

**AUDIT REPORT
OF THE
NEBRASKA BOARD OF GEOLOGISTS
JULY 1, 1999 THROUGH JUNE 30, 2000**

NEBRASKA BOARD OF GEOLOGISTS

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NEBRASKA BOARD OF GEOLOGISTS

BACKGROUND

The Board of Geologists was created by the Geologists Regulation Act of 1998. Statutory provisions creating the Board became operative January 1, 1999. The Geologists Regulation Act provides for the certification and licensure of professional geologists in Nebraska whose activities may affect public health and safety. The Board of Geologists determines whether geologist certification applicants have satisfied the requirements for licensing, issues licensing certificates, receives and investigates complaints, and performs other duties specified by the act.

The Board consists of seven governor-appointed individuals who serve five-year terms. Six members are licensed geologists with at least 10 years of experience. One member must be a geology faculty member at the University of Nebraska. The seventh member represents the public. The Board meets at least once a year. Members are reimbursed for necessary expenses.

NEBRASKA BOARD OF GEOLOGISTS

COMMENT AND RECOMMENDATION

During our audit of the Nebraska Board of Geologists, we noted a certain matter involving the internal control over financial reporting which is presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

Segregation of Duties

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include an adequate segregation of duties so no one individual is able to handle all phases of a transaction. If a segregation of duties is not possible, then controls should be developed to compensate for the lack of segregation of duties.

There was a lack of segregation of duties over the receipts and disbursements processes as one individual was capable of handling all phases of a transaction. The board did not have documented compensating controls.

We recommend the Board implement and document control procedures to compensate for the lack of segregation of duties.

More detailed information on the above item is provided hereafter. It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Board to provide them an opportunity to review the report and to respond to the comment and recommendation included in this report. The Board declined to respond.

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

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA BOARD OF GEOLOGISTS

INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2000, on our consideration of the Nebraska Board of Geologist's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The report on compliance and on internal control over financial reporting is an integral part of a Government Auditing Standards audit and should be considered in conjunction with the report on the financial statements.

September 15, 2000

Pat Reding, CPA
Manager

NEBRASKA BOARD OF GEOLOGISTS
STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES
 June 30, 2000

	<u>Governmental</u> <u>Fund Type</u>
	<u>Special</u> <u>Revenue</u>
<u>Assets</u>	
Cash in State Treasury	<u>\$ 31,599</u>
Total Assets	<u><u>\$ 31,599</u></u>
<u>Fund Balances</u>	
Unreserved, Undesignated	<u>\$ 31,599</u>
Total Fund Balance	<u><u>\$ 31,599</u></u>

See Notes to Financial Statements.

NEBRASKA BOARD OF GEOLOGISTS
**STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2000

	<u>Governmental</u> <u>Fund Type</u>
	<u>Special</u> <u>Revenue</u>
RECEIPTS:	
Sales and Charges	\$ 57,275
Miscellaneous	<u>1,347</u>
TOTAL RECEIPTS	<u>58,622</u>
DISBURSEMENTS:	
Operating	27,343
Travel	<u>3,799</u>
TOTAL DISBURSEMENTS	<u>31,142</u>
Excess of Receipts Over Disbursements	27,480
FUND BALANCE, JULY 1, 1999	<u>4,079</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 31,559</u>

See Notes to Financial Statements.

NEBRASKA BOARD OF GEOLOGISTS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2000

	CASH FUND		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	
RECEIPTS:			
Sales and Charges	\$ 57,275		
Miscellaneous	<u>1,347</u>		
TOTAL RECEIPTS	<u>58,622</u>		
DISBURSEMENTS:			
Operating	\$ -	27,343	\$ (27,343)
Travel	-	<u>3,799</u>	<u>(3,799)</u>
Total Budgeted	-	31,142	(31,142)
Under Budgeted (Note 3)	<u>150,000</u>	-	<u>150,000</u>
TOTAL DISBURSEMENTS	<u>150,000</u>	<u>31,142</u>	<u>118,858</u>
Excess of Receipts Over Disbursements		27,480	
FUND BALANCES, JULY 1, 1999		<u>4,079</u>	
FUND BALANCES, JUNE 30, 2000		<u><u>\$ 31,559</u></u>	

See Notes to Financial Statements.

NEBRASKA BOARD OF GEOLOGISTS

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Board of Geologists are on the basis of accounting as described in the Nebraska Accounting System Manual.

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

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

- B. **Basis of Accounting.** The accounting records of the Board are maintained and the Board's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP) which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.
- C. **Fund Accounting.** The accounts and records of the Board are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which record receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund type presented on the financial statements is that required by GAAP:

NEBRASKA BOARD OF GEOLOGISTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

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

The fund type established by the Nebraska Accounting System used by the Board is:

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

D. Budgetary Process. The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Board and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium. The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriation bill to the Governor for signature. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

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

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

NEBRASKA BOARD OF GEOLOGISTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

All State budgetary disbursements for cash fund types are made pursuant to the appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

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

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

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report

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

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash fund on the Budgetary Statement is appropriately classified as a special revenue fund for Financial Statement purpose.

- E. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer on a daily basis based on

NEBRASKA BOARD OF GEOLOGISTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether or not a fund is considered designated for investment is done on an individual fund basis. The fund of the Board was designated for investment during fiscal year 2000.

F. Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

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

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

Miscellaneous. Receipts from sources not covered by other major categories.

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

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

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

2. **Contingencies and Commitments**

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

NEBRASKA BOARD OF GEOLOGISTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage with a limit of \$1 million for each loss with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis for losses up to \$250,000,000 with a self-insured retention of \$100,000 per loss occurrence. The perils of Flood and Earthquake are covered up to \$9,000,000. Newly acquired properties are only covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

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

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

3. **Under Budgeted**

Statutory provisions creating the Board became operative January 1, 1999; therefore, there was no budget prepared for the initial biennium of operations.

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA BOARD OF GEOLOGISTS
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Board of Geologists as of and for the year ended June 30, 2000, and have issued our report thereon dated September 15, 2000. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Board of Geologists. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Board of Geologist's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Board of Geologist's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment,

could adversely affect the Nebraska Board of Geologist's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A Reportable condition is described in the Comments Section of the report as Segregation of Duties.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

September 15, 2000

Pat Reding, CPA
Manager