

**ATTESTATION REPORT  
OF THE  
NEBRASKA MILITARY DEPARTMENT**

**JANUARY 1, 2012 THROUGH DECEMBER 31, 2012**

**This document is an official public record of the State of Nebraska, issued by  
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original  
document and may be prohibited by law.**

**Issued on July 18, 2013**

*The Nebraska Auditor of Public Accounts Office was created by the first territorial Legislature in 1855. The Auditor was the general accountant and revenue officer of the territory. Those duties have expanded and evolved over the decades, as modern accounting theory has been implemented. The office of the Auditor of Public Accounts is one of six offices making up the executive branch of Nebraska State Government. Mike Foley was elected November 2006 and re-elected November 2010 as the Nebraska Auditor of Public Accounts. He was sworn into office on January 4, 2007, as Nebraska's 24th State Auditor.*

*The mission of the Nebraska Auditor of Public Accounts' office is to provide independent, accurate, and timely audits, reviews, or investigations of the financial operations of Nebraska State and local governments.*

*We will provide this information, as required by statute, to all policymakers and taxpayers through written reports and our Internet-based Budget and Audit databases.*

*We will maintain a professionally prepared staff, utilizing up-to-date technology, and following current Government Auditing Standards.*

### Audit Staff Working On This Examination

Don Dunlap, CPA – Assistant Deputy Auditor

Erica Kellogg, CPA – Auditor-In-Charge

Christina Wusk, CFE – Auditor-In-Charge

Steve Fricke – Auditor

Daniela Myers – Auditor

Our reports can be found electronically at: <http://www.auditors.nebraska.gov>

Additionally, you may request them by contacting us at:

#### **Nebraska Auditor of Public Accounts**

State Capitol, Suite 2303

P.O. Box 98917

Lincoln, Nebraska 68509

Phone: 402-471-2111

NEBRASKA MILITARY DEPARTMENT

TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1
Mission Statement	1
Organizational Chart	2
<b>Comments Section</b>	
Exit Conference	3
Summary of Comments	4
Comments and Recommendations	5 - 9
<b>Financial Section</b>	
Independent Accountant's Report	10 - 11
Schedule of Revenues, Expenditures, and Changes in Fund Balances	12 - 13
Notes to the Schedule	14 - 19
<b>Supplementary Information</b>	20
Expenditures by Program	21
Expenditures by Fund Type	22
Expenditures by Major Account Category	22

# NEBRASKA MILITARY DEPARTMENT

## **BACKGROUND**

The Military Department functions as the State department for both military and nonmilitary operations. The Army National Guard, the Air National Guard, and the State Guard, when organized, conduct military operations and missions to support civil authority when authorized by the Governor. The Nebraska Emergency Management Agency (NEMA), a component of the Military Department, coordinates civil resources to support civil authority in an emergency.

The Adjutant General, besides commanding the State military forces, is State Emergency Management Director, Emergency Resource Management Coordinator, Emergency Preparedness Director, and State Disaster Coordinator.

The Governor, as the State's military force Commander in Chief, appoints the Adjutant General from commissioned officers of the Nebraska National Guard. The Adjutant General serves until reaching the mandatory retirement age of 64, resigning, or being relieved. The Adjutant General controls Military Department forces for the Governor and transmits the Governor's orders.

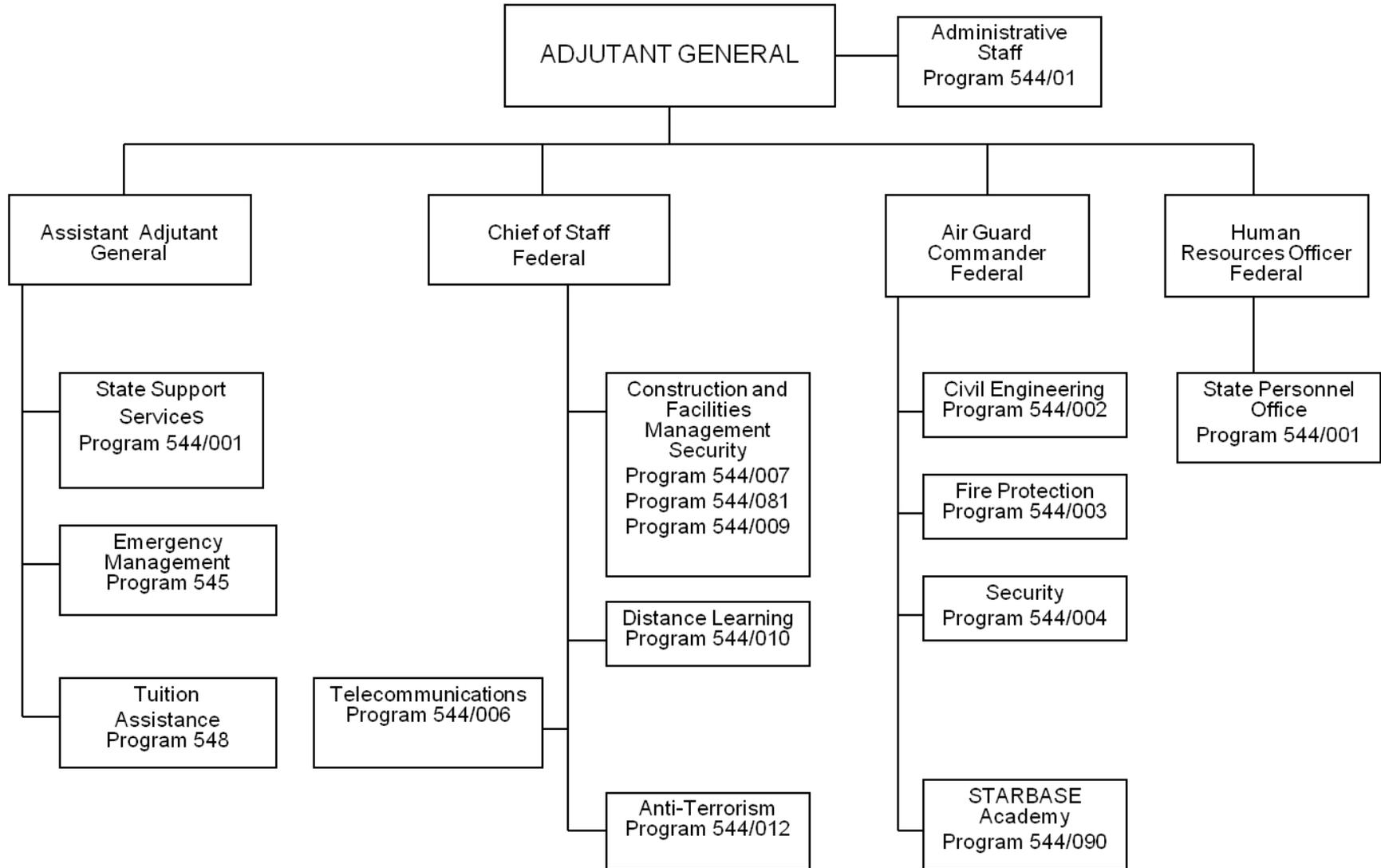
The Adjutant General represents the State at all national, regional, and area military and nonmilitary defense conferences. The Adjutant General develops all civil and military defense, State emergency preparedness, and disaster recovery plans for the State. The Adjutant General coordinates with appropriate national and regional agencies and other states to formulate Army, Air Force, civil defense, and emergency plans for the State.

## **MISSION STATEMENT**

The mission of the Military Department is to maintain the Nebraska National Guard (Army and Air) in a high state of readiness for mobilization and deployment in the event of a national or a State emergency, with adequate, well-trained personnel. The Department also strives to maintain a State Disaster and Emergency Management program to reduce the vulnerability of the citizens and communities of the State in the event of a national or man-made disaster or attack by coordinating the resources of Nebraska communities, State government, and the Federal government in the areas of disaster preparedness, disaster response, disaster recovery, and hazard mitigation.

NEBRASKA MILITARY DEPARTMENT

ORGANIZATIONAL CHART



NEBRASKA MILITARY DEPARTMENT

**EXIT CONFERENCE**

An exit conference was held June 26, 2013, with the Nebraska Military Department (Department) to discuss the results of our examination. Those in attendance for the Department were:

<b>NAME</b>	<b>TITLE</b>
Deb Kai	NEMA Business Manager III
BG Daryl Bohac	Deputy Adjutant General
Shawn Fitzgerald	Controller
Major General Judd H. Lyons	The Adjutant General

# NEBRASKA MILITARY DEPARTMENT

## SUMMARY OF COMMENTS

During our examination of the Nebraska Military Department (Department), we noted certain deficiencies and other operational matters that are presented here.

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

1. **Construction Contracts:** The Department failed to submit construction documents to the State Building Division for review. Also, the State Building Division did not inspect construction projects or approve certificates of payments for Department construction projects.
2. **Armory Procedures:** Money received from the armories is not always deposited within the timeframe required by statute. There is no official review or monitoring to ensure all activity or money earned by the armories is received. Additional procedural issues were also noted.
3. **Capital Asset Controls:** There was a lack of segregation of duties for capital asset procedures, as one individual is responsible for the adding, monitoring, and disposing of all capital assets. The same individual is responsible for performing the physical inventory and reviewing all reports.
4. **Payables:** The Nebraska Emergency Management Agency (NEMA) does not have an adequate process to identify accounts payable.
5. **State Ownership of Building:** There is a lack of documentation to identify the ownership for the NEMA portion of the Joint Force Headquarters (JFHQ) building. NEMA has paid close to \$3.53 million toward the construction of the building.

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

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

NEBRASKA MILITARY DEPARTMENT  
COMMENTS AND RECOMMENDATIONS

**1. Construction Contracts**

The Nebraska Military Department (Department) is involved annually in facilities construction. In the past several State fiscal years, for example, the Department constructed a new Joint Force Headquarters (JFHQ) building that cost approximately \$3.5 million in State funds and \$24.5 million in Federal funds for a total of approximately \$28 million. In addition, the Department is, on an on-going basis, in the process of constructing other facilities. For the calendar year ended December 31, 2012, the APA tested \$2,325,330 in facilities construction contracts.

Nebraska State statutes require State agencies to communicate certain information to the Department of Administrative Services Building Division (Building Division) when they are involved in the construction of facilities. Specifically, Neb. Rev. Stat. § 81-1108.15(3) (Cum. Supp. 2012) outlines certain powers and duties of the Building Division. It states:

*Facilities construction shall include the following powers and duties:*

- a. To maintain close contact with the inspections of each project so as to assure execution of time-cost schedules and efficient contract performance if such project's total design and construction cost is more than \$50,000.*
- b. To perform final acceptance inspections and evaluations; and*
- c. To coordinate all change or modification orders and progress payment orders.*

In addition, Title 7 NAC 11-011.01C of the Building Division's rule and regulations states, "All certificates of payments for projects whose total project cost exceed one hundred thousand dollars (\$100,000) shall be submitted to the State Building Division for approval."

During testing of eight facilities construction contracts of the Department, all of which were over \$100,000, we noted the Department did not submit any facility construction documents to the Building Division. In addition, through discussion with the Department's Construction Facilities and Maintenance Office (CFMO), historically the Department has not provided facility construction documents to the Building Division, nor has the Building Division requested such information from the Department. Thus, the requirements in § 81-1108.15 and Title 7 NAC 11-011.01C have not been followed.

Recently, we understand, the CFMO has been in communication with the Building Division to determine what needs to be submitted for the Department's facilities construction contracts.

When construction documents are not sent to the Building Division for approval, the Department is not in compliance with State statute and the rules and regulations for construction projects. In addition, there is an increased risk that State contracting procedures will not be followed and an increased risk of loss or misuse of funds.

We recommend the Department work with the Building Division to ensure that the Department is in compliance with all State statutes and Title 7 NAC.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Construction Contracts** (Concluded)

*Department's Response: We agree and the Construction Facilities and Maintenance Office is actively engaged with the State Building Division to ensure compliance with all State statutes regarding construction activities.*

2. **Armory Procedures**

Neb. Rev. Stat. § 84-710 (Reissue 2008) states:

*It shall be unlawful ... money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.*

A good internal control plan requires up-to-date policies and procedures to be in place and adequate oversight to ensure those policies are being followed.

During testing of the operations of the Department's armories, we noted the following issues:

- Money received is not always deposited as required by § 84-710. We tested three receipts for three of fifteen armories and noted the deposits, totaling \$3,525, had checks that were deposited between 13 to 22 days after the date of receipt. Through further inquiry, some checks are being held until after the rental of the armory facility has occurred instead of being deposited immediately upon receipt.
- Armory activity was only monitored by the Department's JFHQ through pre-numbered rental agreements sent to each armory; however, there is no official review/monitoring to ensure all activity/money is received, as well as whether the Armory Use Policy NEARNGR405-1 is being followed.
- There was no policy or guidelines in place for armories with vending services regarding how the proceeds or operations were to be handled.
- The Armory Use Policy NEARNGR405-1 for armory operations and rental procedures is out dated and has not been updated since 2001; however, it is currently in the process of being updated.

When money is not deposited immediately upon receipt, the armories are not in compliance with State statute. In addition, when adequate controls are not in place to monitor the armories, there is an increased risk that funds will be misused.

We recommend the Department work with the State Treasurer to develop procedures to ensure compliance with State statute on depositing of funds. We also recommend that the Department strengthen its controls over armory rentals and consider performing surprise site visits to monitor those controls. We further recommend the Department complete the updating of armory policies and keep those policies current.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Armory Procedures** (Concluded)

*Department's Response: The Military Department has nearly completed a re-write of our existing policy governing the use of armories and the revenues received as a result. We will institute a segregation of duties in order to achieve adequate review and monitoring of these activities and to ensure money is deposited as required by statute.*

3. **Capital Asset Controls**

A good internal control plan requires adequate policies and procedures to ensure no one individual is in a position both to perpetrate and to conceal errors and irregularities. A good internal control plan also requires an adequate review of system reports.

There was a lack of segregation of duties, as one individual was responsible for the addition and deletion of capital assets in the accounting system, the disposal of surplus property, performed the physical inventory, and reviewed reports from the system. There was not a review of system reports by a separate individual to ensure transactions were proper.

Without adequate policies and procedures to ensure assets are properly recorded and reviewed, there is an increased risk of loss or misappropriation of assets.

We recommend the Department implement procedures to ensure an adequate segregation of duties, which includes appointing an individual separate from the capital asset process to review system reports. We further recommend the Department implement procedures to ensure the surplus property is appropriately approved by someone other than the individual making the deletion.

*Department's Response: While we believe, following a careful review of current procedures, that an adequate segregation of duties for capital asset procedures currently exists, the Agency Controller will now review and initial all EDGE1 system reports regarding the fixed asset listings.*

4. **Payables**

Sound accounting procedures dictate a process be in place to correctly identify which fiscal year payable transactions belong. In the State Accounting System, EnterpriseOne, all payables for the prior fiscal year ended June 30 should be identified in the system as a P9.

During testing of Federal grant expenditures, we noted a transaction totaling \$785,530 that was not correctly identified in the accounting system as a prior year payable. The transaction involved the reimbursement of expenditures by the Nebraska Emergency Management Agency (NEMA) to a sub-grantee for costs incurred for a declared disaster. We also noted that the process used by NEMA to identify payables was not adequate for this type of expenditure. NEMA determined if a sub-grantee transaction was a payable from the date the invoice was reviewed by NEMA staff and approved for payment. The process NEMA should use in

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

**4. Payables (Concluded)**

reviewing such a payment should include reviewing the invoice that supports the request for reimbursement. If, for example, the sub-grantee invoice is dated prior to June 30, which is the State's fiscal year end, but not reimbursed to the entity until after June 30, then the expenditure is a payable as of June 30 (prior fiscal year) and should be identified in the State Accounting System as such.

Without a proper process in place for identifying prior fiscal year transactions, there is an increased risk that grant funds paid to sub-grantees will not be recorded to the correct fiscal year.

We recommend the Department work with the Department of Administrative Services (DAS) Accounting Division to implement a process to ensure payables related to grant expenditures to sub-grantees are properly identified to the correct fiscal year.

*Department's Response: This finding involved the reimbursement of expenditures by NEMA to a sub-grantee for costs incurred for a declared disaster. Based upon our review of request for reimbursement, we found that we were correct in identifying it as a current fiscal year voucher. This was due to the fact that their request was for cost over-runs that could not have been included in the original request and therefore had not been approved by Federal Emergency Management Agency (FEMA). Without an approved budget and scope of work, payment request is not valid until we receive the approval from FEMA. We did not consider this prior year work as we did not have FEMA approval for budget and/or scope of work that would have allowed us to pay this request. However, we understand the issue of prior year and current year payables and are modifying our payment procedures to reflect this change to ensure proper fiscal years are identified. These changes are being implemented as of July 1, 2013.*

**5. State Ownership of Building**

Good business practices and sound accounting practices require adequate documentation be maintained to provide support for whether a building is State or Federally owned.

We noted there was a lack of supporting documentation on file to identify the ownership of the NEMA portion/wing of the JFHQ building. As noted in Comment Number 1, the Department constructed a new JFHQ building that cost approximately \$28 million in State and Federal funds. As of December 31, 2012, NEMA, a division of the Department, had paid close to \$3.53 million of State funds towards NEMA's portion of the building. Subsequent to the examination period, the Department insured the NEMA wing with the State of Nebraska. Currently, all costs are being charged to an operating expense; however, it is the intent of the Department to capitalize the NEMA wing of the building on the State books once construction is completed and all costs have been recorded in the accounting system.

Without proper documentation to support ownership of a building, there is an increased risk that financial statements may be misstated due to confusion over the property's ownership.

NEBRASKA MILITARY DEPARTMENT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **State Ownership of Building** (Concluded)

We recommend the Department work with DAS Accounting and Building Divisions, as well as the Federal government, to clarify and adequately support that the NEMA portion/wing is State Property.

*Department's Response: The Nebraska Emergency Management Agency and the Construction Facilities and Maintenance Office are working on a memorandum of agreement that will delineate the ownership of the building and result in a license to the State for the state-owned portions.*



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

Mike.Foley@nebraska.gov  
P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
www.auditors.nebraska.gov

## NEBRASKA MILITARY DEPARTMENT

### INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Military Department  
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Military Department (Department) for the calendar year ended December 31, 2012. 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 Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Military Department for the calendar year ended December 31, 2012, based on the accounting system and procedures prescribed by the State of Nebraska Department of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

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

SIGNED ORIGINAL ON FILE

July 11, 2013

Mike Foley  
Auditor of Public Accounts

NEBRASKA MILITARY DEPARTMENT  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2012

	State General Fund 10000	Military Department Cash Fund 23110*	Nebraska Emergency Management Agency Cash Fund 23111	Governor's Emergency Cash Fund 23120	Nebraska Capital Construction Fund 38000
<b>REVENUES:</b>					
Appropriations	\$ 6,357,689	\$ -	\$ -	\$ -	\$ 984,025
Intergovernmental	770,374	28,082	-	-	-
Sales & Charges	7	168,499	561,965	-	-
Miscellaneous	13,983	71,709	6,877	72,912	-
<b>TOTAL REVENUES</b>	<b>7,142,053</b>	<b>268,290</b>	<b>568,842</b>	<b>72,912</b>	<b>984,025</b>
<b>EXPENDITURES:</b>					
Personal Services	2,282,984	2,502	283,106	-	-
Operating	2,649,674	179,009	188,425	-	47,392
Travel	195,761	9,426	9,047	-	54
Capital Outlay	80,227	51,122	8,079	-	385,344
Government Aid	1,149,043	-	-	1,848,914	551,235
<b>TOTAL EXPENDITURES</b>	<b>6,357,689</b>	<b>242,059</b>	<b>488,657</b>	<b>1,848,914</b>	<b>984,025</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	784,364	26,231	80,185	(1,776,002)	-
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	9,230	1,763	1,267	-	-
Deposit to General Fund	(793,594)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(784,364)</b>	<b>1,763</b>	<b>1,267</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	-	27,994	81,452	(1,776,002)	-
FUND BALANCES, JANUARY 1, 2012	229	309,468	356,681	3,278,946	-
FUND BALANCES, DECEMBER 31, 2012	<u>\$ 229</u>	<u>\$ 337,462</u>	<u>\$ 438,133</u>	<u>\$ 1,502,944</u>	<u>\$ -</u>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ -	\$ 347,294	\$ 438,657	\$ 1,502,944	\$ -
Deposits with Vendors	229	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-
Due From Other Funds	-	1,000	-	-	-
Due to Vendors	-	(1,144)	(524)	-	-
Due to Fund	-	(8,450)	-	-	-
Due to Government	-	(1,238)	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 229</b>	<b>\$ 337,462</b>	<b>\$ 438,133</b>	<b>\$ 1,502,944</b>	<b>\$ -</b>

\* See Footnote 1.

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA MILITARY DEPARTMENT  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2012

	Army National Guard Operations & Maintenance Fund 43110*	Emergency Management Fund 43120	Air National Guard Operations & Maintenance Fund 43130*	Other Federal Fund 43260*	<b>Totals (Memorandum Only)</b>
<b>REVENUES:</b>					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ 7,341,714
Intergovernmental	14,423,065	56,586,476	4,445,794	17,308,478	93,562,269
Sales & Charges	-	-	-	-	730,471
Miscellaneous	-	-	-	-	165,481
<b>TOTAL REVENUES</b>	<b>14,423,065</b>	<b>56,586,476</b>	<b>4,445,794</b>	<b>17,308,478</b>	<b>101,799,935</b>
<b>EXPENDITURES:</b>					
Personal Services	1,804,539	1,070,640	3,381,697	58,643	8,884,111
Operating	12,209,540	3,362,016	954,979	14,642,094	34,233,129
Travel	44,666	74,767	12,159	26,988	372,868
Capital Outlay	128,890	195,063	23,844	2,566,739	3,439,308
Government Aid	-	51,791,058	-	-	55,340,250
<b>TOTAL EXPENDITURES</b>	<b>14,187,635</b>	<b>56,493,544</b>	<b>4,372,679</b>	<b>17,294,464</b>	<b>102,269,666</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	235,430	92,932	73,115	14,014	(469,731)
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	-	124	-	-	12,384
Deposit to General Fund	-	-	-	-	(793,594)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>124</b>	<b>-</b>	<b>-</b>	<b>(781,210)</b>
Net Change in Fund Balances	235,430	93,056	73,115	14,014	(1,250,941)
FUND BALANCES, JANUARY 1, 2012	368,054	9,720	406,478	73,678	4,803,254
FUND BALANCES, DECEMBER 31, 2012	<b>\$ 603,484</b>	<b>\$ 102,776</b>	<b>\$ 479,593</b>	<b>\$ 87,692</b>	<b>\$ 3,552,313</b>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ 1,024,398	\$ 500,085	\$ 434,046	\$ 87,692	\$ 4,335,116
Deposits with Vendors	-	-	-	-	229
Accounts Receivable Invoiced	-	-	45,719	-	45,719
Due From Other Funds	-	-	-	-	1,000
Due to Vendors	(420,914)	(397,309)	(172)	-	(820,063)
Due to Fund	-	-	-	-	(8,450)
Due to Government	-	-	-	-	(1,238)
<b>TOTAL FUND BALANCES</b>	<b>\$ 603,484</b>	<b>\$ 102,776</b>	<b>\$ 479,593</b>	<b>\$ 87,692</b>	<b>\$ 3,552,313</b>

\* See Footnote 1.

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA MILITARY DEPARTMENT

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2012

**1. Criteria**

The accounting policies of the Nebraska Military Department (Department) are on the basis of accounting, as prescribed by the State of Nebraska Department of Administrative Services.

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) include:

*The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes[.]*

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivable and accounts payable in the general ledger. 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 expenditures and related accounts payable recorded in the general ledger, as of December 31, 2012, include only those payables posted in the general ledger before December 31, 2012, and not yet paid as of that date. The amount recorded as expenditures, as of December 31, 2012, **does not** include amounts for goods and services received before December 31, 2012, which had not been posted to the general ledger as of December 31, 2012.

Other liabilities are recorded in accounts entitled Due to Vendors, Due to Fund, and Due to Government for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

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

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

NEBRASKA MILITARY DEPARTMENT

**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.

- Military Department Cash Fund 23110 contains the following alternative funds:
  - 23110 – Military Department Cash Fund
  - 23113 – Military Department Cash Fund – Miscellaneous Reimbursement
  - 23114 – Military Department Cash Fund – Printing
  - 23115 – Military Department Cash Fund – Camp Ashland Billets Program
  - 23116 – Military Department Cash Fund – Civil Air Patrol
  - 23117 – Military Department Cash Fund – North Omaha Readiness

**30000 – Construction Funds** – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

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

- Army National Guard Operations & Maintenance Fund 43110 contains the following alternative funds:
  - 43110 – Army National Guard – Operations & Maintenance Agreement
  - 43112 – Army National Guard – Environmental
  - 43113 – Army National Guard – Sustained Range Program
  - 43114 – Army National Guard – Real Property Operations & Maintenance
  - 43115 – Army National Guard – Security Maintenance
  - 43116 – Army National Guard – Interest
  - 43117 – Army National Guard – Antiterrorism
- Air National Guard Operations & Maintenance Fund 43130 contains the following alternative funds:
  - 43130 – Air National Guard – Interest
  - 43131 – Air National Guard – Facilities Operation & Maintenance Agreement
  - 43132 – Air National Guard – Real Property
  - 43133 – Air National Guard – Firefighters
  - 43134 – Air National Guard – Security Forces
  - 43135 – Air National Guard – StarBase Program

NEBRASKA MILITARY DEPARTMENT

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Continued)

- Other Federal Funds 43260 contains the following alternative funds:
  - 43260 – Other Federal Funds Interest
  - 43261 – Military Construction
  - 43264 – Army National Guard – Telecommunications
  - 43265 – Army National Guard – Distance Learning

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

**Appropriations** – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

**Intergovernmental** – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

**Sales & Charges** – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

**Miscellaneous** – Revenue from sources not covered by other major categories, such as investment income, billets, armory rental, and tuition reimbursement.

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

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

**Operating** – Expenditures directly related to a program's primary service activities.

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

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

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

NEBRASKA MILITARY DEPARTMENT

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

Other significant accounting classifications and procedures established by State Accounting and used by the Department include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and due from other funds. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Department's funds at December 31, 2012, included amounts recorded in Due to Vendors, Due to Fund, and Due to Government. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

**Other Financing Sources** – Proceeds of fixed asset dispositions.

**2. Reporting Entity**

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

The Nebraska Military Department 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.

**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

NEBRASKA MILITARY DEPARTMENT

**NOTES TO THE SCHEDULE**

(Continued)

**4. General Cash** (Concluded)

pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

**5. Capital Assets**

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

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition. The Department also capitalizes certain equipment with a cost of less than \$1,500 if it is considered highly susceptible to theft.

For the CAFR, the State requires the Department to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Substantially, all initial building costs, land, and land improvements are capitalized. Building improvements and renovations are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses are 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.

Buildings and Equipment are depreciated in the CAFR using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 Years
Equipment	3-20 Years

NEBRASKA MILITARY DEPARTMENT

**NOTES TO THE SCHEDULE**  
(Continued)

**5. Capital Assets** (Concluded)

Capital asset activity of the Department recorded in the State Accounting System for the calendar year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets not depreciated				
Land	\$ 19,357	\$ -	\$ 11	\$ 19,346
Construction in Progress	5,004,212	2,794,735	-	7,798,947
Total capital assets not depreciated	<u>\$ 5,023,569</u>	<u>\$ 2,794,735</u>	<u>\$ 11</u>	<u>7,818,293</u>
Capital Assets depreciated				
Buildings	\$ 83,597,017	\$ 1	\$ 969,040	82,627,978
Equipment	1,978,762	644,573	74,871	2,548,464
Total capital assets depreciated	<u>\$ 85,575,779</u>	<u>\$ 644,574</u>	<u>\$ 1,043,911</u>	<u>85,176,442</u>
Less accumulated depreciation for *:				
Buildings				16,521,498
Equipment				1,403,257
Total				<u>17,924,755</u>
Total capital assets being depreciated, net of depreciation				<u>67,251,687</u>
Total capital assets, net of depreciation				<u>\$ 75,069,980</u>

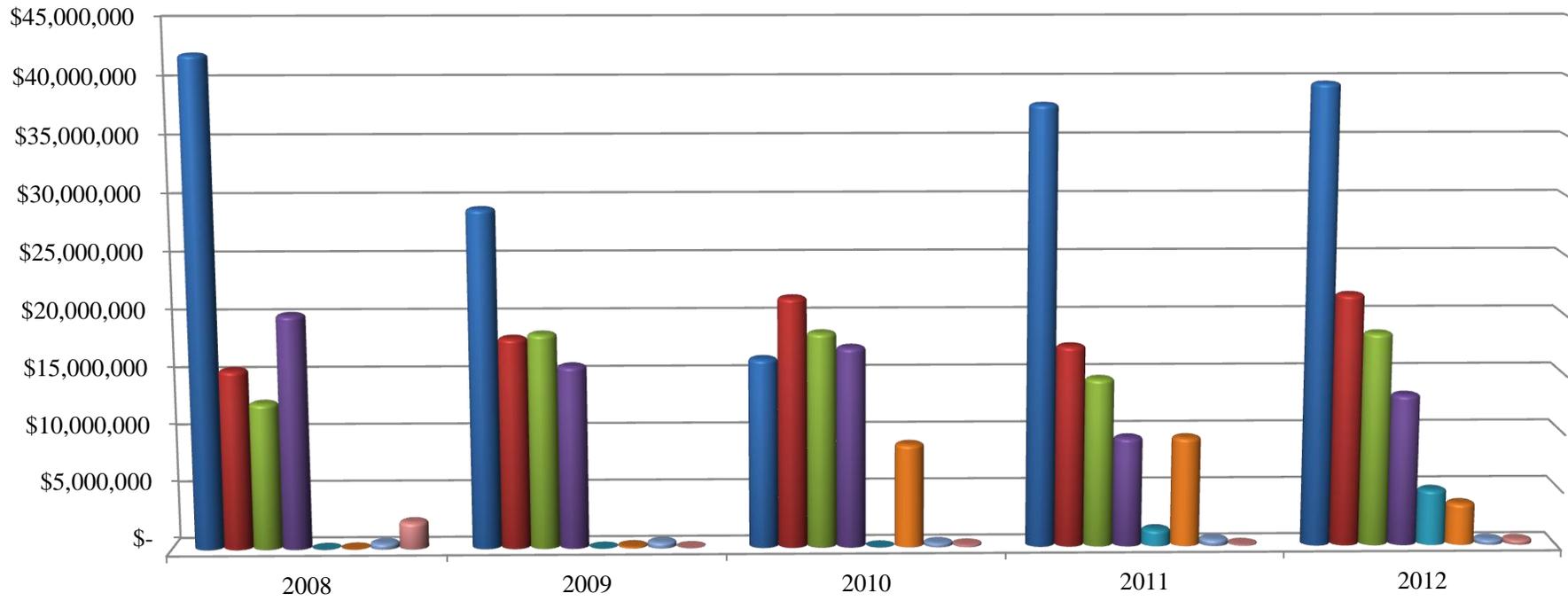
*\*Note: The accumulated depreciation noted in the table above was calculated in the accounting system through June 30, 2012. Depreciation for July through December 2012 was not run in the accounting system until the beginning of calendar year 2013.*

NEBRASKA MILITARY DEPARTMENT

**SUPPLEMENTARY INFORMATION**

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

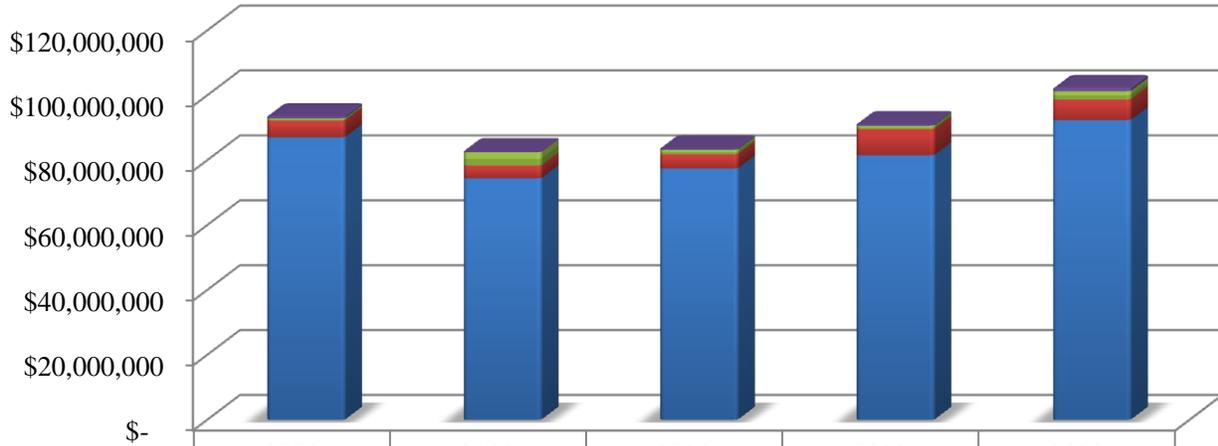
**NEBRASKA MILITARY DEPARTMENT  
EXPENDITURES BY PROGRAM  
FOR THE CALENDAR YEARS ENDED DECEMBER 31, 2008 THROUGH 2012**



	2008	2009	2010	2011	2012
■ Governor's Emergency Program	\$42,180,921	\$29,207,778	\$16,368,951	\$37,921,109	\$39,657,682
■ National and State Guard	\$15,497,681	\$18,198,596	\$21,597,577	\$17,382,094	\$21,743,014
■ Civil Defense	\$12,653,523	\$18,550,468	\$18,581,922	\$14,551,047	\$18,417,652
■ Federally Funded Projects	\$20,218,117	\$15,795,493	\$17,323,181	\$9,452,226	\$13,080,504
■ Joint Operations Center NG	\$-	\$-	\$-	\$1,461,532	\$4,827,869
■ Joint Operations Center	\$39,640	\$184,332	\$8,950,973	\$9,445,915	\$3,642,027
■ Tuition Assistance	\$511,096	\$515,484	\$369,915	\$564,993	\$468,129
■ Joint Operations Center NEMA	\$2,357,937	\$27,652	\$207,240	\$138,337	\$432,789

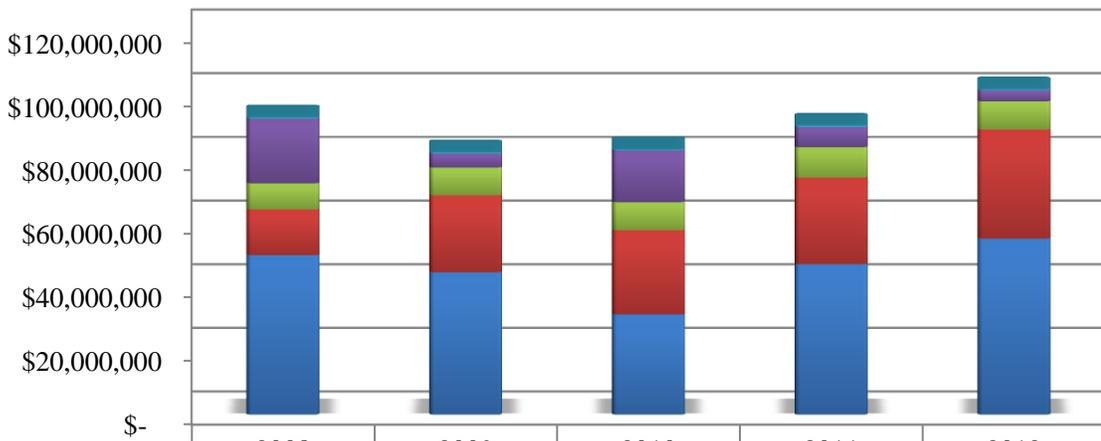
NEBRASKA MILITARY DEPARTMENT  
For the Calendar Years Ended December 31, 2008 Through 2012

### Expenditures by Fund Type



	2008	2009	2010	2011	2012
Construction	\$589,484	\$27,653	\$207,240	\$290,752	\$984,025
Cash	\$658,110	\$4,086,909	\$1,394,765	\$1,043,033	\$2,579,630
General	\$5,156,844	\$3,914,825	\$4,355,108	\$8,073,395	\$6,357,689
Federal	\$87,054,477	\$74,450,416	\$77,442,646	\$81,510,073	\$92,348,322

### Expenditures by Major Account Category



	2008	2009	2010	2011	2012
Travel	\$396,968	\$411,655	\$322,091	\$543,081	\$372,868
Capital Outlay	\$20,376,254	\$4,414,000	\$16,311,585	\$6,328,096	\$3,439,308
Personal Services	\$8,224,949	\$8,740,688	\$8,838,759	\$9,555,080	\$8,884,111
Operating Expenses	\$14,315,699	\$24,170,666	\$26,452,383	\$27,190,586	\$34,233,129
Government Aid	\$50,145,045	\$44,742,794	\$31,474,941	\$47,300,410	\$55,340,250