

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

JULY 1, 2002 THROUGH JUNE 30, 2003

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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 chairman, 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 motor 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, and supplemental motor vehicle 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.

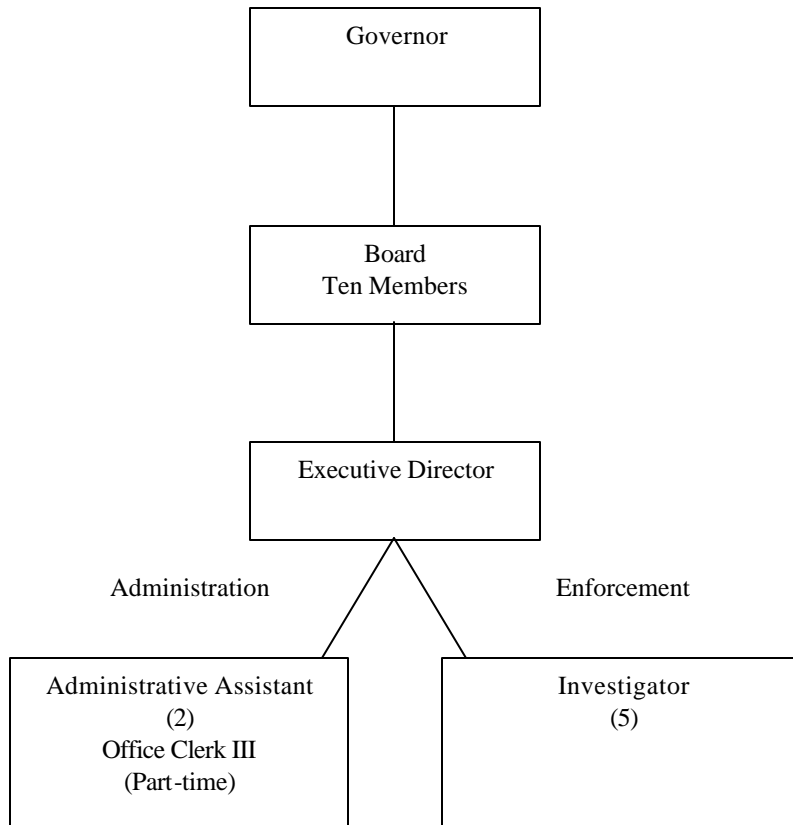
At June 30, 2003, the office and field staff consisted on an Executive Director, two Administrative Assistants, a part-time Office Clerk, and five Field Investigators who investigate complaints and inspect dealerships for compliance with the law.

MISSION STATEMENT

The mission of the 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

EXIT CONFERENCE

An exit conference was held August 28, 2003 with the Nebraska Motor Vehicle Industry Licensing Board to discuss the results of our examination. Those in attendance for the Nebraska Motor Vehicle Industry Licensing Board were:

NAME	TITLE
William S. Jackson	Executive Director
Joan M. Zachek	Administrative Assistant

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

SUMMARY OF COMMENTS

During our examination 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.

1. ***Fund Balance Continues to Increase:*** The fund balance of the Board has increased every year since the fiscal year ending June 30, 1998 except for this year, but only because the Legislature appropriated \$600,000 to the General Fund. The June 30, 2003 balance of the Board was \$332,085.
2. ***Employee Authorization in NIS Batch Management:*** Three employees were authorized in the NIS Batch Management to both prepare and approve/post their own documents.
3. ***Reports Not Reviewed:*** The Board did not have procedures to review the Pre-Audit Verification Report, General Ledger, and Posted Batch Report for receipts or disbursements.
4. ***Lodging and Meal Expense Reimbursements:*** A few issues related to expense reimbursements were noted. The Federal General Services Administration (GSA) per diem rates for lodging and meals were exceeded. Sales, occupancy, and bed taxes were incurred. Meal expenses were claimed for meals provided at a conference.

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 Nebraska Motor Vehicle Industry Licensing Board to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Nebraska Motor Vehicle Industry Licensing Board declined to respond.

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

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

1. Fund Balance Continues to Increase

During our review, we noted the Board's fund balance was continuing to increase. The fund balance at June 30, 2003 was \$332,085. However, the Legislature appropriated \$600,000 to the General Fund during the year through LB 402 and LB 1310. Therefore the Board's fund balance would have been \$932,085 without the action of the Legislature. The Board's fund balance at June 30 1998, 1999, 2000, 2001, and 2002 was \$626,311, \$649,048, \$740,635, \$809,281, and \$878,529, respectively. The Board did not reduce license fees, in fiscal year 2001, 2002, or 2003. The Board is continuing to collect more in receipts than they expend and the Board's fund balance would have continued to increase had the Legislature not reduced the Board's fund balance.

The Board does not have a specific process in place to perform an analysis of the amounts spent for a particular regulatory licensing function compared to revenue generated for that particular regulatory licensing function.

Neb. Rev. Stat. Section 60-1411.01 R.S.Supp., 2002 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 recommend the Board annually review all licensing fees and adjust the fees as necessary to ensure fees do not exceed the amount actually necessary to sustain the administration, operation, maintenance, and enforcement of the Board.

We further recommend the Board develop a process, such as a study of the inspectors' time spent on each specific licensing function, to analyze the amount of time spent for the major regulatory licensing functions. This time study information could then be used to allocate costs to a specific business unit, matching licensing functions costs to the licensing fees collected. The Board could then determine, based on accounting data, if fees collected were covering the Board's costs.

2. Employee Authorization in NIS Batch Management

During our review, we noted that three employees were set up on the NIS Batch Management Spreadsheet to both prepare and approve/post their own documents. With the possibility that an individual could prepare, approve, and post the same document, there is an increased risk that errors or fraud may occur and not be detected, resulting in loss or misuse of State funds.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Employee Authorization in NIS Batch Management (Concluded)

We also noted the Board had three individuals set up in the NIS User Authorization Spreadsheet for the Accounts Receivable business process with a functional matrix code 36, which is only to be used by agencies that are not able to segregate duties. These individuals were able to make changes to the deposit document and approve the changes after the initial approval was done but prior to the posting of the transaction.

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end. Good internal control requires adequate control over accounting functions

We recommend the Board review their batch management spreadsheet and remove individuals who are set up to prepare, approve, and post their own documents. We further recommend the Board review whether the functional matrix code of 20, for the NIS User Authorization Spreadsheet of Accounts Receivable, would adequately meet their receipting requirements while providing greater control over accounting functions.

3. Reports Not Reviewed

During our review, we noted the Board did not have procedures to review the Pre-Audit Verification Report, a general ledger report, and Posted Batch Report for receipts or disbursements. Without such a review, transactions may post to the Nebraska Information System (NIS) incorrectly or not at all, or transactions may be posted to the Board's accounts by other agencies and these errors and transactions may go undetected. The result may be inaccurate financial information and/or an increased risk of loss or theft of State funds. We also noted in the minutes of the monthly board meetings, Board members were not presented with the above reports for the Board members to review.

Adequate internal control requires a review of the above reports on a regular basis to ensure all financial transactions have posted correctly and are appropriate for the Board.

We recommend the Board implement procedures to review the Pre-Audit Verification Report, a general ledger report, and Posted Batch Report to ensure all transactions are posted to the correct agency fund and accounts and are proper transactions for the Board. We also recommend a detailed report of the general ledger be made available to the Board members to review at their monthly meetings.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Lodging and Meal Expense Reimbursements

During our testing of Expense Reimbursement Documents, we noted the following:

- One Board member was reimbursed \$87.83 for a one-night stay in Kearney, Nebraska. The hotel stay was not direct billed and exceeded the federal GSA rate for Nebraska by \$16. The GSA rate for Nebraska was \$63 and the hotel charged \$79. The Board member incurred \$8.83 in sales, occupancy, and bed taxes.
- Two of four employee expense reimbursement documents tested exceeded the federal GSA meal rate when traveling out of state. One employee exceeded the meal rate by \$4.07 on one day. This employee also claimed unreasonable meal expenses on three separate days as lunch and dinner were provided at the conference and \$30 for meals was claimed for the day. For two additional days the employee claimed \$44.21 and \$50.07 for meals while breakfast and lunch were provided by the conference. A second employee exceeded the federal GSA rate for meals by \$2.53 on one day, \$1.55 a second day, and \$2.75 on the third day, for a total overage of \$6.83.

The Nebraska Accounting System (NAS) Manual, CONC 005-Travel Expense Policies, Section 4, Lodging, states, "Sales to the State of Nebraska and its agencies are exempt from Nebraska sales, use and lodging tax. Therefore if in-state lodging expenses are directly billed to the agency, the agency should fill out a FORM 13 (Nebraska Resale or Exempt Sale Certificate) and present it to the lodging establishment." Good internal control requires procedures to ensure lodging and meal expenses are reasonable.

We recommend the Board implement procedures to ensure all lodging expenses are direct billed when within the State of Nebraska. The Board should implement procedures to ensure only expenses that are reasonable and necessary are reimbursed.

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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

Kate Witek
State Auditor
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Independent Accountant's Report

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Motor Vehicle Industry Licensing Board for the fiscal year ended June 30, 2003. The Nebraska Motor Vehicle Industry Licensing Board'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.

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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to financial-related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Motor Vehicle Industry Licensing Board for the fiscal year ended June 30, 2003, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2003, 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 a financial-related audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

August 28, 2003

Handwritten signature of Don Dunlap, CPA.
Assistant Deputy Auditor

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	MVILB Cash Fund 24010
	24010
REVENUES:	
Sales & Charges	\$ 533,727
Miscellaneous:	
Investment Interest	20,506
Fines, Forfeitures, and Penalties	100
TOTAL REVENUES	554,333
EXPENDITURES:	
Personal Services	397,392
Operating	57,621
Travel	41,220
Capital Outlay	5,025
TOTAL EXPENDITURES	501,258
Excess (Deficiency) of Revenues Over (Under) Expenditures	53,075
OTHER FINANCING SOURCES (USES):	
Sales of Assets	581
Deposits to Common Fund	(100)
Operating Transfers Out	(600,000)
TOTAL OTHER FINANCING SOURCES (USES)	(599,519)
Net Change in Fund Balance	(546,444)
FUND BALANCE, JULY 1, 2002	878,529
FUND BALANCE, JUNE 30, 2003	\$ 332,085

The accompanying notes are an integral part of the schedule.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2003

1. Criteria

The accounting policies of the Nebraska Motor Vehicle Industry Licensing Board are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107 R.R.S. 1999, the duties of the State of Nebraska Director 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."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Nebraska Motor Vehicle Industry Licensing Board (Board) was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2003 includes only those payables posted to NIS before June 30, 2003 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2003 **does not** include amounts for goods and services received before June 30, 2003, which had not been posted to NIS as of June 30, 2003.

Prior to the implementation of NIS, the State utilized the Nebraska Employees Information System (NEIS) and the Nebraska Accounting System (NAS) to record transactions. NEIS was converted to NIS effective January 1, 2003, and NAS was converted to NIS effective March 1, 2003.

The Board had no accounts receivable at June 30, 2003. The Board had accounts payable for services received but not yet paid of \$0 included in expenditures. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund type established by NIS that is used by the Board is the 2000 - Cash Funds. This fund type accounts 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.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria (Concluded)**

The major revenue object account codes established by NIS used by the Board are:

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, fines, forfeitures, and penalties.

The major expenditure object account titles established by NIS used by the Board are:

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

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

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

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

Other significant object account codes established by NIS and used by the Board include:

Assets - Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are also included in the fund balance.

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

2. **State Agency**

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 schedule includes all funds of the Board.

The Board is part of the primary government for the State of Nebraska.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO THE SCHEDULE

(Continued)

3. Beginning Balance

As noted above, the official accounting system of the State was converted during the fiscal year from NEIS and NAS to NIS. NEIS and NAS were strictly cash basis accounting. Under the cash basis of accounting, revenues are recognized when received and expenditures are recognized when paid for all funds of the Board. Therefore, the beginning fund balances do not include accounts receivables or accounts payable.

4. 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.

5. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures in governmental funds. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). Depreciation expenses would be reported in the CAFR for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Capital asset activity of the Board for the fiscal year ended June 30, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets:				
Equipment	\$ 38,182	\$ 5,025	\$ 13,103	\$ 30,104

6. Transfers

During the fiscal year ended June 30, 2003 the Legislature, transferred \$500,000 per Neb. Rev. Stat. Section 60-1409 R.S.Supp., 2002 and \$100,000 per 2003 Neb. Laws LB 402, Section 128(2)(v) for a total of \$600,000 from the Board's Cash Fund to the State's General Fund.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO THE SCHEDULE

(Continued)

7. Deposits to/from Common Funds

During the fiscal year June 30, 2003 the Board deposited fines, forfeitures, and penalties of \$100 to the Permanent School Fund.

8. Subsequent events

Per 2003 Neb. Laws LB 407, Sections 267(1)(k), and (2)(j) the State Treasurer shall make transfers from the Department of Motor Vehicles Industry Licensing Board Cash Fund to the State's General Fund in the amounts of:

- \$100,000 on or before March 15, 2004 for fiscal year 2004
- \$50,000 on or before March 15, 2005 for fiscal year 2005

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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Motor Vehicle Industry Licensing Board for the fiscal year ended June 30, 2003, and have issued our report thereon dated August 28, 2003. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial-related 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 schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 (Fund Balance Continues to Increase).

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Motor Vehicle Industry Licensing Board's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the

schedule of revenues, expenditures, and changes in fund balances, and not to provide 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 schedule. A reportable condition is described in the Comments Section of the report as Comment Number 2 (Employee Authorization in NIS Batch Management).

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 schedule being examined 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 consider the reportable condition described above to be 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 3 (Reports Not Reviewed) and Comment Number 4 (Lodging and Meal Expense Reimbursements).

August 28, 2003



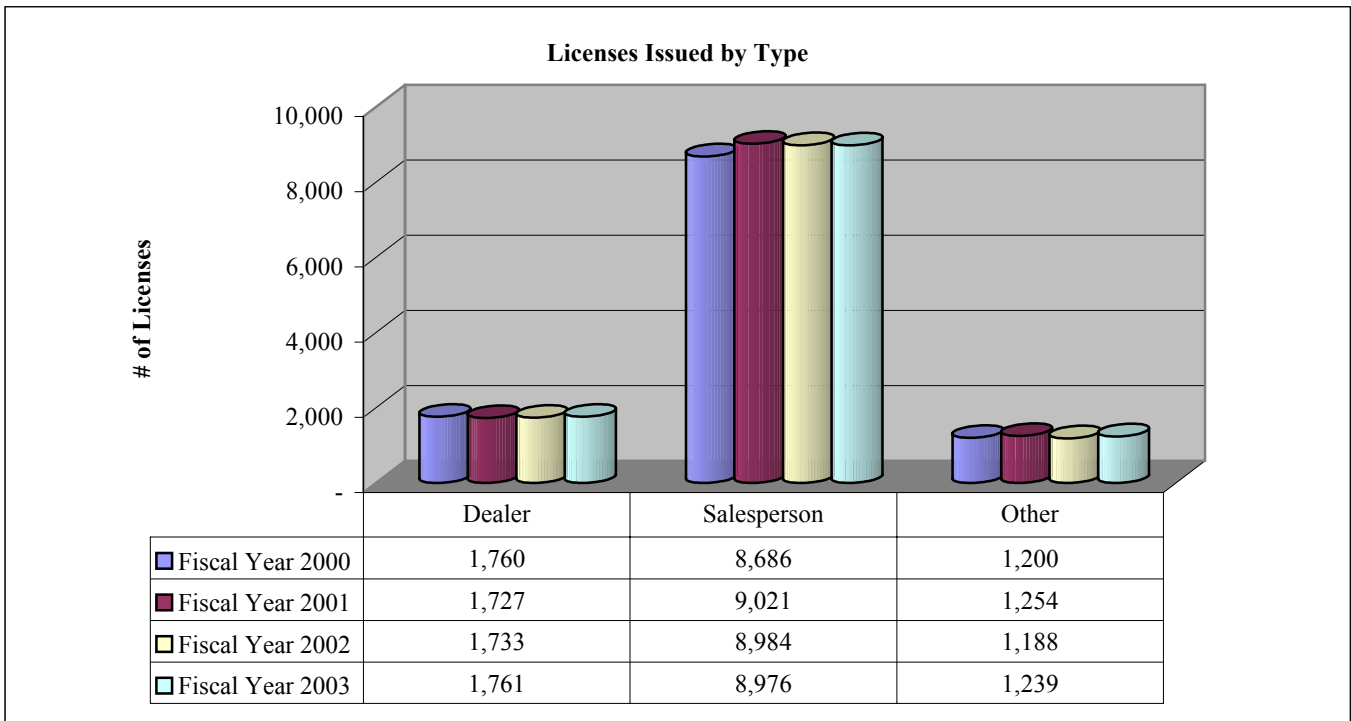
Assistant Deputy Auditor

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

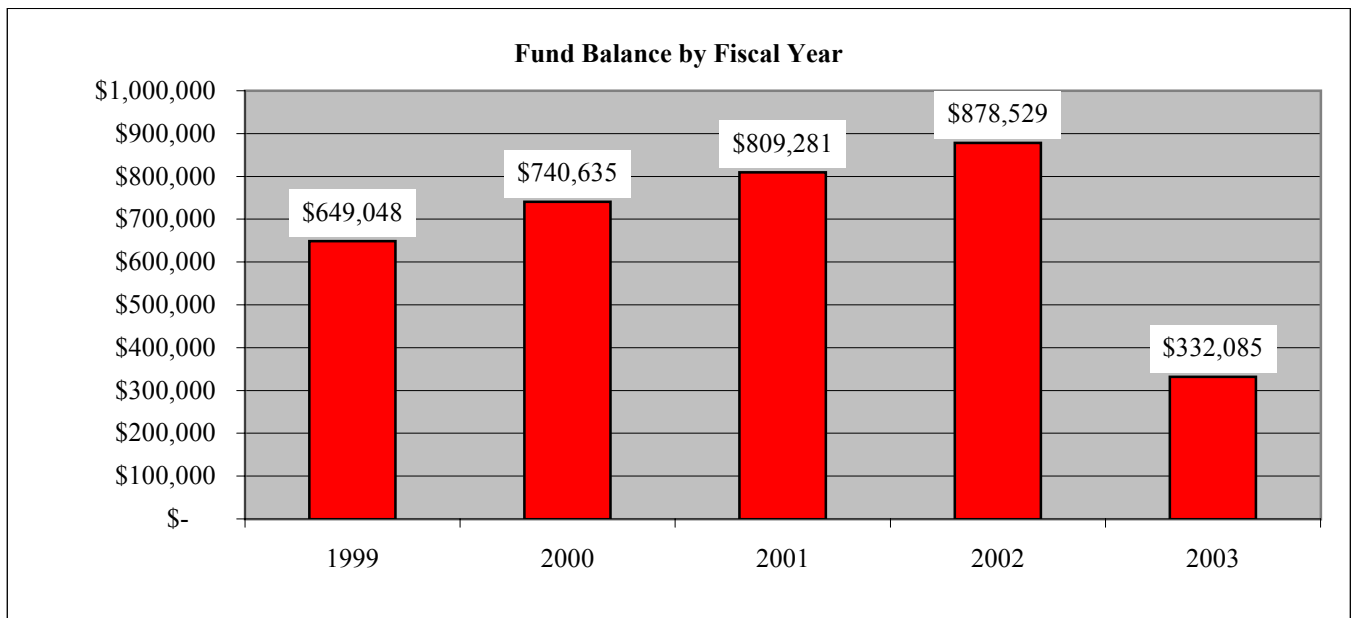
NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
SCHEDULE OF LICENSES ISSUED BY TYPE
FOR FISCAL YEARS ENDING June 30, 2000, 2001, 2002, AND 2003



License Fee: \$150 \$10 Varies

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

SCHEDULE OF FUND BALANCE BY FISCAL YEAR
FOR FISCAL YEARS ENDING JUNE 30, 1999, 2000, 2001, 2002, AND 2003



Note: The decrease in fund balance in fiscal year 2003 was not due to action on the part of the Board. The Unicameral Legislature decreased the fund balance by \$600,000 with transfers to the State's General Fund.