

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF MOTOR VEHICLES
JULY 1, 2004 THROUGH JUNE 30, 2005**

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Issued on October 26, 2005

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

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NEBRASKA DEPARTMENT OF MOTOR VEHICLES

BACKGROUND

The Department of Motor Vehicles, which was created in 1957, administers laws pertaining to motor vehicle drivers and the operation of motor vehicles. The Department is organized into the following divisions: Administration, Information Systems, Motor Carrier Services, Driver and Vehicle Services, Financial Responsibility, Driver License Examining, Legal, and Highway Safety.

Administration – Includes the Director’s Office and central services such as payroll, accounting, and budgeting.

Information Systems – Provides technical expertise in the development, installation, and support of technical solutions and business systems.

Motor Carrier Services – Administers four programs for interstate motor carriers including: International Registration Plan (IRP); International Fuel Tax Agreement (IFTA); Single State Registration System (SSRS), and Bingo Stamps.

Driver and Vehicle Services – Responsible for the titling and registration of vehicles, issuance of license plates and permits, and maintenance of driver records.

Financial Responsibility – Carries out the provisions of the Financial Responsibility Act. The Division processes driver’s license suspensions and revocations; reinstates suspensions and revocations; assesses points for traffic violations; and issues employment driving and medical hardship permits.

Driver License Examining – Ensures that individuals meet Nebraska licensing standards and requirements for the issuance of a driver’s license or State identification card.

Legal – Responsible for handling legal matters at the administrative level for the Department. These responsibilities include the following: administrative hearings; legislation, rules and regulations, contracts and legal documents; the Lemon Law; and Lifetime and 15-Year license revocations.

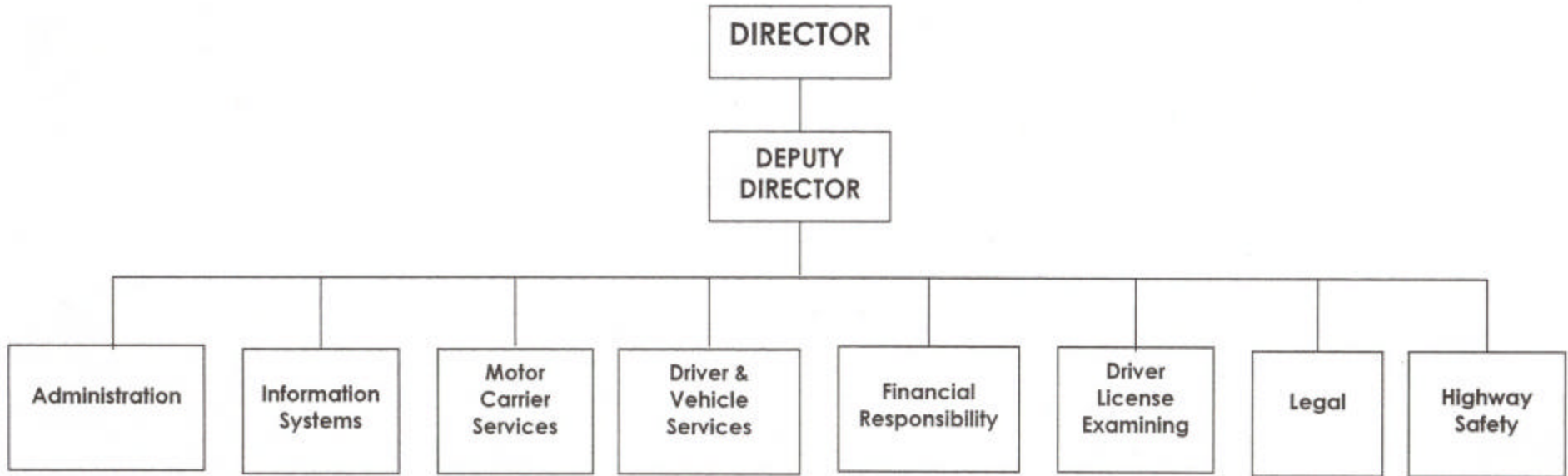
Highway Safety – Coordinates the State’s overall highway safety plan, administers the Motorcycle Safety Education Act and provides grant assistance for State and local highway safety projects.

MISSION STATEMENT

The mission of the Nebraska Department of Motor Vehicles is to promote safety through education and regulation of drivers and motor vehicles and to collect revenues that provide resources for State and local government operations.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

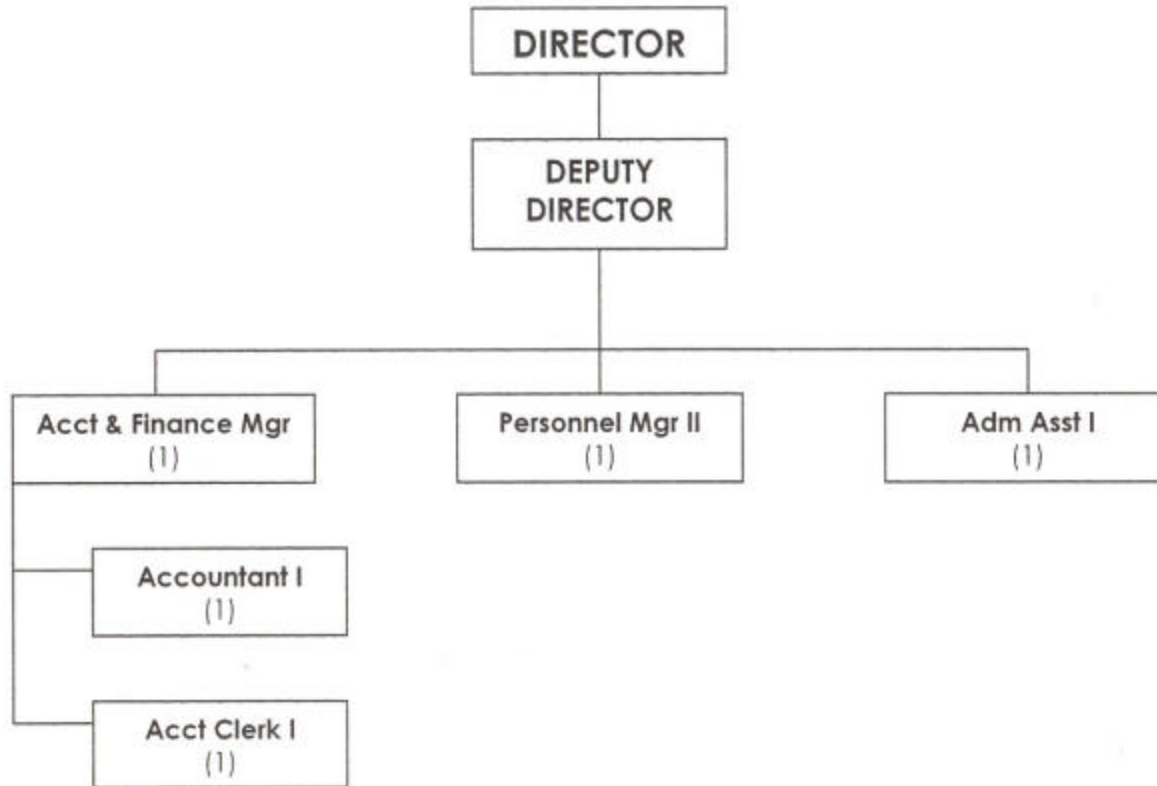
ORGANIZATIONAL CHARTS



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

ORGANIZATIONAL CHARTS

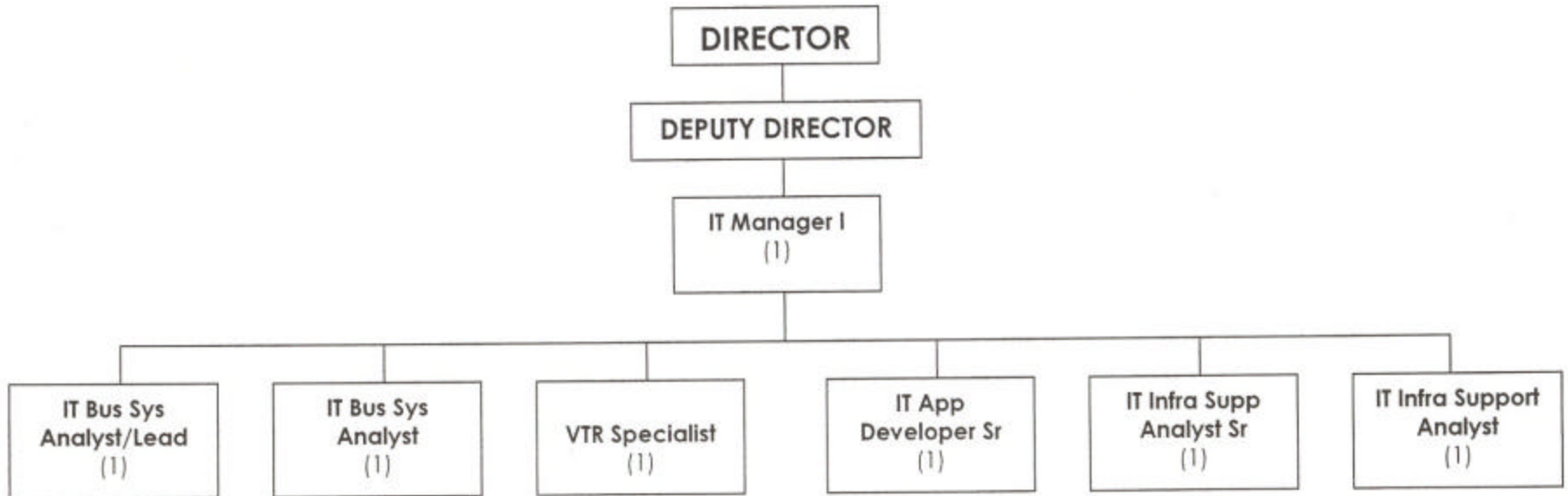
ADMINISTRATION DIVISION



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

ORGANIZATIONAL CHARTS

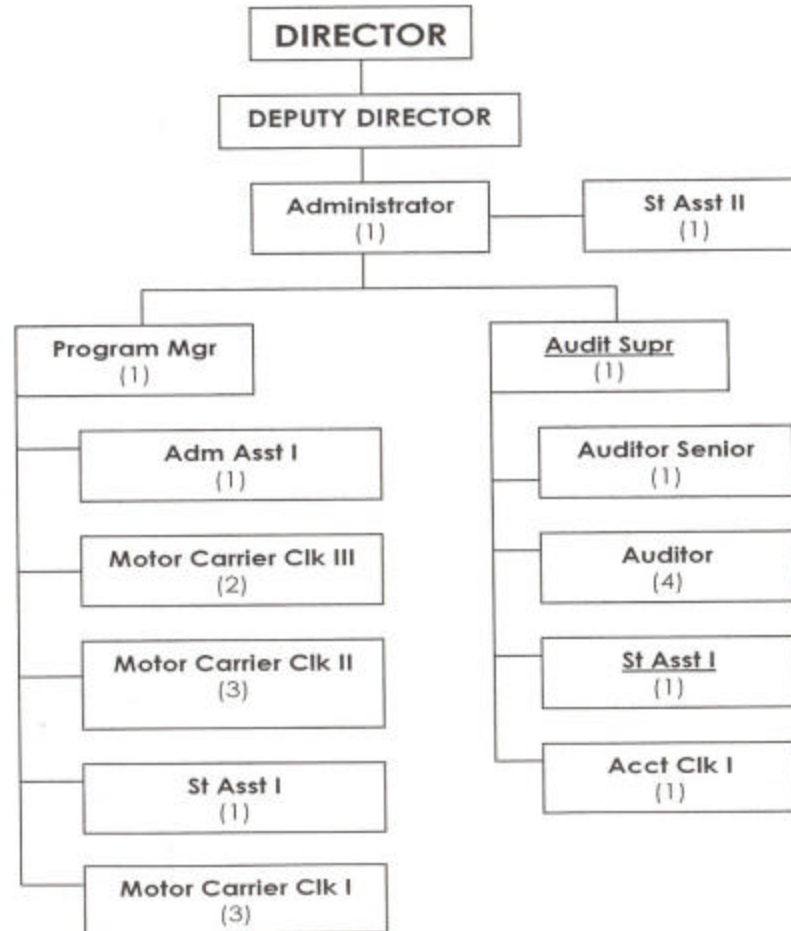
INFORMATION SYSTEMS



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

ORGANIZATIONAL CHARTS

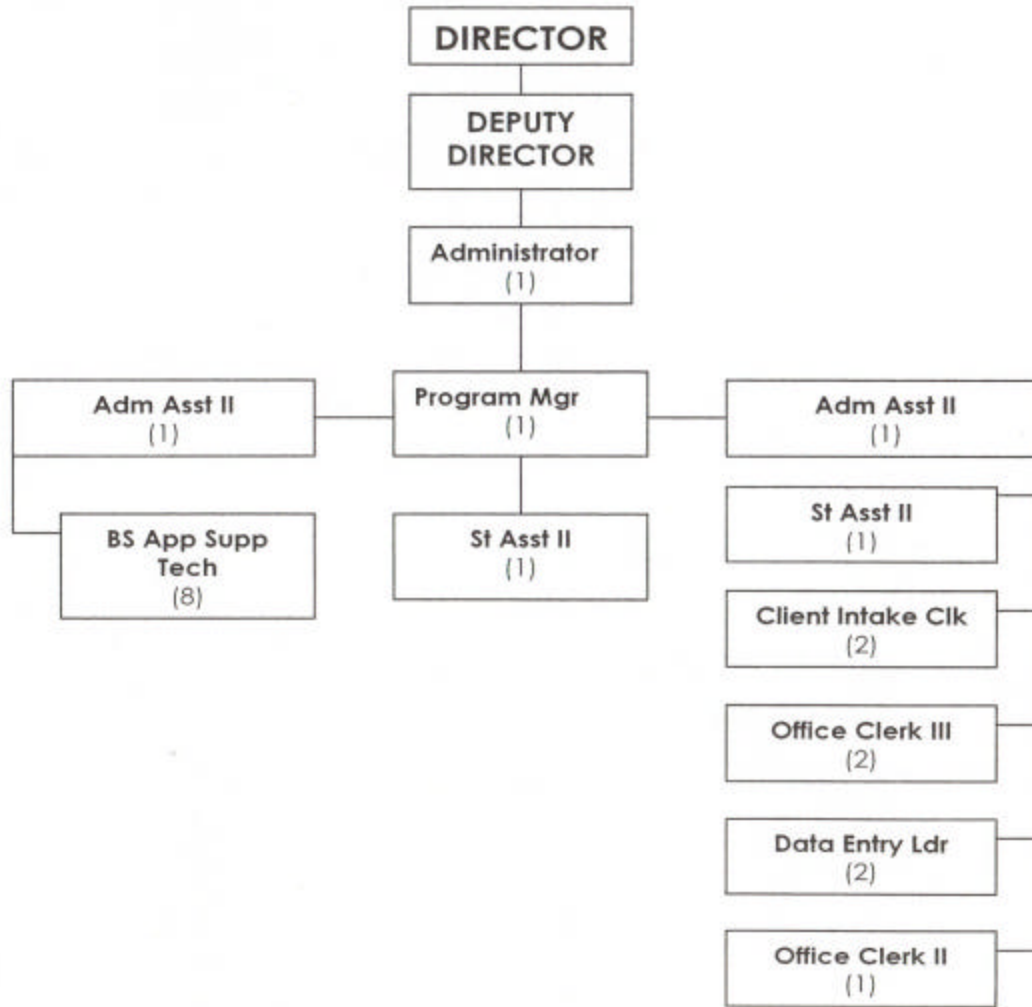
MOTOR CARRIER SERVICES DIVISION



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

ORGANIZATIONAL CHARTS

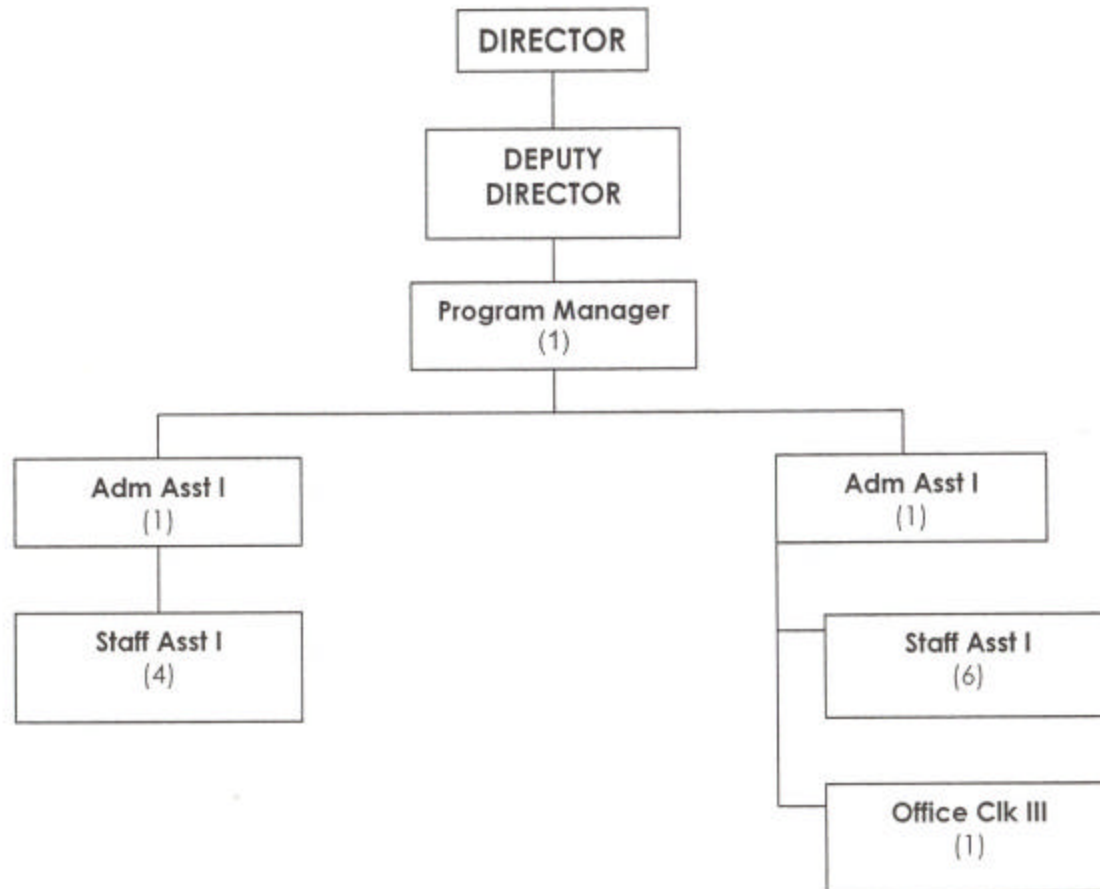
DRIVER AND VEHICLE RECORDS DIVISION



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

ORGANIZATIONAL CHARTS

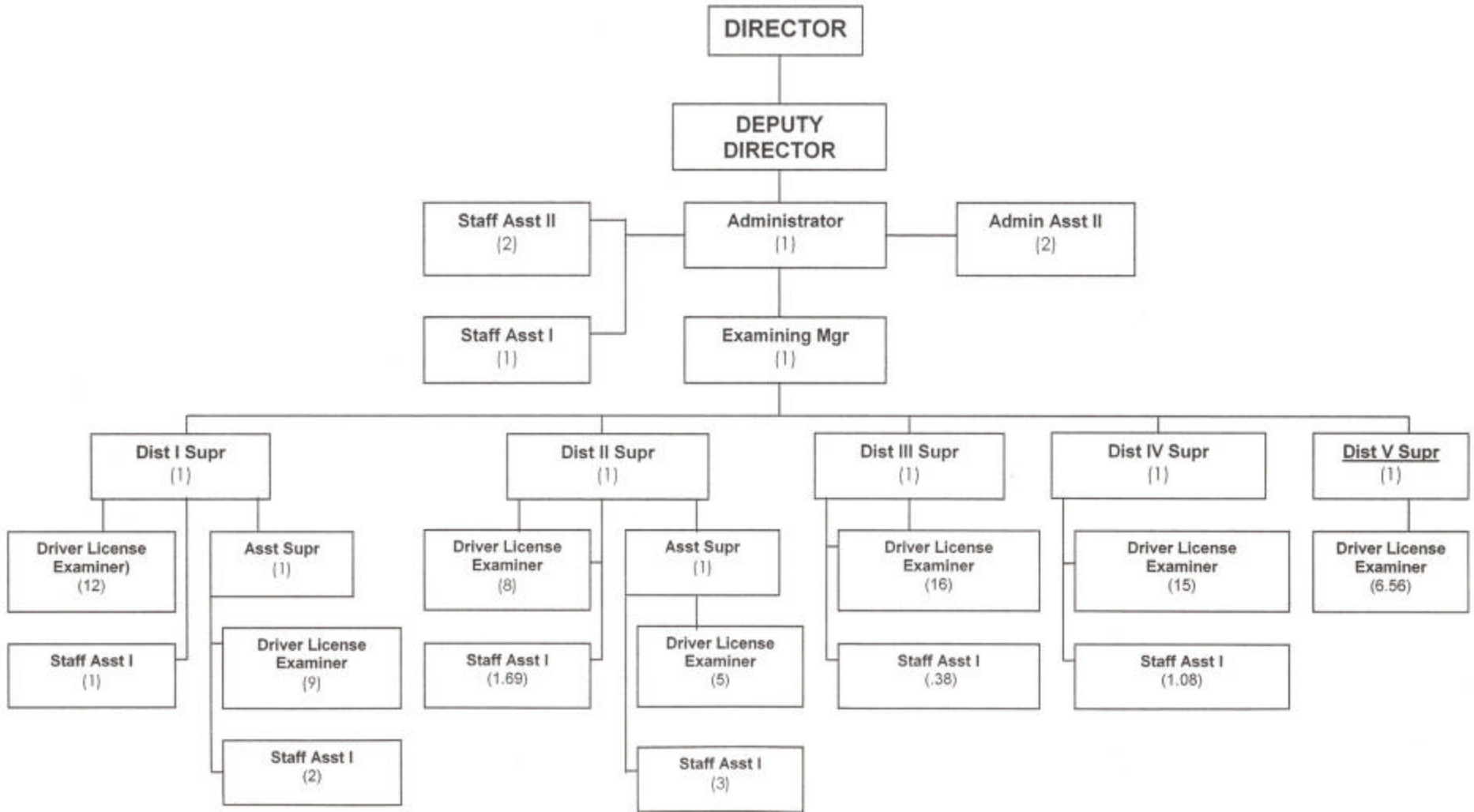
FINANCIAL RESPONSIBILITY DIVISION



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

ORGANIZATIONAL CHARTS

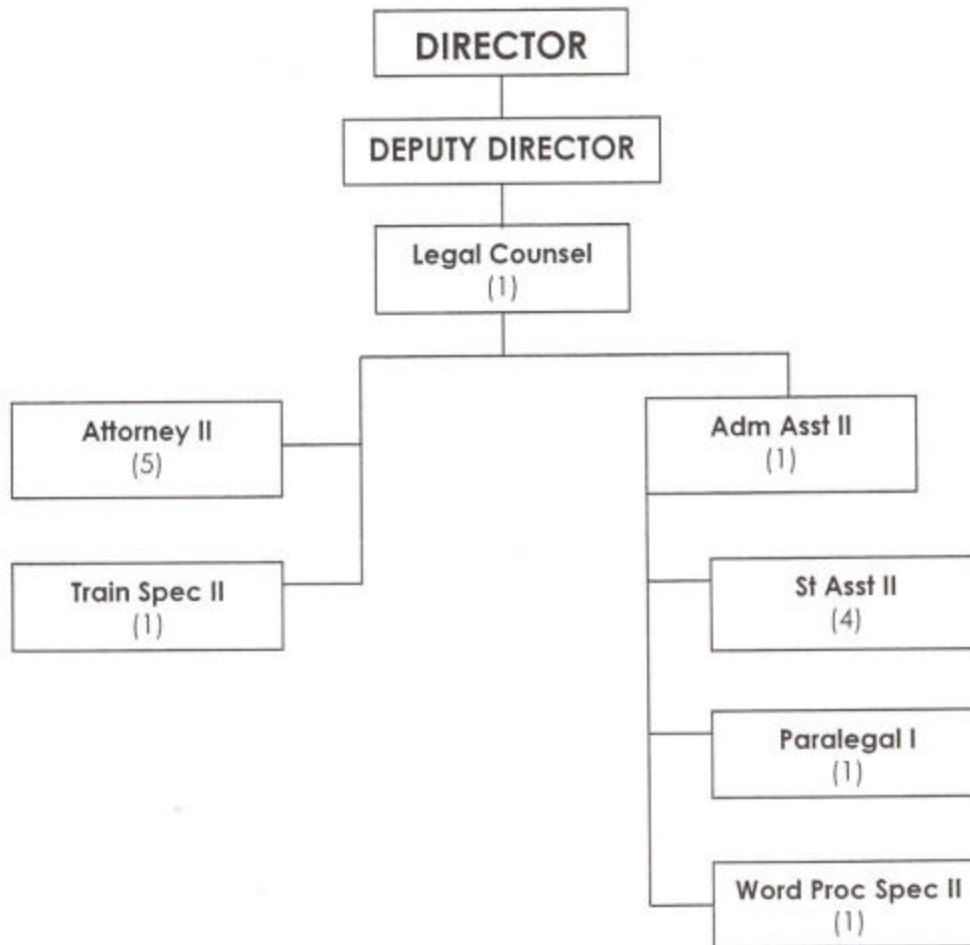
EXAMINING DIVISION



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

ORGANIZATIONAL CHARTS

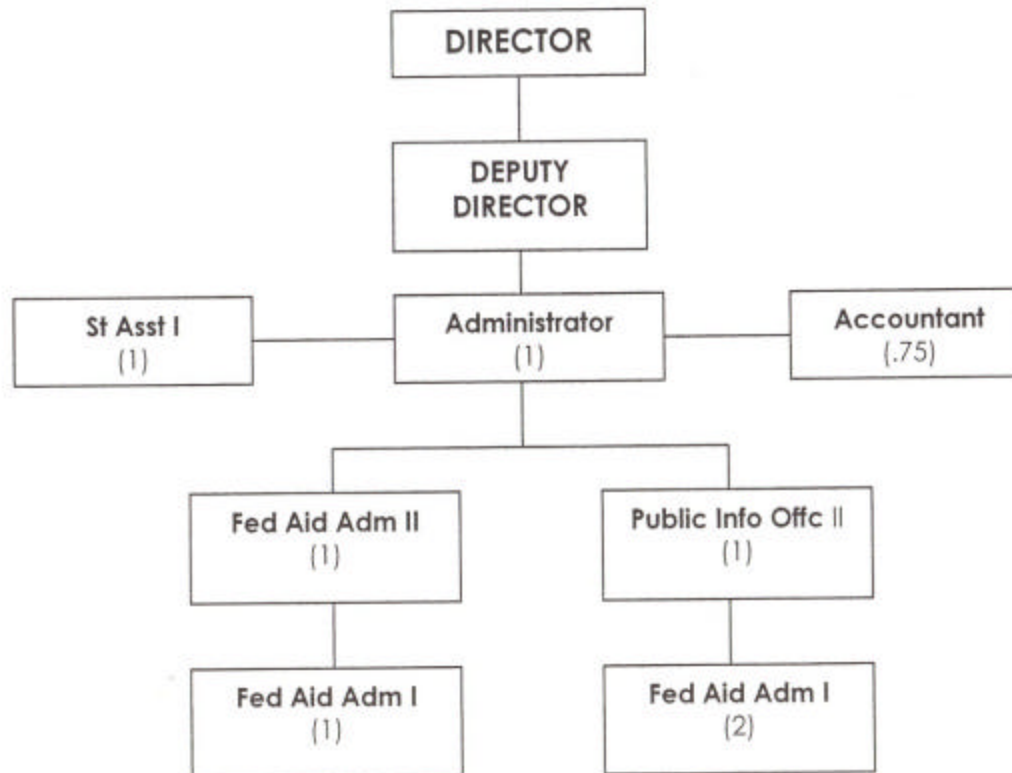
LEGAL DIVISION



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

ORGANIZATIONAL CHARTS

OFFICE OF HIGHWAY SAFETY



NEBRASKA DEPARTMENT OF MOTOR VEHICLES

EXIT CONFERENCE

An exit conference was held September 27, 2005 with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Motor Vehicles were:

NAME	TITLE
Beverly Neth	Director
Patricia Philips	Deputy Director
Kathy Hraban	Financial Responsibility Manager
Keith Dey	Information Systems Manager
Cathy Beedle	Motor Carrier Services Administrator
Fred Zwonechek	Office of Highway Safety Administrator
Gary Ryken	Accounting and Finance Manager
Armita Endacott	Personnel Manager
Betty Johnson	Driver and Vehicle Records Administrator

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Motor Vehicles, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Monitoring of County Receipts:*** The Department did not have procedures in place to verify the portion of fees received from the counties each month was reasonable. In fiscal year 2005, the Department received \$12,506,623 from the counties for the issuance of driver's licenses, vehicle registrations, titles, and plates. Counties also collect additional fees for the issuance of driver's licenses, vehicle registrations, titles, and plates which are deposited into several different funds of other agencies as determined by State Statutes.
2. ***Reconciliation of Distributive Funds to NIS:*** The Department processed and distributed in excess of \$90 million in fees through the Motor Carrier Services System for the International Registration Plan and the International Fuel Tax Agreement during fiscal year 2005. We noted there was no reconciliation between the Motor Carrier System and the Nebraska Information System (NIS). We also noted several optional liability accounts with large balances for which there was no activity on NIS for the fiscal year.
3. ***Vehicle Titling and Registration System:*** Department staff had supervisory access to all counties' data fields in the State. In addition, IMS programmers also had access to the menus on the Vehicle Titling and Registration System (VTR) with supervisory authority, enabling programmers to access the complete system. There was no written disaster recovery plan for the county systems.
4. ***Motor Carrier Services Programmer Access:*** We noted the programmer responsible for the Motor Carrier Services System had access to live data. This would allow the programmer to change data after it had been entered and verified.
5. ***Lack of Segregation of Duties - Revenues:*** We noted a lack of segregation of duties in the Driver and Vehicle Records Division for the processing of VINS, sample plates, and requests for drivers records. The total amount received at the Department during fiscal year 2005 was \$6,980 and \$80,526, respectively. We also noted the Driver and Vehicle Records Division did not have adequate procedures over the voiding of receipts. All five voids tested were not approved by appropriate personnel and four of the five did not have adequate documentation to support the reason for the void.
6. ***Payroll:*** Three of fifteen employees tested did not complete timesheets to document forty hours of work each week. One employee was able to perform all payroll functions, including changes to pay rates, entering of hours worked and leave used, and review of the payroll register. One employee had 16 hours of vacation leave in excess of the maximum allowed which was not lapsed at calendar year end. We also noted substantiating evidence was not on file for two of eighteen employees with sick leave of more than eighty hours in a single month.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

SUMMARY OF COMMENTS

(Continued)

7. **Travel:** All five expense reimbursement documents tested contained reimbursements for meal expenses without adequate documentation, or provided reimbursement for a meal when the same meal was paid for and provided by the conference or was an unreasonable meal expense. Reimbursements for meals without adequate documentation ranged from \$90 to \$143.
8. **Capital Assets:** We noted an independent review was not performed of the Additions and Retirements Report to ensure changes to assets were appropriate. We also noted several items were not being depreciated correctly based on the assigned item code. The Department had a total of 1,093 assets as of June 30, 2005 and, of those, 129 had the incorrect asset account.
9. **Reconciliation of Bingo Stamps:** No reconciliation was performed between the amounts received for Bingo Stamps and the number of Bingo Stamps issued. The Department collected \$28,051 and the Nebraska Interstate Registration Agent collected \$79,582, for a total received during fiscal year 2005 for bingo stamps of \$107,633.
10. **Reconciliation of Bank Records to the Nebraska Information System:** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

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

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Department declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next examination.

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

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

1. Monitoring of County Receipts

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Sound business practice requires procedures to ensure amounts collected by outside sources are correctly reported.

The Department did not have procedures in place to verify the portion of fees received from the counties each month was reasonable. The Department collects money from the counties for the issuance of driver's licenses, vehicle registrations, titles, and plates. In fiscal year 2005, the Department received \$12,506,623 from the counties. Counties also collect additional fees for the issuance of driver's licenses, vehicle registrations, titles, and plates which are deposited into several different funds of other agencies as determined by State Statutes. The counties remit the fees collected monthly to the State Treasurer's Office. Counties are audited annually.

Without procedures to ensure amounts collected by the counties are correctly reported, there is an increased possibility of loss or misuse of State funds.

We recommend the Department implement procedures to verify the amounts reported by the counties.

Department's Response: Department concurs with the Auditor's comments that the monthly remittances made by the County Clerk and County Treasurers should be verified to ensure accuracy. However, auditing every remittance document from every county official on a monthly basis would be beyond the Department's existing resources. The Department will conduct an audit of several counties' documents each month with a goal of reviewing every county at least once a year. It should be noted, that an exact accounting for the monies remitted by the counties will be difficult to complete because manual changes, which occur outside of the computer system, are made to the reported dollar amounts. For example, if a bad check is returned during a given month the amounts for the check are manually subtracted from the amounts showing due on any report generated by the computer system. The opposite occurs when a bad check debt is collected.

2. Reconciliation of Distributive Funds to NIS

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. This would include a reconciliation between the Department's system and the State's accounting system.

The Motor Carrier Services Division is a member of the International Registration Plan and the International Motor Fuel Tax Agreement Plan. As a member, the Division was responsible for collecting registration fees and fuel tax fees from Nebraska-based carriers for distribution to other

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Reconciliation of Distributive Funds to NIS (Concluded)

jurisdictions. These fees were receipted and distributed on the Motor Carrier computer system. The Department processed and distributed in excess of \$90 million in fees through the system for the fiscal year ended June 30, 2005.

During our review of the distribution of these fees, we noted there was no reconciliation between the Motor Carrier System and the Nebraska Information System (NIS). The Department reconciled the receipts and distributions for each month but did not have a procedure to reconcile the balance on NIS in the distributive fund. This was a finding in our prior audit report. The Department also uses several optional liability accounts to record the activity on NIS; we noted several accounts with large balances for which there was no activity on NIS for the fiscal year.

Without an adequate reconciliation of the Motor Carrier System to NIS, there is an increased risk there is more to be distributed out per the Department's system than is available on NIS, or vice versa.

We recommend the Department implement procedures to reconcile the amounts to be distributed per the Department's system to the amounts available for distribution per NIS. We also recommend the Department review the balances in the liability accounts to determine if correcting entries are necessary on NIS.

Department's Response: The Department did attempt to reconcile the balance in the Distributive Fund after a previous audit noted this as a problem. Past attempts at reconciling the fund have been unsuccessful. It was mentioned at the 2005 audit closing conference that any assistance the State Auditor's Office could provide to the Department in identifying a process that would result in a successful reconciliation would be appreciated. The task of identifying a procedure for reconciling the NIS balance to the Department's internal system is under way and we hope to have some results by December 1, 2005. A review of the liability accounts will also be done and correcting entries will be prepared if necessary.

3. Vehicle Titling and Registration System

Good internal control requires only the county officials who are responsible for the records be able to change transactions recorded on the system. In addition, any access to the Vehicle Titling and Registration System (VTR) for programmers should be limited to inquiry only. Good internal control requires a written disaster recovery plan to help counties recover from a disaster affecting the county's ability to process transactions.

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Vehicle Titling and Registration System (Continued)

We noted the following regarding the Vehicle Titling and Registration System:

- Department staff had supervisory access to all counties' data fields in the State. This means the support staff had the capability to log onto any county in the State and change transactions recorded in the individual counties.
- IMS programmers also had access to the menus on the VTR system with supervisory authority, enabling the programmers to access the complete system.
- There was no written disaster recovery plan for the county systems.

The above items were noted in our prior audit report.

With these abilities DMV staff has the capability to create inaccurate registration data or fraudulent records and to alter any transaction recorded by county officials. IMS programmers with access to the system are also able to alter any transaction recorded by county officials. Without a written disaster recovery plan there is an increased risk to the county's abilities to process transactions if a disaster were to occur.

We recommend the Department implement procedures to ensure only selected county officials have the authority to change or alter transactions on the county's system. We also recommend the Department ensure programmers do not have access to county records, other than through inquiry only. Furthermore, we recommend the Department ensure a written disaster recovery plan for the county systems be developed.

Department's Response:

- *Department has supervisory access to all counties' data fields in the State . . . Department's current policy is to allow the Help Desk staff supervisor to have access to the system. The technical and operational understanding required to use and maintain a computer application like Vehicle Titling and Registration System (VTR) is accumulated by the user over a long period of time. Limited exposure to the subtle nuances of the VTR application in Nebraska's less populous counties often requires that technical support from state employees be used to correct errors or process uncommon transactions. This access is necessary to allow the core fundamental purpose of the Help Desk to be achieved; that is to provide support to the county officials in their use of the DMV provided title and registration application. The Department believes that adequate audit and backup procedures exist to minimize the risk.*

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Vehicle Titling and Registration System (Concluded)

Department's Response, Concluded:

- *IMS Programmers also had access to the menus on the VTR system . . . Programmer access to county records is required to resolve problems that arise from user errors, application errors, hardware errors and communication system problems. Modifications made to any data within the system are logged by the system and auditable. All Department programmers are of the highest quality and follow prescribed security and audit procedures. Adding restrictions to Department programming staff would negatively impact the accuracy of data, the usability of the systems and would reduce the quality of service that we provide to the citizens of the state.*
- *No written disaster recovery plan for the county systems . . . The Department will work with the Department of Administrative Services - Information Management Services Division to complete a written disaster recovery plan for the county systems.*

4. Motor Carrier Services Programmer Access

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. This would include restricting programmer access to programming systems only, and access to live data should be restricted.

We noted the programmer responsible for the Motor Carrier Services System had access to live data. This would allow the programmer to change data after it had been entered and verified. This was a finding in our prior audit report.

With a programmer's access to live data there is a greater risk of unauthorized transactions occurring.

We recommend the Department restrict the programmer from having access to live data.

Department's Response: Programmer access to 'live' production data is required to resolve problems that arise from user errors, application errors, hardware errors and communication system problems. Modifications made to any data within the system are logged by the system and are auditable. All Department programmers are of the highest quality and follow prescribed security and audit procedures. Adding restrictions to the Department programming staff will negatively impact the accuracy of data, the usability of the systems and would reduce the quality of service that we provide to the citizens of the state.

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Lack of Segregation of Duties - Revenues

Good internal control requires an adequate segregation of duties so no one individual can handle all phases of a transaction and be able to conceal errors or irregularities.

We noted the following during our review of the Department's receipting process in the Driver and Vehicle Records Division:

- There was no compensating control for the money received for assigned VINS and sample plates. One individual prepared, approved, and applied money to the invoice. The total amount received during fiscal year 2005 was \$6,980. This was a prior comment in our 2000 audit of the Department.
- The same individuals opened mail, established the initial control, and issued receipts for requests for Drivers Records. These individuals also printed and sent the reports requested. The total amount collected by the Department during fiscal year 2005 was \$80,526.
- The Division did not have adequate procedures over the voiding of receipts. All five voids tested were not approved by appropriate personnel. Four had no documented approval and one was not signed by a supervisor. Four of five voids tested did not have adequate documentation to support the reason for the void.

Without a segregation of duties or adequate documentation to support voided receipts, there is an increased risk of loss or misuse of State funds and undetected errors or irregularities.

We recommend the Department implement procedures to ensure an adequate segregation of duties exist over receipts and approvals and explanation of voids are properly documented.

Department's Response:

- *There was no compensating control for the money received for assigned VINS and . . . In spirit, the Department concurs with the Auditor's comments that there could be better controls in place for the money received for VINs and sample plates. However, it is important to note that this program has an extremely high rejection rate of applications. The high rejection rate is due to the numerous requirements of the program and the technical nature of the requirements. To set up the process where the money is receipted and deposited prior to the application being reviewed would require that a refund or void be processed each time we reject an application. This would further complicate an already complicated process and would hamper our ability to quickly respond to the customer's application. The Department will continue to monitor the activities in this program and will try to find an effective means of separating the duties.*

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Lack of Segregation of Duties - Revenues (Concluded)

Department's Response, Concluded:

- *The same individual opened mail, established the initial control, and issued receipts for requests for Drivers Records . . .*
The Department will review the process to determine if there is an effective means of separating duties in this program without increasing staff.
- *The Division did not have adequate procedures over the voiding of receipts . . .*
The Department concurs with the Auditor's comments that there should be approvals and explanations of voids. A notice has been sent to all staff to ensure that all voids are properly approved and documented.

6. Payroll

Timesheets

Neb. Rev. Stat. Section 84-1001 R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees shall . . . render not less than forty hours of labor each week except any week in which a paid holiday may occur." Title 273 NAC 9-002 states "Each agency shall maintain a record for each employee, accounting for time worked and all absences from work." Good internal control requires adequate documentation to ensure all employees render forty hours of work each week, particularly when employees will receive a payment for unused sick and/or vacation leave upon termination.

Three of fifteen employees tested did not complete timesheets to document forty hours of work each week. The Department utilized a standard monthly timesheet for all employees except for those paid from Federal funds. Overtime exempt employees record only leave used during the month.

Without adequate records to support hours worked, there is an increased risk for fraudulent or inaccurate unused leave payments at termination.

We recommend the Department implement procedures to ensure all employees who expect payment of unused leave at termination maintain adequate documentation to support forty hours of work each week.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Payroll** (Continued)

Department's Response: The Department has had a long-standing practice of requiring overtime exempt employees only to account for the leave used during the month. The auditor's comment gives the impression that departmental employees are not completing time sheets. That is not accurate. All employees complete time sheets. However, overtime exempt employees only account for the leave used during the month. The Department will take the auditor's comments under advisement and determine if changes are warranted to the way that overtime exempt employees account for their time.

Segregation of Duties

Good internal control requires an adequate segregation of duties or compensating controls to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities.

One employee was able to perform all payroll functions, including changes to pay rates, entering of hours worked and leave used, and review of the payroll register. There was no independent review performed to ensure the employee's pay and hours worked were accurate and to ensure payroll posted correctly.

Without an adequate segregation of duties there is an increased risk of loss or misuse of State funds.

We recommend the Department implement procedures to ensure an adequate segregation of duties over the processing of payroll. We also recommend a separate individual review to ensure payroll posted correctly.

Department's Response: The Department will institute the following procedure to ensure a segregation of duties: the Accounting and Finance Manager will review and initial the printed copy of the NIS Payroll Register and the printed copy of the Payroll Journal Proof/Edit Report. Then the Personnel Manager will review the reports after the Accounting and Finance Manager's review and initial each report.

Lapsing of Leave Balances

NAPE/AFSCME and State of Nebraska Labor Contract, Section 14.7, Balancing of Vacation Leave states, "An employee's accumulated vacation time in excess of thirty-five days shall be forfeited as of the end of business on December 31st of each calendar year." Good internal control requires procedures to ensure leave balances in excess of the maximum allowed are promptly lapsed.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Payroll (Continued)

During our review of leave balances, we noted one employee had 16 hours of vacation leave in excess of the maximum allowed which was not lapsed at calendar year end. A similar finding was noted in our previous report.

Without proper procedures to ensure leave balances are appropriately lapsed, there is an increased risk employees will be paid for leave they should not receive.

We recommend the Department implement procedures to ensure leave balances in excess of the maximum allowed are properly lapsed.

Department's Response: The Department acknowledges that an error was made that resulted in one employee being allowed to carryover a vacation balance of 16.00 hours. The employee's 2004 prior year carryover vacation leave balance noted in the audit review shall be reduced by 16.00 hours to comply with the NAPE/AFSCME and State of Nebraska Labor Contract, Section 14.7.

Large Sick Leave Usage

NAPE/AFSCME and State of Nebraska Labor Contract, Sections 14.12 and 14.13, Request for Sick Leave states "Substantiating evidence may be required if the sick leave absence exceeds three consecutive workdays. Sick leave may be denied when the employee fails to substantiate the legitimate use of sick leave."

Title 273 NAC 9-005.02 states "Substantiating evidence may also be required if the sick leave absence exceeds 3 workdays but is less than 10 workdays. Substantiating evidence will be required if the sick leave absence is 10 workdays or longer."

Good internal control requires procedures to ensure employees using sick leave provide substantiating evidence for the use of 10 or more consecutive days of sick leave.

Substantiating evidence was not on file for two of eighteen employees with sick leave of more than eighty hours in a single month. A similar finding was noted in our previous report.

Noncompliance with the NAPE/AFSCME Labor Contract and Title 273 results in an increased risk of abuse of sick leave.

We recommend the Department implement procedures to ensure substantiating evidence is maintained for excessive sick leave usage.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Payroll (Concluded)

Department's Response: Departmental supervisors will be reminded to enforce the mandatory requirement of acceptable substantiating evidence for sick leave absences that exceed 10 working days as per Title 273 NAC 9-005.02.

7. Travel

Internal Revenue Service (IRS) Publication 463 requires an accountable plan to have adequate accounting of expenses. IRS Publication 463 states that adequate accounting requires employees to submit to their employers a statement of expense, an account book, a diary, or a similar record in which each expense is entered at or near the time of occurrence, along with documentary evidence. According to the publication, "Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense." A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information: 1) the name and location of the restaurant, 2) the number of people served, and 3) the date and amount of expense. Credit card receipts do not contain adequate detail to substantiate meals.

Good internal control requires procedures to ensure requirements of the State's accountable plan are met and reimbursements are in compliance with guidelines set through the Federal Travel Regulation.

All five expense reimbursement documents tested contained reimbursements for meal expenses without adequate documentation, or provided reimbursement for a meal when the same meal was paid for and provided by the conference or was an unreasonable meal expense, as follows:

- Two employees did not have adequate documentation to support meal expenses in accordance with the State's accountable plan. The employees were reimbursed \$90 and \$111 for meals but did not have a receipt or adequate log of meals. The employees' meal logs did not contain the location or meal being reimbursed.
- Another employee was reimbursed \$143 for meals without adequate documentation. The employee submitted only credit card receipts, which did not indicate the "essential character" of the expense. The employee was also reimbursed an unreasonable amount for a meal. Amendment 109 of the Federal Travel Regulation provided \$22 as a reasonable breakdown for dinner at the location of the conference. The employee was reimbursed \$33 for dinner on one day.
- Two employees were reimbursed for meals when meals were provided by the conference attended. Thus, the Department paid for the cost of the meals in the conference registration and also reimbursed the employees for these same meals. The total cost of the meals was \$8.

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Travel (Concluded)

Without an adequate accounting of meal expenses from the employee to the employer, the State could lose its accountable plan status. If the State does not have an accountable plan, the amounts reimbursed to employees for meal expenses would be considered taxable income. When the Federal guidelines are not followed there is an increased risk of reimbursement for unreasonable expenses.

We recommend the Department implement procedures to ensure provisions of the State's accountable plan are met and amounts reimbursed for meals are reasonable.

Department's Response: The Department has reviewed the meal log requirements with all employees.

8. Capital Assets

Good internal control requires an adequate segregation of duties or compensating controls to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities. Good internal control requires procedures to ensure the asset account attached to capital assets are correct and depreciation is correctly calculated.

We noted the following during our review of the Department's capital assets:

- One individual maintained the capital asset records, added items, initiated the disposal of assets, and reviewed the Unposted Fixed Asset Transaction Report. An independent review of the Additions and Retirements Report was not performed to ensure changes in assets were appropriate. This was noted in our prior audit report.
- Several items were not being depreciated correctly based on the assigned item code. The assets had the correct item code, but the asset account attached was not correct. The asset account determines the length of the assets' useful life. The Department had a total of 1,093 assets as of June 30, 2005, of those, 129 had the incorrect asset account.

Without an adequate segregation of duties there is an increased risk of loss or misuse of State assets. When the asset account is incorrect there is an increased risk that depreciation is not correctly calculated.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Capital Assets (Concluded)

We recommend the Department implement procedures to ensure an independent review of the Additions and Retirements Report is completed on a regular basis. We also recommend the Department implement procedures to ensure the correct item code and asset account are attached to all capital assets.

Department's Response: The Department acknowledges the errors and has corrected the asset item codes.

9. Reconciliation of Bingo Stamps

Good internal control requires procedures to ensure amounts received agree to stamps issued.

No reconciliation was performed between the amounts received for Bingo Stamps and the number of Bingo Stamps issued. Bingo stamps are issued to private or exempt motor carriers by the Department and the Nebraska Interstate Registration Agent at a cost of \$3.50 each. The Department collected \$28,051; the Nebraska Interstate Registration Agent collected \$79,582, for a total received during fiscal year 2005 of \$107,633.

The lack of documentation supporting Bingo Stamps to money received increases the risk for misappropriation and misuse of State funds.

We recommend the Department implement procedures to periodically reconcile the amount received for Bingo Stamps to the amount of Bingo Stamps issued.

Department's Response: The Department did make changes to procedures for Bingo stamp reconciliation after the last audit, but did not include a periodic reconciliation between stamps issued and fees collected. The Department will implement procedures no later than January 1, 2006, to accomplish this reconciliation.

10. Reconciliation of Bank Records to the Nebraska Information System

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

(Continued)

10. Reconciliation of Bank Records to the Nebraska Information System (Continued)

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

The APA recommends DAS Accounting Division continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

COMMENTS AND RECOMMENDATIONS

(Continued)

10. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

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NEBRASKA DEPARTMENT OF MOTOR VEHICLES

INDEPENDENT ACCOUNTANT'S REPORT

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Nebraska Department of Motor Vehicles
Lincoln, Nebraska

Don Dunlap, CPA
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Motor Vehicles (Department) for the fiscal year ended June 30, 2005. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

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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 attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Motor Vehicles for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2005, on our consideration of the Nebraska Department of Motor Vehicles' internal control over financial reporting and our

tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

September 27, 2005

NEBRASKA DEPARTMENT OF MOTOR VEHICLES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	State General Fund 10000	Records Management Cash Fund 20930	Spirit Plate Proceeds Fund 21280	Motorcycle Safety Fund 21340	Organ/Tissue Donor Awareness Fund 22010	Nebraska EMS Operations Fund 22030
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-
Sales & Charges	3,469,846	40,524	38,703	360	-	2,277
Miscellaneous	-	-	-	11,651	77	-
TOTAL REVENUES	3,469,846	40,524	38,703	12,011	77	2,277
EXPENDITURES:						
Personal Services	-	-	-	1,243	-	-
Operating	-	-	-	1,185	-	-
Travel	-	-	-	2,849	-	-
Capital Outlay	-	-	-	-	-	-
Government Aid	-	-	-	113,000	-	-
TOTAL EXPENDITURES	-	-	-	118,277	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,469,846	40,524	38,703	(106,266)	77	2,277
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	-
Deposit to General Fund	(3,469,906)	-	-	-	-	-
Deposit to/from Common Fund	-	(40,524)	(38,703)	-	(77)	(2,277)
Operating Transfers In	-	-	-	152,463	-	-
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(3,469,906)	(40,524)	(38,703)	152,463	(77)	(2,277)
Net Change in Fund Balances	(60)	-	-	46,197	-	-
FUND BALANCES, JULY 1, 2004	14,245	-	-	346,743	-	-
FUND BALANCES, JUNE 30, 2005	\$ 14,185	\$ -	\$ -	\$ 392,940	\$ -	\$ -
FUND BALANCES CONSIST OF:						
General Cash	\$ 2,879	\$ -	\$ -	\$ 392,940	\$ -	\$ -
Petty Cash	40	-	-	-	-	-
NSF Items	-	-	-	-	-	-
Deposits with Vendors	14,145	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-	-
Due From Other Funds	-	-	-	-	-	-
Due From Other Government	-	-	-	-	-	-
Due to Vendors	-	-	-	-	-	-
Deposits	-	-	-	-	-	-
Due to Fund	(2,879)	-	-	-	-	-
TOTAL FUND BALANCES	\$ 14,185	\$ -	\$ -	\$ 392,940	\$ -	\$ -

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF MOTOR VEHICLES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	Motor Carrier Division Fund 22430	License Plate Cash Fund 22440	Motor Vehicle Cash Fund 22450	Road Operations Cash Fund 22700	Highway Cash Fund 22710	Recreation Road Fund 26720
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	225	-	-	-
Sales & Charges	273,370	-	14,992,747	25	310,575	6,839
Miscellaneous	34,638	-	438,690	-	-	-
TOTAL REVENUES	308,008	-	15,431,662	25	310,575	6,839
EXPENDITURES:						
Personal Services	891,346	-	6,685,437	-	-	-
Operating	282,080	7,639,830	5,350,061	-	-	-
Travel	5,376	-	211,765	-	-	-
Capital Outlay	-	-	214,657	-	-	-
Government Aid	-	-	-	-	-	-
TOTAL EXPENDITURES	1,178,802	7,639,830	12,461,920	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(870,794)	(7,639,830)	2,969,742	25	310,575	6,839
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	977	-	-	-
Deposit to General Fund	-	-	-	-	-	-
Deposit to/from Common Fund	-	-	-	(25)	(310,575)	(6,839)
Operating Transfers In	1,200,000	6,683,818	-	-	-	-
Operating Transfers Out	-	-	(3,624,127)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,200,000	6,683,818	(3,623,150)	(25)	(310,575)	(6,839)
Net Change in Fund Balances	329,206	(956,012)	(653,408)	-	-	-
FUND BALANCES, JULY 1, 2004	418,971	956,024	11,222,864	-	-	-
FUND BALANCES, JUNE 30, 2005	\$ 748,177	\$ 12	\$ 10,569,456	\$ -	\$ -	\$ -
FUND BALANCES CONSIST OF:						
General Cash	\$ 929,541	\$ 12	\$ 9,802,249	\$ -	\$ -	\$ -
Petty Cash	300	-	-	-	-	-
NSF Items	-	-	(7)	-	-	-
Deposits with Vendors	5,554	-	16,868	-	-	-
Accounts Receivable Invoiced	3,399	-	3,471	-	-	-
Due From Other Funds	-	-	798,799	-	-	-
Due From Other Government	-	-	146	-	-	-
Due to Vendors	-	-	(208,467)	-	-	-
Deposits	-	-	-	-	-	-
Due to Fund	(190,617)	-	156,397	-	-	-
TOTAL FUND BALANCES	\$ 748,177	\$ 12	\$ 10,569,456	\$ -	\$ -	\$ -

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF MOTOR VEHICLES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	DMV Federal Operations Fund 42410	Highway Safety Federal Fund 42420	Highway Safety Fund 47920	Highway Trust Fund 61240	Financial Responsibility Trust 62410	Motor Carrier Service Division Fund 72410	Total (Memorandum Only)
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ 2,698,510	\$ -	\$ -	\$ 2,698,510
Intergovernmental	276,294	3,288,558	467,976	-	-	-	4,033,053
Sales & Charges	-	1,623	-	151,866	-	-	19,288,755
Miscellaneous	-	69	-	349,587	-	-	834,712
TOTAL REVENUES	276,294	3,290,250	467,976	3,199,963	-	-	26,855,030
EXPENDITURES:							
Personal Services	-	361,290	-	-	-	-	7,939,316
Operating	250,288	260,367	-	-	-	-	13,783,811
Travel	-	32,416	-	-	-	-	252,406
Capital Outlay	25,583	-	-	-	-	-	240,240
Government Aid	-	2,662,215	461,833	-	-	-	3,237,048
TOTAL EXPENDITURES	275,871	3,316,288	461,833	-	-	-	25,452,821
Excess (Deficiency) of Revenues Over (Under) Expenditures	423	(26,038)	6,143	3,199,963	-	-	1,402,209
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	977
Deposit to General Fund	-	-	-	-	-	-	(3,469,906)
Deposit to/from Common Fund	-	-	-	(3,199,963)	-	-	(3,598,983)
Operating Transfers In	-	-	-	-	-	-	8,036,281
Operating Transfers Out	-	-	-	-	-	-	(3,624,127)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	(3,199,963)	-	-	(2,655,758)
Net Change in Fund Balances	423	(26,038)	6,143	-	-	-	(1,253,549)
FUND BALANCES, JULY 1, 2004	(3,324)	(98,551)	-	-	46,612	604	12,904,188
FUND BALANCES, JUNE 30, 2005	\$ (2,901)	\$ (124,589)	\$ 6,143	\$ -	\$ 46,612	\$ 604	\$ 11,650,639
FUND BALANCES CONSIST OF:							
General Cash	\$ 64,299	\$ 742,372	\$ 6,143	\$ -	\$ 37,793	\$ 5,090,792	\$ 17,069,020
Petty Cash	-	-	-	-	-	-	340
NSF Items	-	-	-	-	-	-	(7)
Deposits with Vendors	-	72	-	-	-	-	36,639
Accounts Receivable Invoiced	-	80	-	-	-	-	6,950
Due From Other Funds	(67,200)	(50,000)	-	-	-	-	681,599
Due From Other Government	-	5	-	-	-	-	151
Due to Vendors	-	(3,320)	-	-	-	-	(211,787)
Deposits	-	-	-	-	8,819	-	8,819
Due to Fund	-	(813,798)	-	-	-	(5,090,188)	(5,941,085)
TOTAL FUND BALANCES	\$ (2,901)	\$ (124,589)	\$ 6,143	\$ -	\$ 46,612	\$ 604	\$ 11,650,639

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Department of Motor Vehicles 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(2) R.S.Supp., 2004, 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 Department 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, 2005 includes only those payables posted to NIS before June 30, 2005 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005 **does not** include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

NIS also records other liabilities (primarily in the Distributive Fund Type) in accounts titled Deposits and Due to Fund. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity. For further information of the activity recorded to those accounts for the fiscal year ended June 30, 2005 see Note 5.

The Department had accounts receivable not included in the Schedule of \$184,474 from request for driver’s records. DAS did not require the Department to record their receivables on the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. The NIS system does not include liabilities for accrued payroll and compensated absences.

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

10000 – General Fund – accounts for all financial resources not required to be accounted for in another fund.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

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

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consists of motor fuel taxes.

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

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

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

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

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

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

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

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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.

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

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

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

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for the Department's funds at June 30, 2005 included Deposits and Due to Fund. The activity of these accounts are not recorded on the Schedules of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts. The activity processed on NIS through these accounts is summarized in Note 5.

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

2. State Agency

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

The Nebraska Department of Motor Vehicles is part of the primary government for the State of Nebraska.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

NOTES TO THE SCHEDULE

(Continued)

3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. 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. 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). The Department's values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Equipment is depreciated using the straight-line method with estimated useful lives of three to ten years.

Capital asset activity of the Department for the fiscal year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets				
Equipment	\$ 663,692	\$ 294,032	\$ 70,670	\$ 887,054
Less accumulated depreciation for:				
Equipment				<u>530,708</u>
Total capital assets, net of depreciation				<u>\$ 356,346</u>

Capital outlay (additions) reported on the Department's Schedule of Revenues, Expenditures, and Changes in Fund Balances totaled \$240,240. The difference between this amount and the \$294,032 reported on the capital asset records was due primarily to items for which a cost was added to the capital asset records in fiscal year 2005 that were purchased prior to the fiscal year.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

NOTES TO THE SCHEDULE

(Continued)

5. Changes in Due to Fund

Fund	Balance July 1, 2004	In	Out	Balance June 30, 2005
State General Fund 10000	\$ 8,005	\$ 2,934,154	\$2,939,280	\$ 2,879
Motor Carrier Division Fund 22430	143,534	1,460,223	1,413,140	190,617
Motor Carrier Services Division Fund 72410	4,084,565	93,769,908	92,764,285	5,090,188

Activity in this account for the funds noted consists primarily of monies collected for the International Registration Plan (IRP), International Fuel Tax Agreement (IFTA), and the Single State Registration System (SSRS) programs. This money was collected by the Department and paid out to other states, to other funds, and to motor carriers.

6. Transfers

2004 Neb. Laws LB 1089, Section 267, authorized the State Treasurer to transfer up to \$5,915,000 to the License Plate Cash Fund to cover expenses of manufacturing license plates. 2004 Neb. Laws LB 279A, Section 2, authorized the State Treasurer to transfer \$768,818 to the License Plate Cash Fund.

2004 Neb. Laws LB 1089, Section 267, authorized the State Treasurer to transfer \$3,572,962 from the Motor Vehicles Cash Fund to the General Fund and \$1,158,000 to the Motor Carrier Division Fund.

7. Deposits to/from Common Funds

Deposits to other agencies include the collection of fees for vehicle titles and registrations that are credited to the Highway Trust Fund, Nebraska EMS Operations Fund, and the Recreation Road Fund per statute 60-302 and 60-326.01.

8. Handicap Permit Fee Lawsuit

The Department is involved in a lawsuit in which the plaintiffs claimed Neb. Rev. Stat. Section 18-1740, which required a fee of \$3 for a handicap parking permit, violated Title II of the Americans with Disabilities Act of 1990. As a result of the court order, the Department has been ordered to refund all fees collected since 1992 in addition to paying the plaintiffs attorney fees and court costs with interest. The fee was repealed by 2001 Neb Laws LB 31. The Department estimated the fees to be refunded at \$428,000, as well as \$418,947 in operational costs, to comply with the order. The plaintiffs' attorney fees and court costs at the time of the order was \$188,747. The Department has appealed the decision and the case is currently on hold with the Nebraska Supreme Court.

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

NOTES TO THE SCHEDULE

(Continued)

9. Due from Other Funds

Due from Other Funds of \$798,799 in the Motor Vehicle Cash Fund 22450 represents money loaned to the Highway Safety Federal Fund 42420 in order to fund new projects. Highway Safety grants are reimbursement grants that require expenditures prior to receipt of Federal funds.

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**NEBRASKA DEPARTMENT OF MOTOR VEHICLES
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS 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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Nebraska Department of Motor Vehicles
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Motor Vehicles for the fiscal year ended June 30, 2005, and have issued our report thereon dated September 27, 2005. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Motor Vehicles' 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Department of Motor Vehicles' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Monitoring of County Receipts), Comment Number 2 (Reconciliation of Distributive Funds to NIS), and Comment Number 10 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable 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 caused by error or fraud 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 believe that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Motor Vehicles' 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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we reported to management of the Nebraska Department of Motor Vehicles in the Comments Section of this report as Comment Number 3 (Vehicle Titling and Registration System), Comment Number 4 (Motor Carrier Services Programmer Access), Comment Number 5 (Lack of Segregation of Duties – Revenues), Comment Number 6 (Payroll), Comment Number 7 (Travel), Comment Number 8 (Capital Assets), and Comment Number 9 (Reconciliation of Bingo Stamps).

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

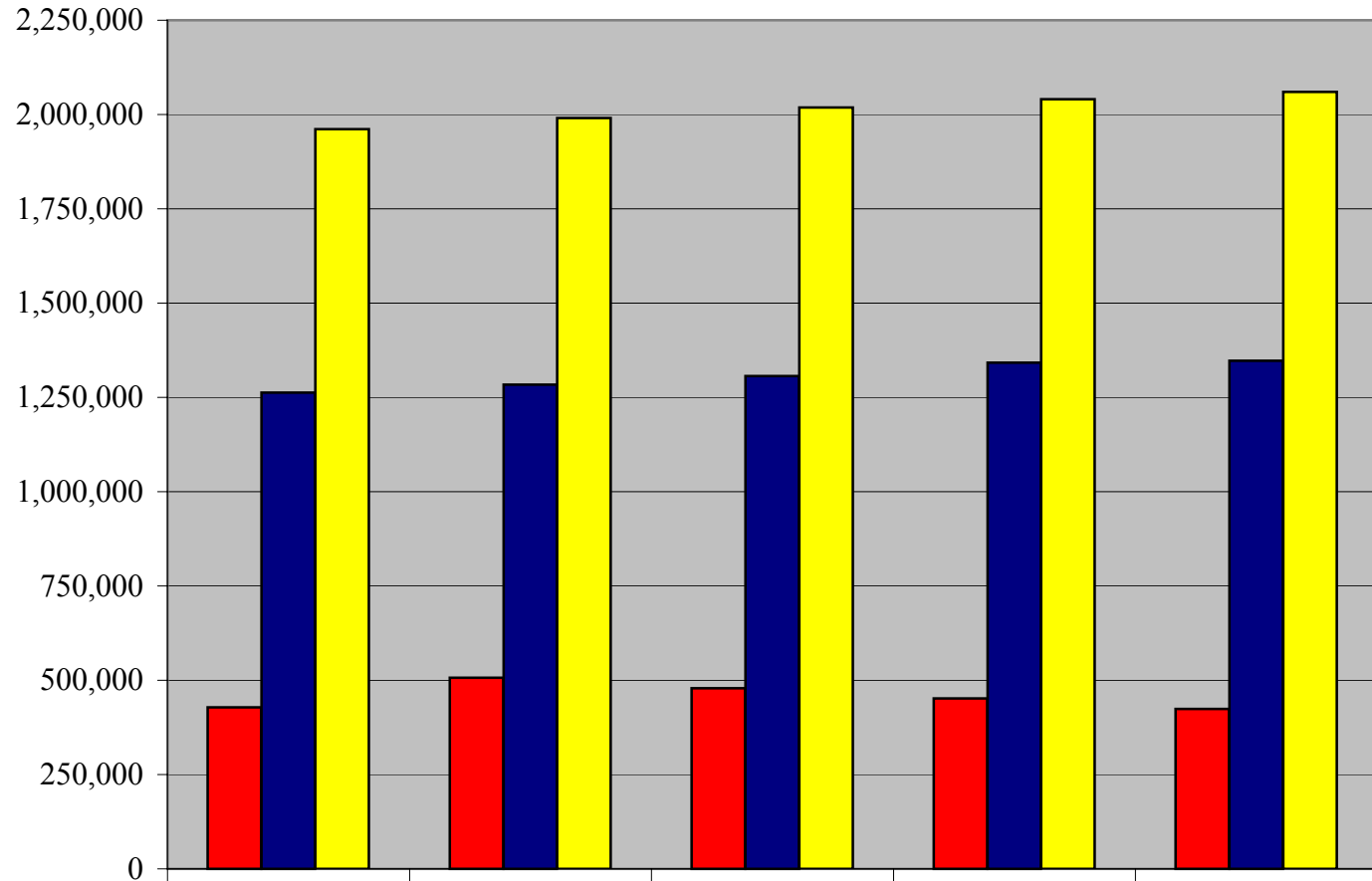
September 27, 2005

NEBRASKA DEPARTMENT OF MOTOR VEHICLES

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 DEPARTMENT OF MOTOR VEHICLES
DRIVER AND VEHICLE STATISTICS
 Calendar Years 2000, 2001, 2002, 2003, and 2004



	2000	2001	2002	2003	2004
■ Driver's Licenses/Permits Issued	428,416	507,067	479,233	451,584	424,255
■ Nebraska Licensed Drivers	1,262,755	1,283,439	1,306,513	1,342,147	1,347,071
■ Vehicles Registered	1,960,854	1,990,378	2,018,929	2,040,703	2,059,553

NEBRASKA DEPARTMENT OF MOTOR VEHICLES
FATALITIES AND SERIOUS INJURIES
Calendar Years 2000, 2001, 2002, 2003, and 2004

