

**AUDIT REPORT
OF THE
NEBRASKA MOTOR VEHICLE INDUSTRY
LICENSING BOARD**

JULY 1, 2001 THROUGH JUNE 30, 2002

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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

BACKGROUND

The Nebraska Motor Vehicle Industry Licensing Board is a self-supporting Board created during the 1957 legislative session. Members of the Board include the Director of the Department of Motor Vehicles, who serves as chairperson, and nine members appointed by the Governor, with the consent of the Legislature. The nine members, who serve three-year terms, include three new motor vehicle dealers, one from each congressional district; two licensed used motor vehicle dealers, from different congressional districts; one trailer dealer or combination motor vehicle or trailer dealer; a factory representative; a licensed motorcycle dealer; and a member representing the public.

The Board has the responsibility of protecting the public interest in connection with the activities of the manufacture, distribution, and sale of automobiles, motorcycles, trailers, and mobile homes. The Board exercises its responsibilities through the issuance, denial, supervision, or revocation of the following licenses: motor vehicle dealers – new and used, salespersons, manufacturers, factory branches, factory representatives, distributors, distributors’ representatives, motorcycle dealers, motor vehicle auction dealers, wreckers and salvage dealers, finance companies, supplemental motor vehicle dealers, and trailer dealers. The Board also controls the distribution of dealer license plates by means of a statutory formula.

The Board generally meets once per month to approve and deny license applications and to take action on complaints. The Board also conducts hearings for new motor vehicle franchise applications and for the termination of any franchise. These powers were granted to the Board in order to prevent fraud and other abuses upon the citizens of the State.

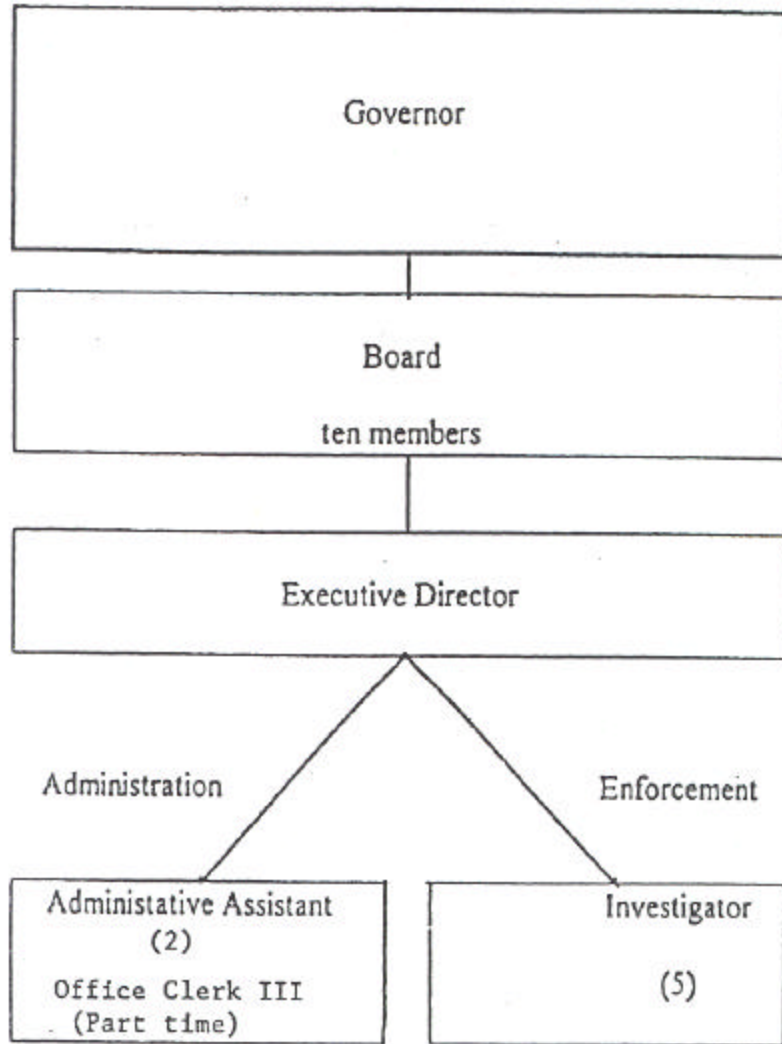
At June 30, 2002, the office and field staff consisted on an Executive Director, two Administrative Assistants, a part-time office clerk, and five Field Investigators who investigate complaints and inspect dealerships for compliance with the law.

MISSION STATEMENT

The mission of the Nebraska Motor Vehicle Industry Licensing Board is the regulation, investigation, and education matters involving the selling of motor vehicles in the State. Protection of the general public interest is the main priority.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

ORGANIZATIONAL CHART



NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

SUMMARY OF COMMENTS

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

1. ***Excessive Fund Balance:*** The fund balance of the Board has increased every fiscal year since the fiscal year ending June 30, 1998. The June 30, 2002 fund balance of the Board was \$878,529. This balance was approximately 1.74 times the total fiscal year 2002 expenditures.
2. ***Workshop Expenses:*** Several issues related to workshop expenses were noted. Meals were not within the Federal GSA per diem rate for Nebraska of \$30. Thirteen dinners were provided at an average cost of \$28 each. These meals were 93% of the total Federal per diem rate, and are not considered reasonable. Lodging costs were not within the Federal GSA per diem rate for Nebraska of \$55. The Board paid \$714 over the Federal per diem rate for Nebraska. Seven of thirteen participants were less than 60 miles from their headquarter city; however, the Board paid for their lodging expenses. The total expense incurred for the rooms for the seven participants was \$979. The Board was charged \$463 for use of the meeting room.
3. ***Certificate of Title Fees:*** The Board should have received \$0.10 from the Department of Motor Vehicles for every certificate of title issued. During fiscal year ending June 30, 2002, the Board received a total of \$59,990. The Board did not have adequate procedures to ensure all money due the Board was collected.
4. ***Unreasonable Expense Reimbursements:*** Several issues related to expense reimbursements for a conference were noted. Five breakfasts were reimbursed, on days that a continental breakfast was provided at the conference, for a total of \$79. One lunch was reimbursed, for \$9, on a day that lunch was provided by the conference. Also, there was a reimbursement of \$54, for one day of meals. However, the Federal GSA per diem rate for the location of the conference was \$42. The employee was reimbursed for \$12 over the Federal per diem rate. The conference registration information for hotel accommodations stated room rates were \$119 per night. However, the employee paid \$149 per night. There was an additional \$30 per night added to the room rate for an upgrade to a garden terrace room. This was a total additional expense of \$150. In addition, we noted an unreasonable mileage reimbursement. The employee's headquarter city was Lincoln; however, he claimed mileage from Omaha (his residence) to Scottsbluff. He should not have included the commuting mileage from Omaha to Lincoln, a distance of 59 miles. This was an excess reimbursement of \$20.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

SUMMARY OF COMMENTS
(Concluded)

5. ***Internal Controls – Capital Assets:*** The Board did not have an adequate segregation of duties over capital assets. The same person maintained the inventory list, added items to the inventory list, had the ability to delete items from the inventory list, and participated in the annual physical inventory. The Board required two individuals to complete the physical inventory; however, the procedures included reviewing the list to ensure all items on the list were accounted for and not to ensure all capital assets were included on the list.

6. ***Leave Not Properly Balanced at Year End:*** The sick leave balance of one of three employees tested with large sick leave balances was not properly balanced and lapsed as of December 31, 2001. The employee's sick leave balance was over-stated by 278 hours at December 31, 2001.

7. ***Untimely Deposits to the State Treasurer:*** Four of five general documents tested were not deposited within the time frame set in State Statute. The deposits ranged from one to three days late.

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

Draft copies of this report were furnished to the Board to provide them an opportunity to review the report and to respond to the comments and recommendations 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.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

1. Excessive Fund Balance

Neb. Rev. Stat. Section 60-1411.01 R.S. Supp., 2000 states, “. . . fees shall be fixed by the board and shall not exceed the amount actually necessary to sustain the administration, operation, maintenance, and enforcement . . .” When fees are charged for services, good fiscal policy requires the Board to evaluate the appropriateness and reasonableness of the fees charged in relation to the costs incurred by the Board.

We noted the Board’s fund balance at June 30, 2002 was \$878,529. This was approximately 1.74 times the total fiscal year 2002 expenditures and was sufficient to pay approximately 21 months of Board expenditures. Therefore, the Board has a fund balance greater than their level of expenditures can justify. We also noted the fund balances at June 30, 1998, 1999, 2000, and 2001 were \$626,311, \$649,048, \$740,635, and \$809,281, respectively. The Board did not reduce license fees in fiscal year 2001 or 2002. However, it was noted in fiscal year 2003 the fund was reduced by \$500,000 by legislative action. The Board does not have a system capable of determining the cost of providing services for specific revenues generated and the Board has previously determined that a cost of services study is cost prohibitive. A similar comment was noted in our prior reports.

Without an annual review of the appropriateness and reasonableness of the fees charged in relation to the costs incurred by the Board and adjustments as necessary, the balance of the Board’s fund will continue to increase.

We recommend the Board annually review all licensing fees, and adjust the fees as necessary, to ensure fees shall not exceed the amount actually necessary to sustain the administration, operation, maintenance, and enforcement of the Board.

2. Workshop Expenses

Nebraska Accounting System (NAS) Manual, CONC-005 – Travel Expense Policies, Section 4, Lodging, states, “a person must be more than 60 miles from his or her workplace in order to be eligible for lodging.” A Department of Administrative Services (DAS) – Accounting Division Meal and Lodging Guidelines letter dated December 15, 2000, states departments should, “utilize the Federal maximum per diem standards as published by the government as a reasonable guideline.” Good internal control requires procedures to ensure lodging and meal expenses are reasonable, and sound accounting practices requires expenses be reasonable and necessary for the Board.

During our testing of travel expense documents, we noted the Board held a workshop in Nebraska City on October 21 through October 23, 2001. We noted the following:

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

2. Workshop Expenses (Concluded)

- Meals were not within the Federal GSA per diem rate for Nebraska of \$30:
 - On October 21, 2001, 13 dinners were provided at an average cost of \$28 each. These meals were 93% of the total federal per diem rate, and are not considered reasonable.
 - On October 22, 2001, 6 breakfasts were provided at an average of \$9, 11 lunches at an average of \$11, and 8 dinners at an average of \$29 were provided. If the same six participants ate breakfast, lunch, and dinner then the daily total per person was \$49, this is \$19 over the federal per diem rate. If the other two participants ate dinner and lunch, then the total for the two meals would have been \$40 each, this is \$10 over the federal daily per diem rate. The other three lunches would be considered reasonable.
- Lodging costs were not within the Federal GSA per diem rate for Nebraska of \$55. The rate paid per room was \$89; this is \$34 over the Federal GSA per diem. Lodging was provided for the participants on October 21 and 22, for a total of 21 rooms. The Board paid \$714 over the Federal per diem rate for Nebraska.
- Seven of thirteen participants were less than 60 miles from their headquarter city, however, the Board paid for their lodging expenses. Three of thirteen participants lived in Omaha, which is 44 miles from Nebraska City, and four of the thirteen participants lived in Lincoln, which is 50 miles from the workshop. Of the seven participants less than 60 miles from their headquarter city, seven stayed the night on October 21, and four stayed the night on October 22. The total expense incurred for the 11 rooms at \$89 was \$979.
- The Board was charged \$463 for use of the meeting room.

Without adequate procedures to ensure travel expenses are reasonable and in accordance with DAS policies, the risk that State funds are used to pay for unreasonable expenses increases.

We recommend the Board hold future workshops in a more reasonable location, such as Lincoln or Omaha, to reduce the cost of lodging, meals, and other workshop expenses.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

3. Certificate of Title Fees

Neb. Rev. Stat. Section 60-115(2) R.R.S. 1998 requires, “The remaining ten cents of the fee charged for the certificate of title shall be remitted to the State Treasurer for credit to the Nebraska Motor Vehicle Industry Licensing Fund for the purpose of conducting preliminary investigations of motor vehicle licensing violations relating to odometer and motor vehicle fraud.” Good internal control requires procedures which ensure the correct amount of fees are received.

During our audit, we noted the Board did not have adequate procedures to ensure fees received from the Department of Motor Vehicles (DMV) were correct. There was no documentation from DMV to support the number of titles issued. The Board received a total of \$59,990 during the fiscal year.

The risk that all money owed to the Board is not collected greatly increases without reviewing documentation supporting the number of motor vehicle titles issued.

We recommend the Board, with assistance from DMV, implement procedures to accurately determine and document the number of motor vehicle titles issued to ensure all monies due to the Board are collected.

4. Unreasonable Expense Reimbursements

NAS Manual, CONC-005, Travel Expense Policies, Section 7, Personal Automobiles, states, “An employee will be reimbursed for use of a personal vehicle while on State business (this does not include commuting miles) at the prevailing standard rate . . .” DAS – Accounting Division Meal and Lodging Guidelines letter dated December 15, 2000, states departments should, “utilize the Federal maximum per diem standards as published by the government as a reasonable guideline.” Sound accounting practice requires that expenses be reasonable and necessary for the Board. In addition, good internal control requires the Board to implement written policies and procedures to ensure only reasonable and necessary expenses are reimbursed.

During our testing of expense reimbursement documents, we noted the following:

- Two of three expense reimbursement documents tested had unreasonable meal expense reimbursements. Five breakfasts were reimbursed, on days that a continental breakfast was provided at the conference, for a total of \$79. One lunch was reimbursed, for \$9, on a day that lunch was provided by the conference. Also, there was a reimbursement of \$54 for one day of meals when the Federal GSA per diem rate for the location of the conference was \$42. The employee was reimbursed for \$12 over the Federal per diem.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

4. Unreasonable Expense Reimbursements (Concluded)

- One of three expense reimbursement documents tested had an unreasonable lodging expense reimbursement. The conference registration information for hotel accommodations stated room rates were \$119 per night. However, the employee paid \$149 per night. There was an additional \$30 per night added to the room rate for an upgrade to a garden terrace room. This was a total additional expense of \$150.
- One of three expense reimbursement documents tested had an unreasonable mileage reimbursement. The employee's headquarter city was Lincoln; however, he claimed mileage from Omaha (his residence) to Scottsbluff. He should not have included the commuting mileage from Omaha to Lincoln, a distance of 59 miles. This was an excess reimbursement of \$20.

The risk of loss or misuse of State funds increases when expenses are not reasonable and necessary.

We recommend the Board develop and implement written policies and procedures to ensure only expenses that are reasonable and necessary are reimbursed.

5. Internal Controls – Capital Assets

Good internal control requires a proper segregation of duties so no one individual is authorized to handle all phases of capital asset procedures. If a proper segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation.

During our audit, we noted there was not an adequate segregation of duties over capital assets. The same person maintained the inventory list, added items to the inventory list, had the ability to delete items from the inventory list, and participated in the annual physical inventory. The Board required two individuals to complete the physical inventory; however, the procedures included reviewing the list to ensure all items on the list were accounted for and not to ensure all capital assets were included on the list.

There is an increased risk of undetected errors, irregularities, and loss or theft of State assets without proper segregation of duties or compensating controls.

We recommend the Board implement procedures to ensure an adequate segregation of duties over capital assets. Procedures could include having another individual compare the prior and current inventory lists for additions and deletions. Additions noted should then be compared to a report of all 4800 NAS capital outlay

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

5. Internal Controls – Capital Assets (Concluded)

account expenditures for the year to ensure all items purchased were added. Deletions should be compared to Surplus Property Notification Forms or other documentation to support the deletion.

6. Leave Not Properly Balanced at Year End

The Nebraska Employee Information System (NEIS) Manual PROC 8.25 states, for all employees, except for employees covered by the Nebraska Association of Public Employees labor contract, “the sick leave total Prior Year Carry Over balance cannot be more than 1,440 hours for each employee in all positions.” Good internal control requires the Board to implement policies and procedures which ensure leave balances are correctly adjusted at the end of the calendar year. Neb. Rev. Stat. Section 81-1323 R.R.S. 1999 and Title 273 NAC 9-005.03 require sick leave accounts to be balanced December 31 not to exceed 1,440 hours.

The sick leave balance of one of three employees tested with large sick leave balances was not properly balanced and lapsed as of December 31, 2001. The employee’s sick leave balance was overstated by 278 hours at December 31, 2001.

There is an increased risk of loss or misuse of State funds when leave balances are not properly balanced. Employees may be paid for or use more sick leave than they are allowed to carryover.

We recommend the Board implement procedures to ensure sick leave is properly balanced at calendar year end. We further recommend the sick leave be adjusted for the one employee.

7. Untimely Deposits to the State Treasurer

Neb. Rev. Stat. Section 84-710 R.R.S. 1999 states, “. . . any 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.”

We noted four of five general documents tested were not deposited within the time frame set in State Statute. The deposits ranged from one to three days late. A similar comment was noted in our prior report.

The Board did not comply with State Statute, and the risk of loss of State funds increases when deposits are not made timely.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

7. Untimely Deposits to the State Treasurer (Concluded)

We recommend the Board implement procedures to ensure money received is deposited within the time period required by State Statute, or discuss a written exemption with the State Treasurer's office.

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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

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INDEPENDENT AUDITORS' REPORT

Don Dunlap, CPA
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We have audited the accompanying financial statements of the governmental activities, and each major fund of the Nebraska Motor Vehicle Industry Licensing Board (Board), as of and for the year ended June 30, 2002, which collectively comprise the Board's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

Pat Reding, CPA
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We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 our audit provides a reasonable basis for our opinions.

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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.

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Also, as discussed in Note 1, the financial statements of the Nebraska Motor Vehicle Industry Licensing Board, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities and each

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major fund of the State that is attributable to the transactions of the Nebraska Motor Vehicle Industry Licensing Board. They do not purport to, and do not, present fairly the cash balances of the governmental activities and each major fund of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended 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 respective cash balances of the governmental activities and each major fund of the Nebraska Motor Vehicle Industry Licensing Board, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2002, on our consideration of the Nebraska Motor Vehicle Industry Licensing Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Handwritten signature of Timothy J. Chambers CPA in black ink.

Assistant Deputy Auditor

October 1, 2002

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Motor Vehicle Industry Licensing Board's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Motor Vehicle Industry Licensing Board for the fiscal year ended June 30, 2002. Please read it in conjunction with the Board's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Motor Vehicle Industry Licensing Board's basic financial statements. The Board's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Board's overall financial status. Over time, increases or decreases in the Board's net assets are one indicator of whether its financial health is improving or deteriorating. The Board's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Board. Nonfinancial factors also need to be considered to assess the overall health of the Board. Agency-wide financial statements divide the Board into three kinds of activities:

Governmental activities – The Board's basic services are included here. These activities are generally financed through charges for services.

Business-type activities – Activities financed by fees charged to external parties for goods or services would be included here. The Board had no business-type activities for fiscal year ended June 30, 2002.

Component units – No component units for the Board were identified.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Board, reporting the Board's operations in more detail than the agency-wide statements by providing information about the Board's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Board currently has no proprietary funds.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiduciary fund statements provide information about financial relationships in which the Board acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements. The Board currently has no fiduciary funds.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as schedules of Licenses Issued by Type and Fund Balance by Fiscal Year. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Motor Vehicle Industry Licensing Board's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE BOARD AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Board (current assets resulting from cash basis transactions) increased nine percent.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	<u>Governmental Activities</u>	
	<u>2002</u>	<u>2001</u>
Total Unrestricted Net Assets	<u>\$ 878,529</u>	<u>\$ 809,281</u>

Governmental Activities

Receipts for the Board's governmental activities increased one percent, while expenses increased one percent.

ENTITIES CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		
	<u>2002</u>	<u>2001</u>	<u>% Change</u>
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 529,104	\$ 520,459	2%
General Receipts:			
Investment Interest	44,713	49,011	-9%
Total Receipts	<u>573,817</u>	<u>569,470</u>	<u>1%</u>
DISBURSEMENTS:			
Regulation of Business and Professions	504,569	500,888	1%
Total Disbursements	<u>504,569</u>	<u>500,888</u>	<u>1%</u>
Excess before Other Financing Sources and Uses	69,248	68,582	1%
OTHER FINANCING SOURCES & USES	-	64	-100%
Increase (Decrease) in Net Assets	69,248	68,646	1%
Beginning Net Assets July 1	<u>809,281</u>	<u>740,635</u>	<u>9%</u>
Ending Net Assets June 30	<u>\$ 878,529</u>	<u>\$ 809,281</u>	<u>9%</u>

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS

As noted earlier, the Nebraska Motor Vehicle Industry Licensing Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. No significant changes from the prior year were noted.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Motor Vehicle Industry Licensing Board. However, 2002 Neb. Laws LB 1310, Section 6, required the State Treasurer to transfer \$500,000 from the MVILB Cash Fund 2401 to the General Fund. The transfer was completed on July 1, 2002.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL
Assets	
Cash in State Treasury	\$ 877,787
Deposit with Vendors	742
	<hr/>
Total Assets	\$ 878,529
	<hr/> <hr/>
Net Assets	
Unrestricted	\$ 878,529
	<hr/>
Total Net Assets	\$ 878,529
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

	Governmental Activities Total
Disbursements:	
Function - Regulation of Business and Professions	
Personal Services	\$ 390,937
Operating	63,148
Travel	49,650
Capital Asset Purchases	834
Total Disbursements	504,569
 Program Receipts:	
Function - Regulation of Business and Professions	
Charges for Services	529,104
Net Program Receipts	24,535
 General Receipts:	
Unrestricted Investment Interest	44,713
 Change in Net Assets	69,248
 Net Assets July 1, 2001	809,281
 Net Assets June 30, 2002	\$ 878,529

The accompanying notes are an integral part of the financial statements.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
STATEMENT OF ASSETS AND FUND BALNCE
ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUND
June 30, 2002

	Major Fund
Assets	MVILB Cash
	Fund 2401
Cash in State Treasury	\$ 877,787
Deposit with Vendors	742
Total Assets	\$ 878,529
Fund Balances	
Reserved for:	
Postage	\$ 742
Unreserved	877,787
Total Fund Balance	\$ 878,529

The accompanying notes are an integral part of the financial statements.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
**STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE**
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2002

	Major Fund
	MVILB Cash Fund 2401
RECEIPTS:	
Sales & Charges	\$ 529,084
Miscellaneous:	
Investment Interest	44,713
Other Miscellaneous	20
TOTAL RECEIPTS	573,817
DISBURSEMENTS BY FUNCTION:	
Regulation of Business and Professions	504,569
TOTAL DISBURSEMENTS	504,569
Excess of Receipts Over Disbursements	69,248
Net Change in Fund Balance	69,248
FUND BALANCE, JULY 1, 2001	809,281
FUND BALANCE, JUNE 30, 2002	\$ 878,529

The accompanying notes are an integral part of the financial statements.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Motor Vehicle Industry Licensing Board are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Motor Vehicle Industry Licensing Board (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 is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) 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 Motor Vehicle Industry Licensing Board. No component units were identified. The Nebraska Motor Vehicle Industry Licensing Board is part of the primary government for the State of Nebraska's reporting entity.

B. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Board, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Board. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Board reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods,

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The Board reported the following general receipts: Unrestricted Investment Interest of \$44,713.

Fund Financial Statements. The fund financial statements provide information about the Board's fund. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Board uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Board reports the following major governmental fund:

MVILB Cash Fund - 2401. This is the Board's primary operating fund. It is used to record all revenues from licenses issued and for the expenditures of the operations of the Board.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Board are maintained and the Agency-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Board. This differs from governmental generally accepted accounting principles (GAAP), which require the Agency-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Board were designated for investment during fiscal year 2002.

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

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. All permanent employees working for the Board earn sick and annual leave. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

reported in the government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then the unrestricted resources, as they are needed. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

E. Fund Balance Reservations

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

2. **Contingencies and Commitments**

Risk Management. The Board is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. 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:

- A. 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. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Motor Vehicle Industry Licensing Board'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 judgment against the Board would have to be processed through the State Claims Board and be approved by the Legislature.

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

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Prior to April 18, 2002, membership in the Plan was mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

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

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed \$13,115 and the Board contributed \$20,459.

4. **Transfers**

2002 Neb. Laws LB 1310, Section 6, required the State Treasurer to transfer \$500,000 from the MVILB Cash Fund 2401 to the General Fund. The transfer was completed on July 1, 2002.

5. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Board implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in note (1)(C) the Board's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Board were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Board.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

MVILB Cash Fund 2401				
PROGRAM:	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
76 - Motor Vehicle Industry Licensing Board				
TOTAL DISBURSEMENTS	\$ 528,221	\$ 528,221	\$ 504,569	\$ 23,652

See Notes to Supplementary Information

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Board's legally adopted annual budget amount. The Board's budgetary comparison schedule includes the MVILB Cash Fund 2401.

GAAP also requires the budgetary comparison schedule to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

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 presents the appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. As a result, the budgetary comparison schedule only reports total disbursements *by program*.

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 MOTOR VEHICLE INDUSTRY LICENSING BOARD

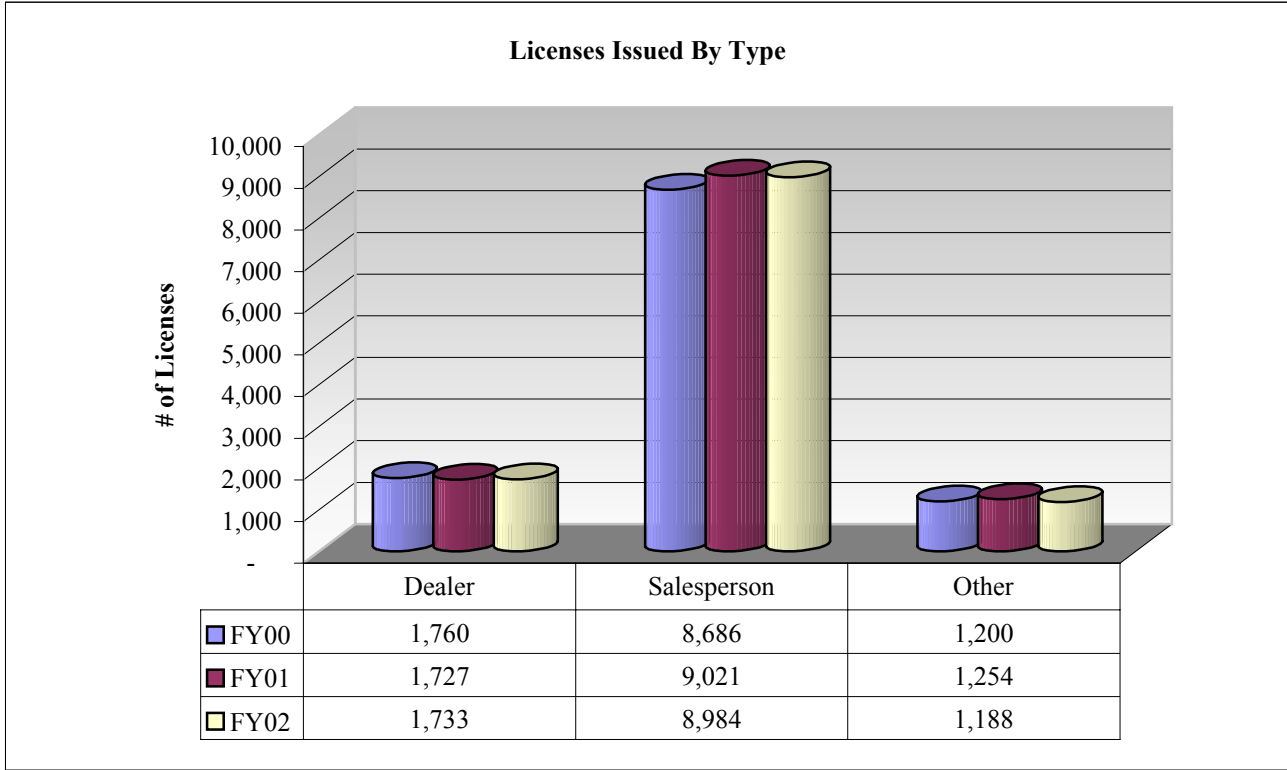
NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

All State budgetary disbursements for the Board's Cash Fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects 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 appropriations must also be approved by the Legislature as a deficit appropriations bill.

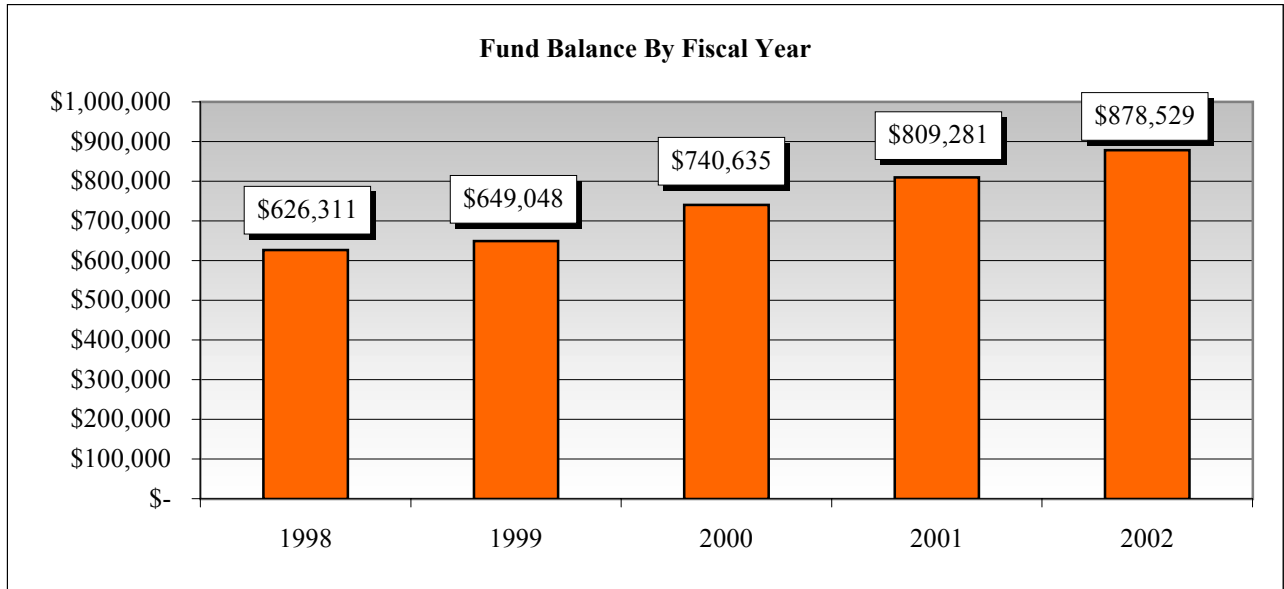
Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

**NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
SCHEDULES OF LICENSES ISSUED BY TYPE AND
FUND BALANCE BY FISCAL YEAR**



License Fee: \$150 \$10 Varies

Note: Other includes the following licenses: Supplemental Dealer, Motorcycle Dealer, Manufacturer, Distributors, Distributor's Representative, Finance Company, Wrecker and Salvage, Auction Dealer, Manufacturer Branch, Factory Branch, Factory Representatives, and Trailer Dealer.



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

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We have audited the financial statements of the Nebraska Motor Vehicle Industry Licensing Board as of and for the year ended June 30, 2002, and have issued our report thereon dated October 1, 2002. 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 Motor Vehicle Industry Licensing Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Motor Vehicle Industry Licensing Board'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*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Motor Vehicle Industry Licensing Board in the Comments Section of this report as Comment Number 1 (Excessive Fund Balance), Comment Number 2 (Workshop Expenses), Comment Number 4 (Unreasonable Expense Reimbursements), Comment Number 6 (Leave Not Properly Balanced at Year End), and Comment Number 7 (Untimely Deposits to the State Treasurer).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Motor Vehicle Industry Licensing Board'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 Motor Vehicle Industry Licensing Board'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 Comment Number 3 (Certificate of Title Fees).

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. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Motor Vehicle Industry Licensing Board in the Comments Section of the report as Comment Number 2 (Workshop Expenses), Comment Number 4 (Unreasonable Expense Reimbursements), Comment Number 5 (Internal Controls – Capital Assets), and Comment Number 6 (Leave Not Properly Balanced at Year End).

This report is intended solely for the information and use of the Board, 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.

Handwritten signature of Timothy J. Chambers CPA in cursive script.

Assistant Deputy Auditor

October 1, 2002