTAL REVENUES	2	4,006	13,863,494	119	5,125,340	1,185,321
EXPENDITURES:						
Personal Services	-	-	202,560	-	299,983	28,850
Operating	2	-	181,089	-	340,593	649,991
Travel	43	-	24,477	-	40,798	7,219
Capital Outlay	-	-	-	-	-	-
Government Aid	-	330,665	13,304,462	-	4,651,778	500,614
TOTAL EXPENDITURES	45	330,665	13,712,588	-	5,333,152	1,186,674
Excess (Deficiency) of Revenues Over (Under) Expenditures	(43)	(326,659)	150,906	119	(207,812)	(1,353)
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-	-
Operating Transfers In	-	193,024	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	193,024	-	-	-	-
Net Change in Fund Balances	(43)	(133,635)	150,906	119	(207,812)	(1,353)
FUND BALANCES, JULY 1, 2005	43	362,514	377,233	13,078	316,576	791,143
FUND BALANCES, JUNE 30, 2006	$ -	$ 228,879	$ 528,139	$ 13,197	$ 108,764	$ 789,790
FUND BALANCES CONSIST OF:						
General Cash	$ -	$ 228,879	$ 37,929	$ 13,197	$ 77,715	$ 737,947
Petty Cash	-	-	-	-	-	-
NSF Items	-	-	-	-	-	-
Deposits with Vendors	-	-	45	-	49	244
Accounts Receivable Invoiced	-	-	490,178	-	31,000	51,599
Due to Vendors	-	-	-	-	-	-
Due to Fund	-	-	(13)	-	-	-
TOTAL FUND BALANCES	$ -	$ 228,879	$ 528,139	$ 13,197	$ 108,764	$ 789,790

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2006

	Administration Fund 47280	EBAD Indirect Cost Fund 47290	CDBG/HOME Revolving Loan Fund 47300	**Totals (Memorandum Only)**
REVENUES:				
Appropriations	$ -	$ -	$ -	$ 4,485,620
Taxes	-	-	-	13,138,332
Intergovernmental	149,286	125,224	447,348	20,856,473
Sales & Charges	-	-	-	70,293
Miscellaneous	2,784	3,542	50,521	1,388,365
TOTAL REVENUES	152,070	128,766	497,869	39,939,083
EXPENDITURES:				
Personal Services	149,155	-	105,850	4,377,210
Operating	3,893	14,998	13,042	4,078,254
Travel	-	-	983	487,559
Capital Outlay	-	-	-	21,888
Government Aid	-	-	576,800	27,308,669
TOTAL EXPENDITURES	153,048	14,998	696,675	36,273,580
Excess (Deficiency) of Revenues Over (Under) Expenditures	(978)	113,768	(198,806)	3,665,503
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	-	-	3,965
Deposit to General Fund	-	-	-	(5,837)
Operating Transfers In	-	-	-	15,193,024
Operating Transfers Out	-	-	-	(3,500,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	11,691,152
Net Change in Fund Balances	(978)	113,768	(198,806)	15,356,655
FUND BALANCES, JULY 1, 2005	29,150	23,260	1,413,794	20,427,071
FUND BALANCES, JUNE 30, 2006	$ 28,172	$ 137,028	$ 1,214,988	$ 35,783,726
FUND BALANCES CONSIST OF:				
General Cash	$ 28,083	$ 137,028	$ 1,214,988	$ 35,170,143
Petty Cash	-	-	-	25
NSF Items	-	-	-	3,440
Deposits with Vendors	89	-	-	37,915
Accounts Receivable Invoiced	-	-	-	572,877
Due to Vendors	-	-	-	107
Due to Fund	-	-	-	(781)
TOTAL FUND BALANCES	$ 28,172	$ 137,028	$ 1,214,988	$ 35,783,726

The accompanying notes are an integral part of the schedule.

(Concluded)

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2006

1. Criteria

The accounting policies of the Nebraska Department of Economic Development (Department) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the State of Nebraska Director of Administrative Services duties 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."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS – Accounting Division and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Department was obtained directly from NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2006, includes only those payables posted to NIS before June 30, 2006, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2006, **does not** include amounts for goods and services received before June 30, 2006, which had not been posted to NIS as of June 30, 2006.

NIS also records other liabilities in an account titled Due to Fund 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/equity.

The Department had accounts receivable not included in the Schedule of $2,989,432 from Community Development Block Grant and Affordable Housing Trust loans as described in Note 6. DAS did not require the Department to record their receivables on the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. The NIS system does not include liabilities for accrued payroll and compensated absences.

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

> **10000 – General Fund** – accounts for all financial resources not required to be accounted for in another fund.

NOTES TO THE SCHEDULE
(Continued)

1. **Criteria** (Continued)

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 all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

The major revenue object account codes established by NIS 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.

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consists of Lodging Tax and Documentary Stamp Tax.

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 object account titles established by NIS used by the Department are:

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

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 which 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.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (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.

Other significant object account codes established by NIS 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 and 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 on NIS.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for the Department's funds at June 30, 2006, included Due to Fund. The activity of this account is not recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

2. State Agency

The Nebraska Department of Economic Development 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.

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

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.

NOTES TO THE SCHEDULE
(Continued)

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 that 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

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Department values 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 $1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them 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 using the straight-line method with estimated useful lives of three to ten years.

Capital asset activity of the Department for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 708,432	$ 9,809	$ 456,630	$ 261,611
Less accumulated depreciation for:				
Equipment				211,117
Total capital assets, net of depreciation				$ 50,494

The amount of decreases was reduced by $56,262 to better present the capital asset activity during the fiscal year.

NOTES TO THE SCHEDULE
(Continued)

6. Loans

Fund	Balance July 1, 2005	In	Out	Balance June 30, 2006
CDBG/HOME Revolving Loan	$ 3,439,474	$ 360,898	$ 984,425	$ 2,815,947
Affordable Housing Trust	173,485	0	0	173,485
Total	$ 3,612,959	$ 360,898	$ 984,425	$ 2,989,432

The Department, under the Community Development Block Grant program, loans money to be used to create full-time employment positions. If the loan recipient meets certain job creation goals, up to one-half of the original loan may be forgiven per Federal guidelines. Above is a summary of changes in the 19 outstanding loan balances during the fiscal year.

The Department, under the Affordable Housing Trust, loans money to provide affordable housing for low income individuals. If two of the loan recipients meet certain requirements, the loans may be forgiven. For two loans, the recipient must repay the loan only if they sell the property purchased with the loan. Above is a summary of changes in the four outstanding loan balances during the fiscal year.

7. Transfers

2005 Neb. Laws LB 427, Section 2, authorized the State Treasurer to transfer $15,000,000 from the Cash Reserve Fund to the Job Training Cash Fund.

2005 Neb. Laws LB 40, Section 1, authorized the State Treasurer to transfer from the Affordable Housing Trust Fund $1,500,000 to the General Fund and $2,000,000 to the Behavioral Health Services Fund.

8. Reconciliation of Bank Records to the Nebraska Information System

Through their bank reconciliation procedures, DAS State Accounting Division (State Accounting) has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Department. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Department's balances; however, State Accounting believes it will not have a material impact on the Department's operations.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Nebraska Department of Economic Development
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Economic Development for the fiscal year ended June 30, 2006, and have issued our report thereon dated June 26, 2007. We conducted our examination 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.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Economic Development's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial schedule being examined 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Economic Development's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional items that we reported to management of the Nebraska Department of Economic Development in the Comments Section of this report as Comment Number 1 (Government Aid), Comment Number 2 (Community Development Assistance Act), Comment Number 3 (Fixed Assets), Comment Number 4 (Residual Receipt Loan Agreements), Comment Number 5 (Receipts), and Comment Number 6 (Contracts).

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Don Dunlap CPA

June 26, 2007 Assistant Deputy Auditor

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section 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.

State Economies

	PERSONAL INCOME (MILLIONS)	PERSONAL INCOME RANK	PERSONAL INCOME PER CAPITA	PER CAPITA RANK	GROSS STATE PRODUCT (MILLIONS)	GSP PER CAPITA	GSP PER CAPITA RANK
Alabama	$ 132,796	24	$ 29,136	41	$ 149,796	$ 32,866	45
Alaska	23,634	47	35,612	16	39,872	60,079	2
Arizona	179,765	21	30,267	38	215,759	36,327	39
Arkansas	74,687	33	26,874	48	86,802	31,233	48
California	1,338,181	1	37,036	11	1,621,843	44,886	12
Colorado	177,025	22	37,946	8	216,064	46,314	9
Connecticut	167,858	23	47,819	1	194,469	55,400	3
Delaware	31,265	44	37,065	10	54,354	64,437	1
Florida	590,954	4	33,219	23	674,049	37,889	33
Georgia	282,347	12	31,121	35	364,310	40,155	20
Hawaii	44,044	40	34,539	19	53,710	42,119	18
Idaho	40,241	42	28,158	44	47,178	33,012	44
Illinois	461,014	5	36,120	14	560,236	43,894	13
Indiana	196,160	16	31,276	33	238,638	38,048	30
Iowa	95,858	30	32,315	28	114,291	38,529	28
Kansas	90,126	31	32,836	25	105,448	38,419	29
Kentucky	118,998	26	28,513	42	140,359	33,632	43
Louisiana	112,275	28	24,820	50	166,310	36,765	37
Maine	41,300	41	31,252	34	45,070	34,105	41
Maryland	233,874	14	41,760	4	244,899	43,729	14
Massachusetts	283,391	11	44,289	2	328,535	51,344	5
Michigan	335,164	9	33,116	24	377,895	37,338	34
Minnesota	191,830	17	37,373	9	233,292	45,451	11
Mississippi	73,955	34	25,318	49	80,197	27,454	50
Missouri	185,026	20	31,899	30	216,069	37,251	35
Montana	27,497	45	29,387	39	29,851	31,903	47
Nebraska	59,124	36	33,616	20	70,263	39,950	22
Nevada	86,650	32	35,883	15	110,546	45,778	10
New Hampshire	50,312	38	38,408	6	55,690	42,513	17
New Jersey	381,595	7	43,771	3	430,787	49,414	7
New Mexico	53,308	37	27,644	46	69,324	35,949	40
New York	779,941	2	40,507	5	963,466	50,038	6
North Carolina	265,296	13	30,553	37	344,641	39,690	24
North Dakota	19,988	49	31,395	32	24,178	37,975	32
Ohio	372,332	8	32,478	26	442,440	38,594	27
Oklahoma	104,060	29	29,330	40	120,549	33,978	42
Oregon	116,889	27	32,103	29	145,351	39,920	23
Pennsylvania	433,752	6	34,897	18	487,169	39,194	26
Rhode Island	38,907	43	36,153	13	43,791	40,691	19
South Carolina	120,639	25	28,352	43	139,771	32,848	46
South Dakota	24,530	46	31,614	31	31,066	40,037	21
Tennessee	185,488	19	31,107	36	226,502	37,985	31
Texas	742,074	3	32,462	27	982,403	42,975	15
Utah	69,299	35	28,061	45	89,836	36,377	38
Vermont	20,764	48	33,327	22	23,134	37,130	36
Virginia	290,511	10	38,390	7	352,745	46,613	8
Washington	222,643	15	35,409	17	268,502	42,702	16
West Virginia	49,445	39	27,215	47	53,782	29,602	49
Wisconsin	185,821	18	33,565	21	217,537	39,294	25
Wyoming	18,731	50	36,778	12	27,422	53,843	4
D.C.	30,270	-	54,985	-	82,777	150,361	-
U.S.	10,251,639	-	34,586	-	12,402,967	41,844	-

Source: U.S. Bureau of Economic Analysis 2005 (personal income) and 2004 (GSP), Governing Sourcebook 2006

Economic Growth

	% CHANGE IN EMPLOYMENT 2005-06	% CHANGE RANK	% CHANGE IN EMPLOYMENT 2001-2006	% CHANGE RANK	% CHANGE IN PERSONAL INCOME 2002-05	% CHANGE RANK
Alabama	2.4 %	15	3.0 %	20	16.7 %	18
Alaska	1.4	30	8.6	10	14.1	40
Arizona	5.5	2	13.9	2	24.7	2
Arkansas	1.2	38	2.6	23	18.1	14
California	1.7	27	1.4	31	16.6	19
Colorado	2.2	20	0.5	38	15.7	26
Connecticut	0.7	44	-1.0	44	14.2	38
Delaware	1.8	22	2.6	22	17.8	15
Florida	3.7	6	11.2	4	19.3	8
Georgia	2.6	14	1.8	28	15.3	29
Hawaii	3.3	9	9.9	6	21.1	4
Idaho	4.9	3	11.2	3	18.9	11
Illinois	1.2	37	-2.6	46	11.4	48
Indiana	1.1	39	0.6	36	13.7	42
Iowa	1.9	21	2.1	24	16.3	21
Kansas	0.5	46	-0.6	43	14.7	36
Kentucky	1.5	29	1.5	30	14.6	37
Louisiana	-8.5	50	-8.1	50	-0.4	50
Maine	0.2	47	0.1	42	14.7	35
Maryland	1.7	26	4.3	16	17.4	16
Massachusetts	1.0	41	-4.7	48	13.4	44
Michigan	-0.4	49	-5.1	49	10.4	49
Minnesota	1.8	23	1.2	34	14.9	32
Mississippi	0.1	48	0.4	39	15.6	27
Missouri	1.3	35	0.4	40	14.8	33
Montana	2.3	17	9.1	7	20.5	6
Nebraska	1.8	25	3.5	19	17.3	17
Nevada	5.8	1	20.3	1	30.0	1
New Hampshire	1.6	28	1.3	32	15.9	24
New Jersey	1.3	33	1.8	29	13.2	45
New Mexico	2.8	13	8.7	9	18.5	12
New York	1.0	40	-1.2	45	15.1	30
North Carolina	1.8	24	0.5	37	16.0	22
North Dakota	2.3	18	6.1	11	19.4	7
Ohio	0.7	45	-2.6	47	11.8	47
Oklahoma	2.8	12	2.1	25	15.4	28
Oregon	3.7	5	5.2	12	14.7	34
Pennsylvania	1.2	36	0.3	41	13.5	43
Rhode Island	0.9	42	2.7	21	15.7	25
South Carolina	2.9	10	3.6	18	15.9	23
South Dakota	2.4	16	4.6	15	19.1	10
Tennessee	1.3	34	1.9	27	16.5	20
Texas	2.9	11	3.8	17	18.4	13
Utah	4.2	4	8.9	8	19.1	9
Vermont	0.8	43	1.3	33	15.0	31
Virginia	2.2	19	5.2	13	20.8	5
Washington	3.4	8	4.8	14	12.8	46
West Virginia	1.4	31	2.0	26	14.2	39
Wisconsin	1.4	32	1.1	35	13.8	41
Wyoming	3.7	7	11.2	5	21.1	3
D.C.	1.5	-	6.6	-	17.4	-
U.S.	1.6	-	1.8	-	15.5	-

Source: U.S. Bureau of Labor Statistics (employment March 2001, 2005 and 2006), U.S. Bureau of Economic Analysis (personal income, 2002 and 2005), Governing Sourcebook 2006

Index of State Economic Momentum

	INDEX MARCH 2006	INDEX RANK	INDEX MARCH 2003	INDEX RANK	RANK CHANGE 2006 VS. 2003
Alabama	0.3 %	17	-0.3 %	37	+20
Alaska	-0.2	29	1.3	4	-25
Arizona	3.3	2	1.0	6	+4
Arkansas	-0.1	25	0.3	13	-12
California	0.3	18	0.4	10	-8
Colorado	0.6	13	-0.4	40	+27
Connecticut	-0.5	35	-0.8	47	+12
Delaware	-0.1	28	-0.1	32	+4
Florida	1.9	5	1.4	3	-2
Georgia	0.7	12	0.3	14	+2
Hawaii	0.8	10	1.6	1	-9
Idaho	2.2	4	0.2	23	+19
Illinois	-0.6	40	-0.4	42	+2
Indiana	-0.6	39	-0.1	33	-6
Iowa	-0.4	33	-0.4	41	+8
Kansas	0.0	23	0.2	19	-4
Kentucky	-0.1	24	-0.1	31	+7
Louisiana	-4.8	50	0.1	25	-25
Maine	-1.1	46	0.5	9	-37
Maryland	-0.1	27	0.4	12	-15
Massachusetts	-0.9	45	-0.9	49	+4
Michigan	-1.4	48	-0.6	44	-4
Minnesota	-0.8	42	-0.4	39	-3
Mississippi	-0.4	32	0.1	26	-6
Missouri	-0.2	30	-1.4	50	+20
Montana	0.5	15	0.0	30	+15
Nebraska	0.0	22	0.3	15	-7
Nevada	3.5	1	1.4	2	+1
New Hampshire	-0.5	34	0.2	20	-14
New Jersey	-0.6	38	-0.2	34	-4
New Mexico	1.2	9	1.2	5	-4
New York	-0.8	43	-0.8	48	+5
North Carolina	0.2	19	0.0	29	+10
North Dakota	0.4	16	-0.6	45	+29
Ohio	-1.2	47	-0.8	46	-1
Oklahoma	0.6	14	-0.5	43	+29
Oregon	1.3	8	0.5	8	0
Pennsylvania	-0.7	41	-0.2	35	-6
Rhode Island	-0.9	44	0.3	17	-27
South Carolina	0.0	21	0.3	18	-3
South Dakota	0.2	20	0.0	27	+7
Tennessee	-0.1	26	0.3	16	-10
Texas	1.4	6	0.2	22	+16
Utah	2.3	3	0.0	28	+25
Vermont	-0.6	36	0.2	24	-12
Virginia	0.7	11	0.2	21	+10
Washington	-2.7	49	0.4	11	-38
West Virginia	-0.3	31	-0.3	38	+7
Wisconsin	-0.6	37	-0.2	36	-1
Wyoming	1.3	7	0.7	7	0
D.C.	-0.2	-	0.3	-	-
U.S.	0.0	-	0.0	-	-

Source: State Policy Research Inc., Governing Sourcebook 2006

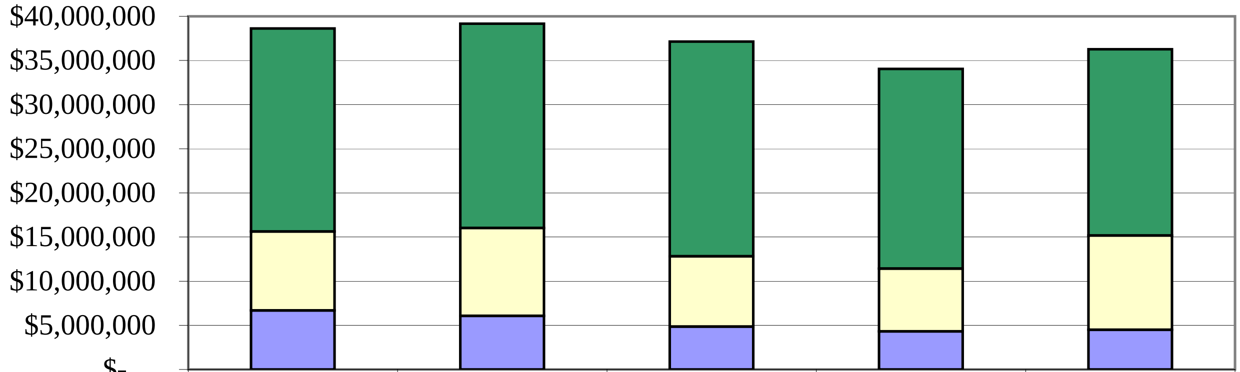
Ups and Downs: The Index of State Economic Momentum averages the most recent one-year changes in employment, personal income and population, and relates each state's performance to the national average, set at zero. This means Nebraska's economy is on par with national performance, while top-performing Nevada's exceeds the average by 3.5 percent.

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

DISBURSEMENTS BY FUND TYPE AND BY PROGRAM

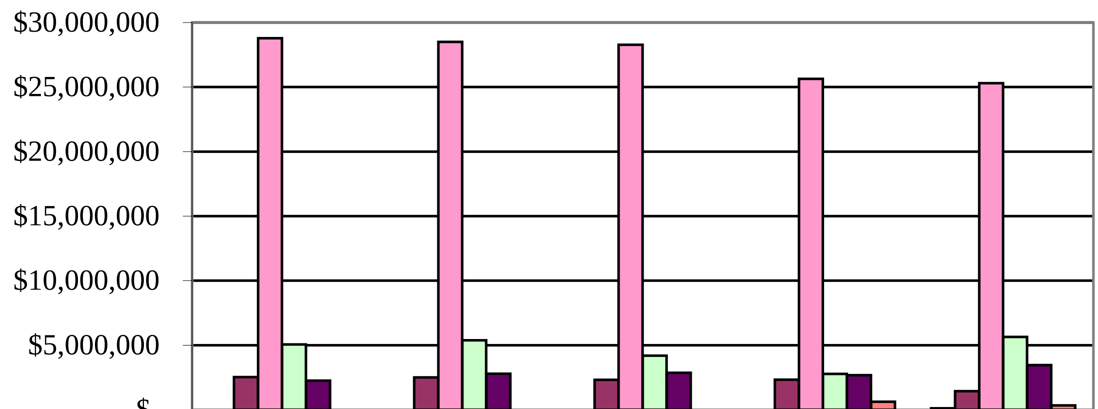
For the Fiscal Years Ended June 30, 2002 Through 2006

Disbursements by Fund Type



	2002	2003	2004	2005	2006
Federal	$22,998,218	$23,153,813	$24,338,653	$22,619,436	$21,097,136
Cash	$8,945,242	$9,953,863	$7,952,954	$7,116,089	$10,690,823
General	$6,683,520	$6,066,383	$4,856,526	$4,310,869	$4,485,620

Disbursements by Program

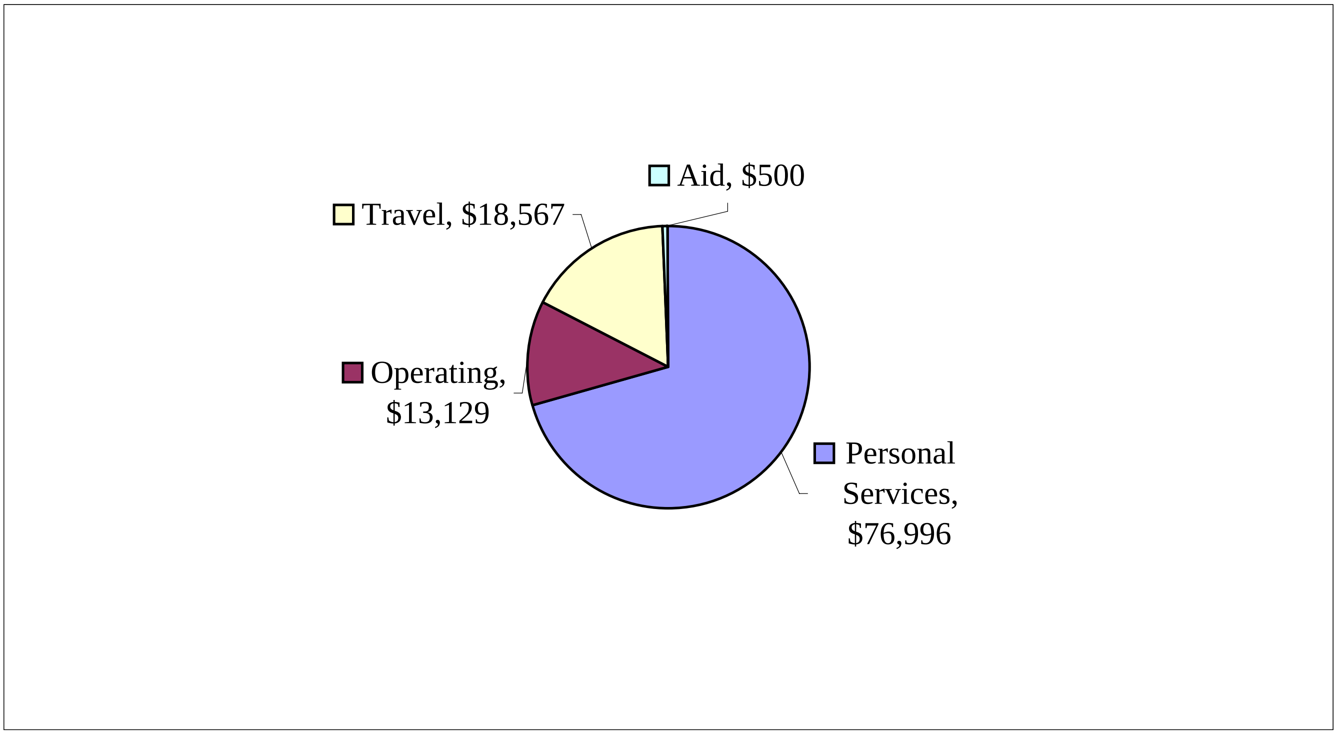


	2002	2003	2004	2005	2006
134-Rural Development	0	0	0	0	$109,192
600-Administration	$2,528,481	$2,506,204	$2,318,369	$2,336,077	$1,437,421
601-Community Affairs	$28,782,007	$28,501,551	$28,279,999	$25,634,953	$25,304,535
603-Industry Recruitment	$5,055,997	$5,381,178	$4,186,414	$2,779,065	$5,635,360
618-Tourism Promotion	$2,260,495	$2,785,126	$2,862,851	$2,676,298	$3,456,406
655-Local Finance	0	0	0	$620,000	$330,665

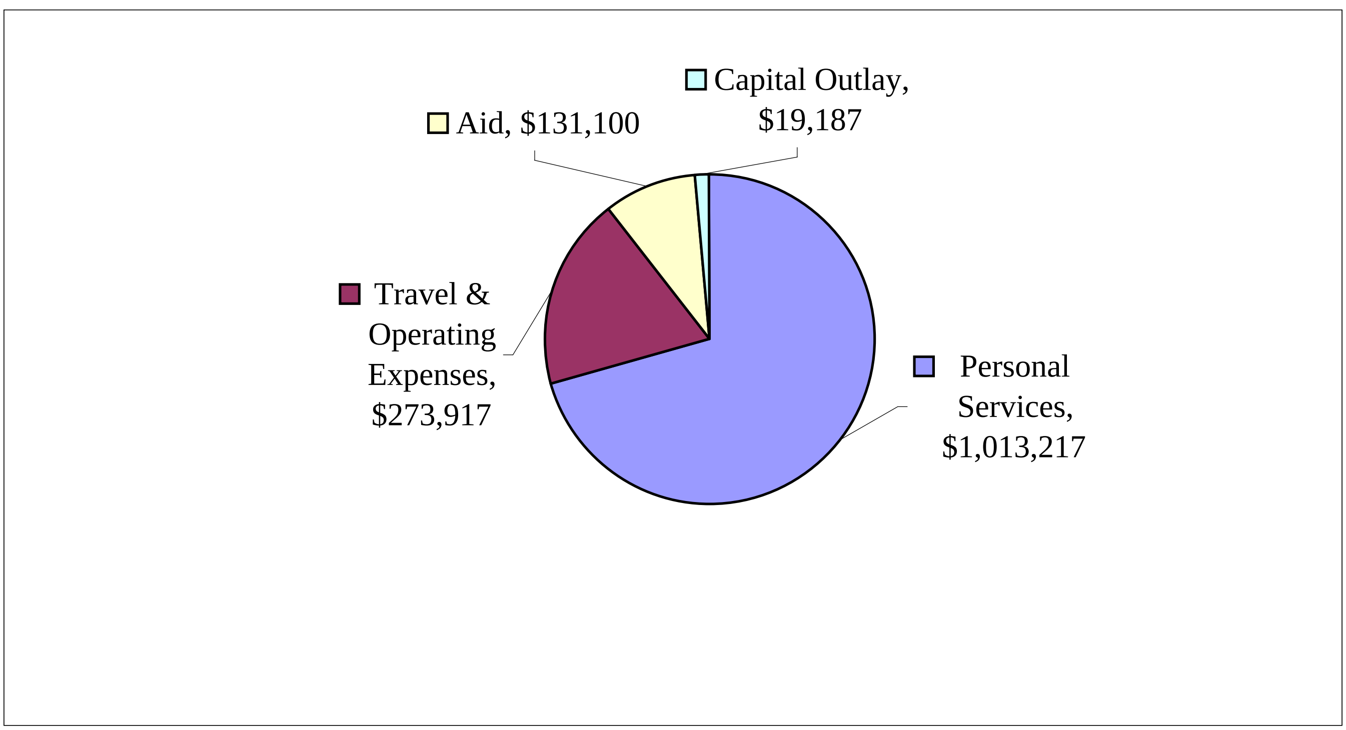
NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

PROGRAM 134 - RURAL DEVELOPMENT COMMISSION

For the Fiscal Year Ended June 30, 2006



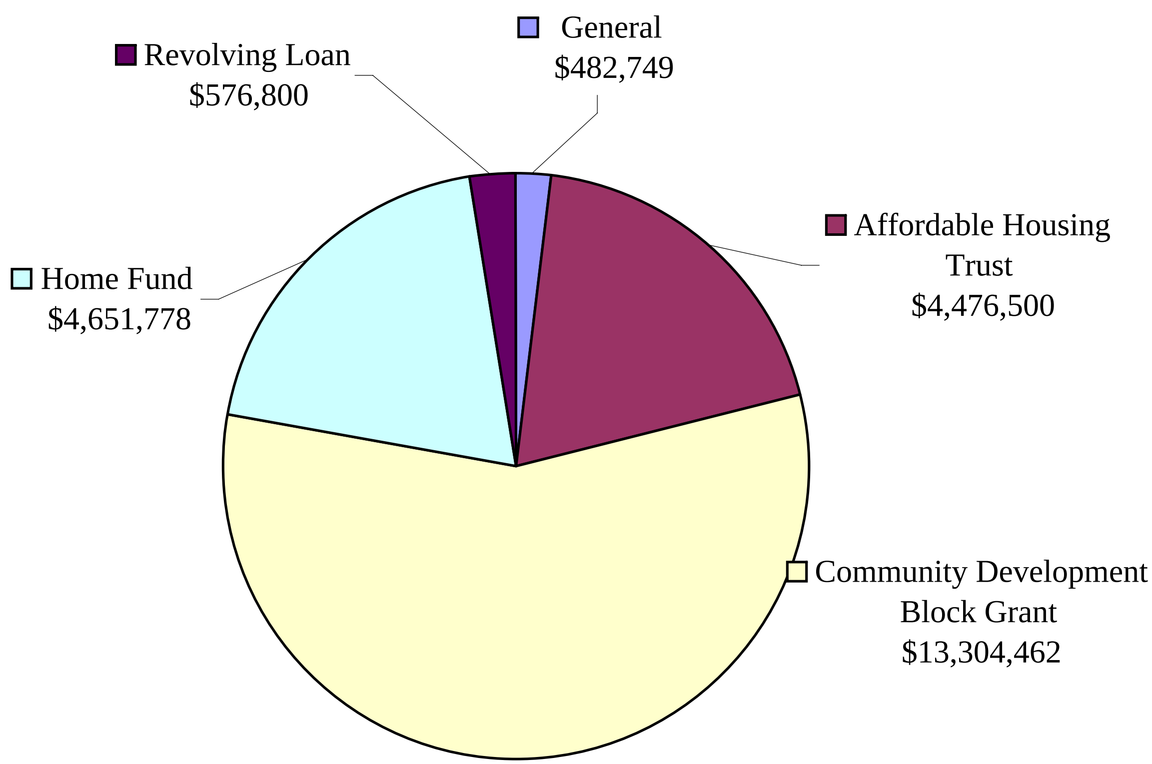
PROGRAM 600 - ADMINISTRATION



NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

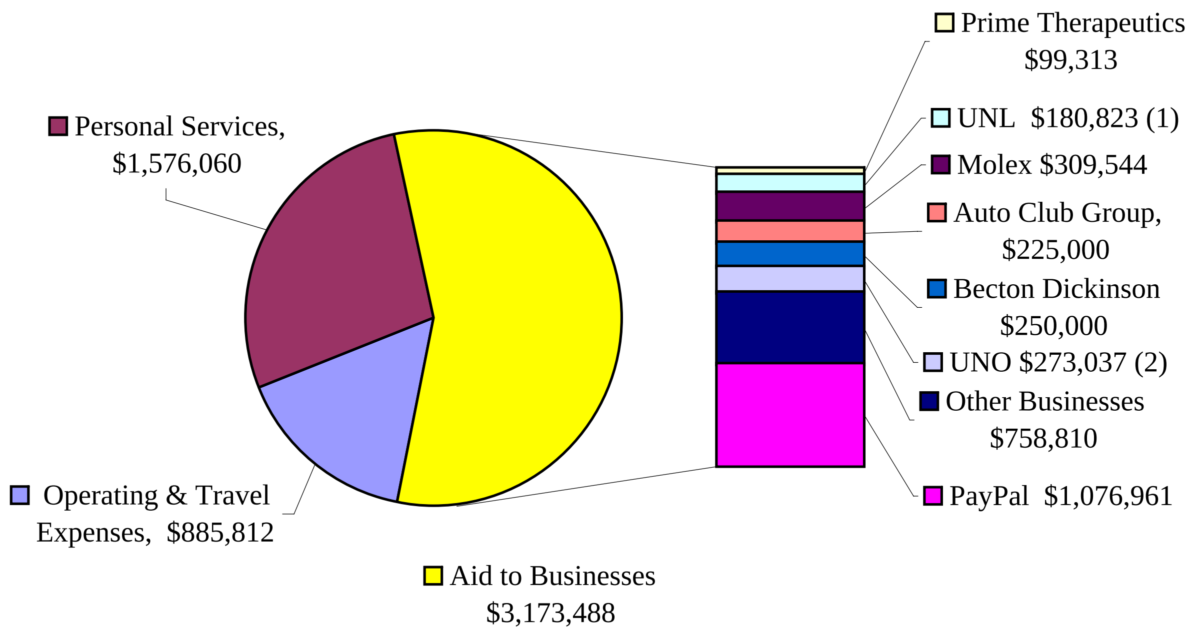
PROGRAM 601 - COMMUNITY AFFAIRS AID PAYMENTS BY FUND

For the Fiscal Year Ended June 30, 2006



NOTE: Total Disbursements Program 601 was $25,304,535 of which $1,812,246 was administration/operating expenses and $23,492,289 aid payments. The two largest recipients were South Sioux City for $1,071,013 and Norfolk for $885,479.

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT
PROGRAM 603 - INDUSTRY RECRUITMENT DISBURSEMENTS
For the Fiscal Year Ended June 30, 2006



Note: Aid to Businesses generally consists of reimbursement of wages for training of employees.

(1) Contract to provide technical and business development services to enhance the competitiveness and profitability of Nebraska food manufacturers.

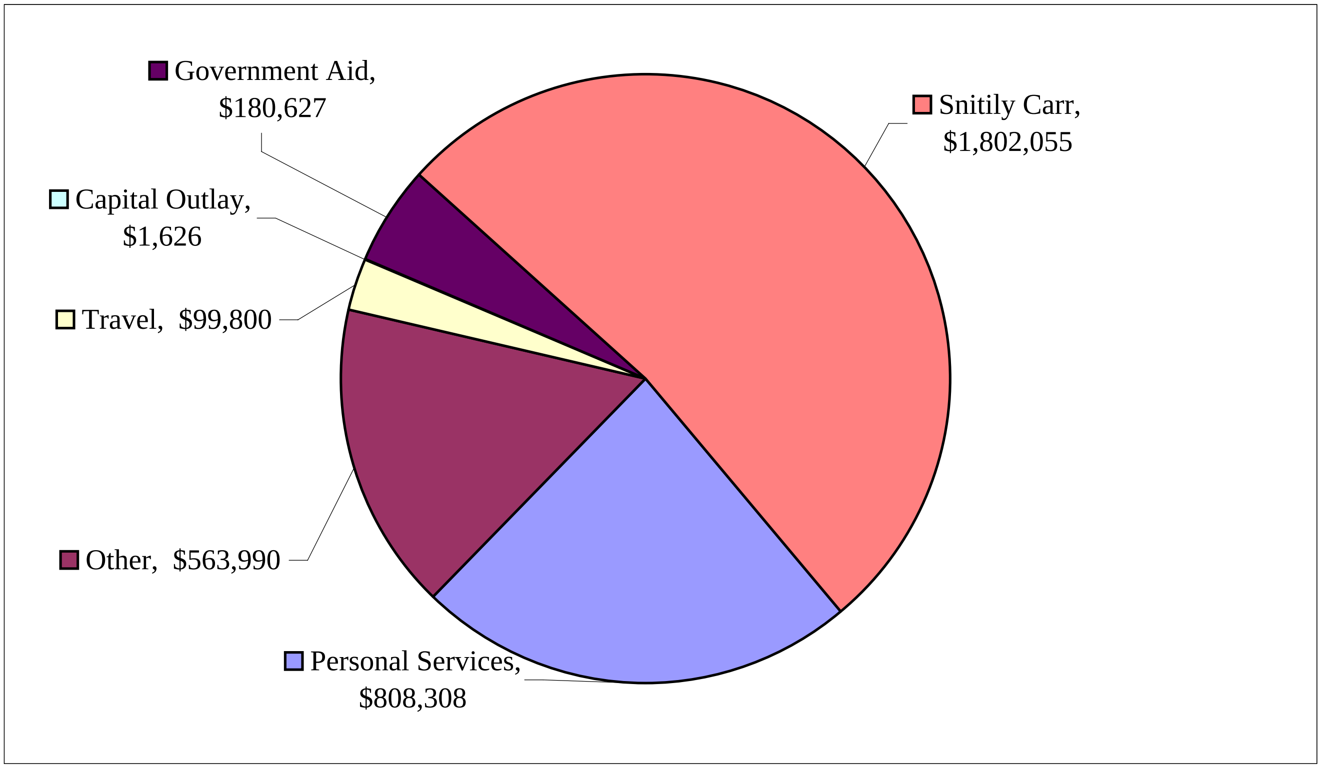
(2) Contract to provide technical and business development services to enhance the competitiveness and profitability of Nebraska manufacturers, particularly small and medium sized firms.

Business shown met threshold of approximately $100,000 in aid.

NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT

PROGRAM 618 - TOURISM PROMOTION DISBURSEMENTS

For the Fiscal Year Ended June 30, 2006



Note: Snitily Carr, an independent contractor, provided marketing and advertising services for the Trav and Tourism Division.

PROGRAM 655 - LOCAL FINANCE DISBURSEMENTS