ATTESTATION REPORT
OF THE
NEBRASKA TAX EQUALIZATION
AND REVIEW COMMISSION

JULY 1, 2002 THROUGH JUNE 30, 2003

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

TABLE OF CONTENTS

BACKGROUND

The Tax Equalization and Review Commission was created on January 1, 1996. The Commission consists of four commissioners: one from each congressional district and one at-large commissioner. The Governor appoints the commissioners to six-year terms, and the Legislature confirms the appointments. The Chairperson must be an attorney licensed to practice in the State of Nebraska, and the office of chair rotates every two years. One commissioner must hold a Registered Appraiser's License. Each commissioner must satisfy certain continuing education requirements on an annual basis.

The Commission is charged with four principle duties: (1) to hear and decide appeals from decisions of the County Boards of Equalization; (2) to hear and decide appeals from certain decisions of the Property Tax Administrator, the Department of Motor Vehicles, and Agricultural and Horticultural Land Valuation Boards; (3) to hear and decide petitions filed by County Boards of Equalization after the protest process; and (4) to review and equalize assessments of property for taxation within the State as provided under Article IV, Section 28, of the Constitution of the State of Nebraska.

The Commission spends the majority of its time hearing individual appeals from County Boards of Equalization regarding the valuation of real property. The hearings are usually "informal," though structured. The commissioners travel extensively to regional hearing sites to hear these appeals in order to be accessible to both taxpayers and county officials. The statutes also provide for formal hearings, which are held in Lincoln. The formal rules of evidence are used in these hearings and, pursuant to law, the unsuccessful party is required to pay the costs.

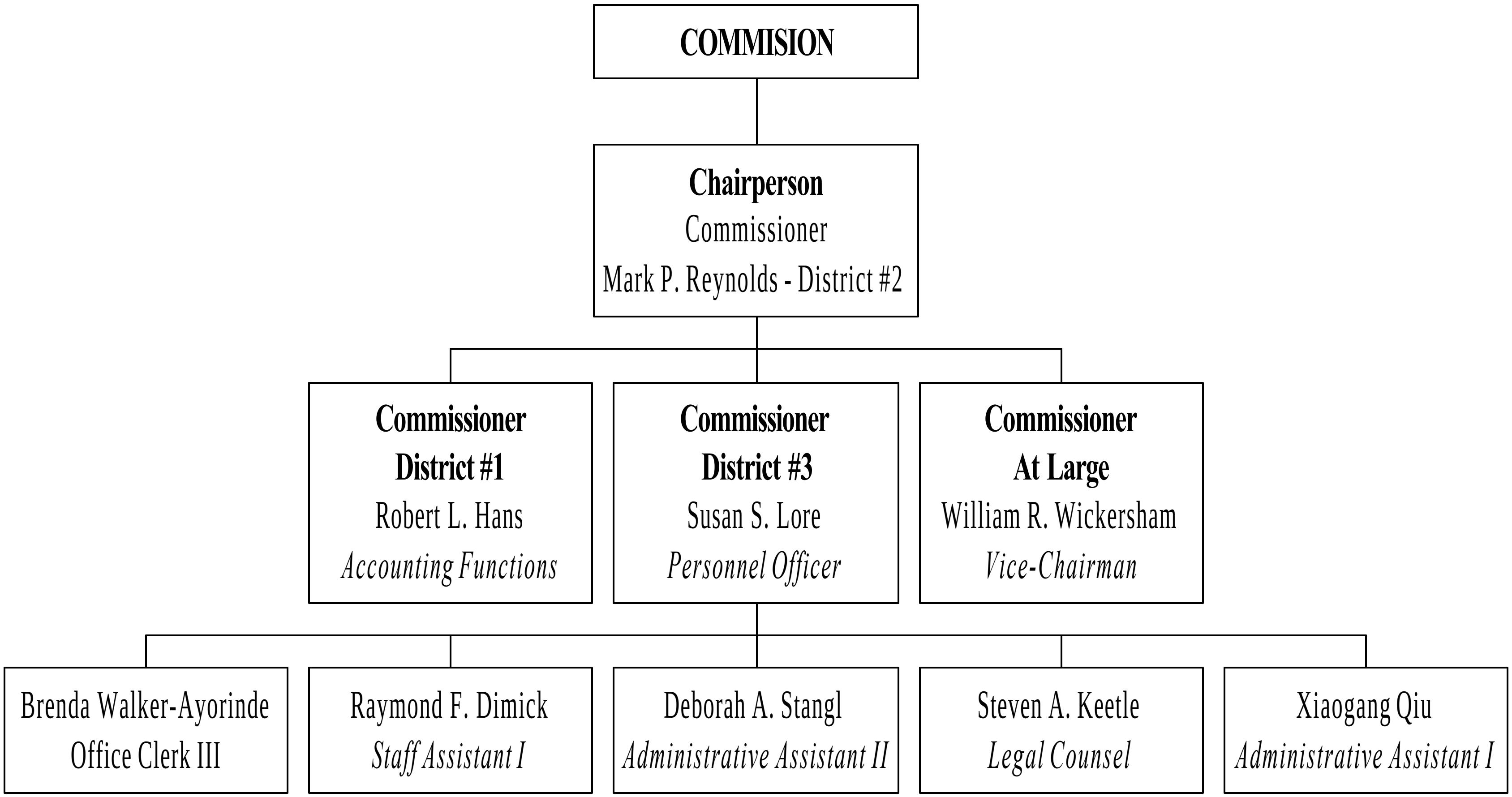
MISSION STATEMENT

The mission of the Tax Equalization and Review Commission is to provide an avenue of appeal for the Nebraska taxpayer and other individuals which is affordable, accessible, and accountable. In addition to the hearing of individual appeals, the Commission has a constitutional duty to equalize assessments within each property class on an annual basis. The Commission also has a statutory duty to hear and decide county petitions on an annual basis.

Our principles require professional conduct, a high standard of integrity and ethical conduct, and ultimately that the Commission provide a qualified, objective, timely, and unbiased resolution of disputes.

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held November 14, 2003 with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Tax Equalization and Review Commission were:

NAME	TITLE
Mark Reynolds	Commission Chairperson
William Wickersham	Commissioner
Susan Lore	Commissioner
Robert Hans	Commissioner

SUMMARY OF COMMENTS

During our examination of the Nebraska Tax Equalization and Review Commission, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Nebraska Information System:*** Significant areas of concern or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operational efficiency were identified.

2. ***Adequate Recording of Time Worked:*** We noted one commissioner did not keep documentation of actual time worked. We also noted two commissioners did not keep signed records of the time worked and one of the two did not record actual hours, but instead recorded exceptions to an eight-hour day.

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 Commission to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The formal response received has been incorporated into this report. Where no response has been included, the Commission declined to respond. The response has been objectively evaluated and recognized, as appropriate, in the report.

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

COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System

Good internal control requires a plan of organization, procedures, and records, designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data, and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the "Nebraska Information System" (NIS). Two major components were the Payroll component, which went live on January 3, 2003, and the Financial component, which went live on March 1, 2003. All Nebraska Accounting System (NAS) financial data from July 1, 2002 through February 28, 2003 (excluding payroll from January through February as NIS payroll went live January 3, 2003) was converted to NIS as of March 1, 2003. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA has identified other concerns related to NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. The following are the more significant concerns or areas where improvement is needed to ensure NIS integrity and operational efficiency:

a. The reconciliation between the State Treasurer's actual bank statements and records, the NAS/NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 12, 2003. This procedure would have provided control over cash and accurate financial information. The reconciliation should have been done on a monthly basis and has not been done since the implementation of NIS to ensure all financial information is correct in NIS.
b. As of December 12, 2003, the Annual Budgetary Report and the Comprehensive Annual Financial Report have not been completed for the fiscal year ended June 30, 2003. These reports are to be prepared and presented by the Department of Administrative Services Accounting Division.
c. A comprehensive written NIS policy and procedures manual has not been prepared. The current Nebraska Accounting System and Nebraska Employees Information System (NEIS) policies and procedures manuals only relate to NAS and NEIS and have not been updated to adjust to changes in NIS.
d. Labor distribution - The NIS payroll application is not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to most agencies' funds, programs, and grants.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Nebraska Information System (Concluded)

e. A detailed analysis has not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. Training provided for the implementation of NIS was limited to navigational training and did not include explanatory informational training.
f. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only state, "Obsolete with implementation of NIS."
g. The payroll component is not designed to promote an effective segregation of duties.
h. Critical function access rights - Access to sensitive General Accounting functions has been provided to individuals who may not require such access as a part of their job responsibilities.
i. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.
j. Business continuity planning - The State has not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure.

The issues identified above are the responsibility of the Department of Administrative Services Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to the Department of Administrative Services, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

Commission's Response: The Auditor of Public Accounts issued a "qualified" Audit Report Opinion for the Tax Equalization and Review Commission for FY2003. (Report at p. 14). A "qualified" audit report indicates that "the auditor has a material concern about one or more aspects of the financial statements and/or there is a material (or potentially material) shortcoming in accounting controls. It means the auditor is unable to give an unqualified opinion that the reports are true and fair. That is, there is something wrong." A "qualified opinion" differs from an "adverse opinion," which is a conclusion that the financial statements as a whole are not presented in conformity with Generally Accepted Accounting Practices (G.A.A.P.).**

The "qualified audit opinion" is based on a single "material" issue: "NIS integrity and operational efficiency." (As reported above). The Auditor had few options regarding the type of audit report opinion which could be provided. It is important to note, however, that the only material deficiency is one completely beyond the Commission's control.

**Citations omitted.*

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Adequate Recording of Time Worked

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur."

Neb. Rev. Stat. Section 77-5004(2) R.S.Supp., 2003 requires each commissioner to "devote his or her full time and efforts to the discharge of his or her duties."

In addition, sound business practices as well as good internal control would require hours actually worked to be adequately documented, for example, via timesheets, time logs, etc., and such documentation be kept on file to provide evidence of compliance with the requirements of Section 84-1001. Furthermore, good internal control also requires that whenever employees accrue vacation and sick leave, adequate documentation must be maintained to support the employee having "earned" the amounts recorded in the leave records by documenting not less than forty hours of work each week.

During our audit, we noted one commissioner did not keep documentation of actual time worked. Also, two commissioners documented their time worked in daily planners, but did not sign this record. Further, one of the two commissioners did not record actual hours worked, but instead recorded exceptions to an eight-hour day.

Without documentation of time worked, the Commission cannot be certain that the accumulation of sick and vacation leave is accurate. Furthermore, this information is necessary to document compliance with Neb. Rev. Stat. Section 84-1001.

> We recommend the Commission obtain and retain adequate supporting documentation, in the form of a time record, to provide evidence that officers and employees are rendering not less than forty hours of labor each week, except any week in which a paid holiday may occur. These time records should be signed by the officer or employee, thereby certifying the hours worked per week. The time record should include the amount of hours worked on a daily basis.

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NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

Independent Accountant's Report

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Tax Equalization and Review Commission (Commission) for the fiscal year ended June 30, 2003. The Commission'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.

Except as discussed in the following paragraph, 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.

The State of Nebraska implemented two components of a new statewide information system (Nebraska Information System (NIS)) during the fiscal year ended June 30, 2003. The two components were the Human Resources and Payroll component and the Financial component. A significant internal control procedure, a reconciliation of the State Treasurer's cash balances to the cash balances reported on NIS, has not been completed by the State for the fiscal year ended June 30, 2003. Without this reconciliation we were unable to satisfy ourselves as to the accuracy and completeness of the Nebraska Tax Equalization and Review Commission's fund balances of $50,580 as of June 30, 2003. Although we extended our audit procedures, it was impracticable to extend our procedures sufficiently to determine the extent to which the fund balances as of June 30, 2003 may have been affected by this procedure not being completed.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had a reconciliation between the State Treasurer's cash balances to the cash balances on NIS had been completed, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Tax Equalization and Review Commission 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 November 14, 2003, on our consideration of the Nebraska Tax Equalization and Review Commission'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.

Don Dunlap CPA

November 14, 2003 Assistant Deputy Auditor

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2003

	General Fund 10000	Tax Equalization And Review Commission Cash Fund 29310	**Total (Memorandum Only)**
REVENUES:			
Appropriations	$ 739,189	$ -	$ 739,189
Sales & Charges	-	13,910	13,910
Miscellaneous	-	3,060	3,060
TOTAL REVENUES	739,189	16,970	756,159
EXPENDITURES:			
Personal Services	542,769	-	542,769
Operating	143,680	11,099	154,779
Travel	36,469	6,347	42,816
Capital Outlay	16,271	-	16,271
TOTAL EXPENDITURES	739,189	17,446	756,635
(Deficiency) of Revenues Over Expenditures	-	(476)	(476)
OTHER FINANCING SOURCES:			
Sales of Assets	-	106	106
TOTAL OTHER FINANCING SOURCES	-	106	106
Net Change in Fund Balances	-	(370)	(370)
FUND BALANCES, JULY 1, 2002	-	50,950	50,950
FUND BALANCES, JUNE 30, 2003	$ -	$ 50,580	$ 50,580

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2003

1. Criteria

The accounting policies of the Nebraska Tax Equalization and Review Commission 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 State of Nebraska Director of Administrative Services duties include "The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in 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 Commission 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 Commission had no accounts receivable at June 30, 2003. The Commission 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 types established by NIS that are used by the Commission are:

General Fund - accounts for all financial resources not required to be accounted for in another fund.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

Cash Funds - account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

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

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

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

Miscellaneous - Revenue from sources not covered by other major categories, such as investment income.

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

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

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.

The other significant object account code established by NIS and used by the Commission was:

Other Financing Sources. The Commission recorded the sale of fixed assets in this account.

NOTES TO THE SCHEDULE
(Continued)

2. State Agency

The Nebraska Tax Equalization and Review Commission (Commission) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The schedule includes all funds of the Commission.

The Nebraska Tax Equalization and Review Commission is part of the primary government for the State of Nebraska.

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 Commission. 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. The Commission generally capitalizes all equipment over $300.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Equipment	$ 130,240	$ 16,205	$ 8,996	$ 137,449

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NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

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*

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Tax Equalization and Review Commission for the fiscal year ended June 30, 2003, and have issued our report thereon dated November 14, 2003. The report was qualified for the effects of such adjustments, if any, as might have been necessary if the reconciliation of the State Treasurer's cash balances to the Nebraska Information System (NIS) cash balances had been completed. 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 Tax Equalization and Review Commission'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 an immaterial instance of noncompliance that we have reported to management of the Nebraska Tax Equalization and Review Commission in the Comments Section of this report as Comment Number 2 (Adequate Recording of Time Worked).

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Tax Equalization and Review Commission'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 Tax Equalization and Review Commission'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 1 (Nebraska Information System).

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 another matter involving internal control over financial reporting that we have reported to management of the Nebraska Tax Equalization and Review Commission in the Comments Section of the report as Comment Number 2 (Adequate Recording of Time Worked).

Don Dunlap CPA

November 14, 2003 Assistant Deputy Auditor

STATISTICAL SECTION

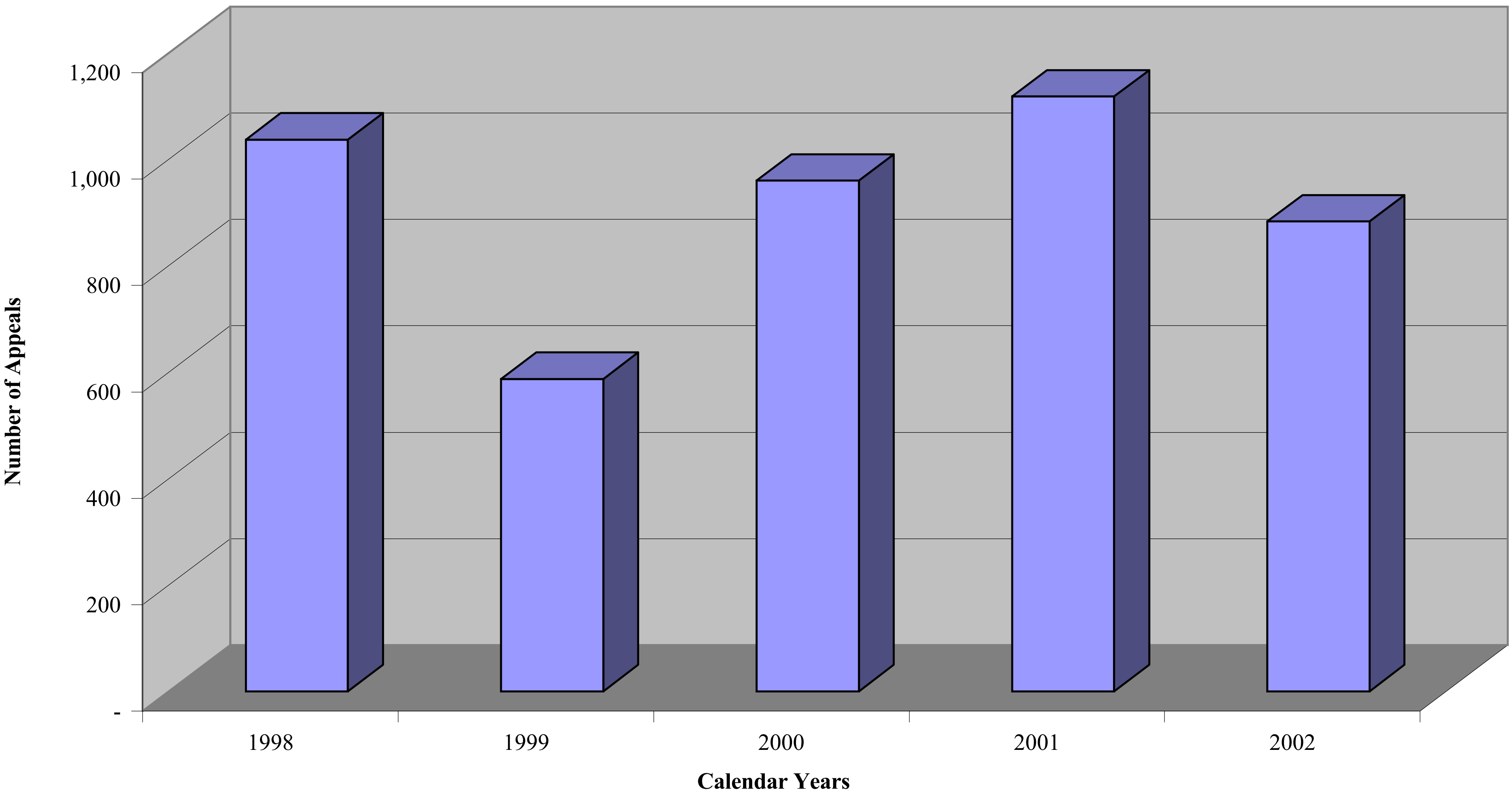
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

NUMBER OF APPEALS

For Calendar Years 1998 to 2002

UNAUDITED



Note: If a party bringing a valuation or exemption appeal is the owner of several unimproved parcels, the party may request that multiple appeals for those unimproved parcels be consolidated. The total number of appeals reported in calendar years 1998 to 2002 consists of all appeals, including each consolidated appeal.