

**ATTESTATION REPORT
OF THE
NEBRASKA RAILWAY COUNCIL**

JULY 1, 2003 THROUGH JUNE 30, 2004

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on March 8, 2005

NEBRASKA RAILWAY COUNCIL

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Comments Section	
Exit Conference	2
Summary of Comments	3
Comments and Recommendations	4 - 8
Financial Section	
Independent Accountant's Report	9 - 10
Schedule of Revenues, Expenditures, and Changes in Fund Balances	11
Notes to the Schedule	12 - 13
Government Auditing Standards Section	
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 <i>Government Auditing Standards</i>	14 - 15
Statistical Section	16
Schedule of Fund Balance	17

NEBRASKA RAILWAY COUNCIL

BACKGROUND

The Nebraska Railway Council administers programs and funds for the acquisition, rehabilitation, and operation of light-density rail lines pursuant to State law and the Federal Rail Revitalization Act. All planning functions for participation in the Federal act must be performed by a State agency designated by the Governor. Although the Council is an independent body, the Department of Roads provides planning functions and staff support.

Eight Council members are appointed to four-year terms by the Governor and approved by the Legislature. The Department of Roads Director-State Engineer serves as an ex officio member. Council members consist of:

- a light-density rail shipper;
- a railroad management employee;
- a Public Service Commissioner;
- a railroad maintenance-of-way employee;
- a Department of Economic Development representative;
- a Department of Agriculture representative;
- and two members of the public; one with private or public finance experience and one with marketing experience.

MISSION STATEMENT

To promote adequate and efficient rail service on light-density rail lines and rail service oriented enterprises related to light-density rail line operators.

NEBRASKA RAILWAY COUNCIL

EXIT CONFERENCE

An exit conference was held February 14, 2005 with the Council to discuss the results of our examination. Nebraska Department of Roads staff in attendance for the Nebraska Railway Council were:

NAME	TITLE
Stephen Maraman	Finance Administrator
John Schulte	Accounting Manager
Beverly Vonasek	Railroad Liaison Manager

NEBRASKA RAILWAY COUNCIL

SUMMARY OF COMMENTS

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

1. ***Nebraska Information System and Accounting Procedures:*** Significant concerns or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operation efficiency were identified.
2. ***Annual Report:*** The Council has not submitted the statutorily required annual report to the Legislature since March 1997.

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 Council 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 Council 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 RAILWAY COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System and Accounting Procedures

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). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004, the Procurement and Employee Self-Service components were partially implemented. 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 obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported. However, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the DAS Accounting Division performed some reconciliation procedures. As of July 2004, the June 30, 2003, reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records.

During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004, have been performed and indicate fluctuations in the variance amounts. The latest monthly reconciliation performed, February 2004, indicates

NEBRASKA RAILWAY COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

an unknown variance between the bank records and the accounting records of \$5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.
- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this problem. The "work around" solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately for salaried employees who incur hours that are distributed across multiple business units.
- d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of user training conducted by the DAS Accounting Division during the fiscal year ended June 30,

NEBRASKA RAILWAY COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Nebraska Information System and Accounting Procedures** (Continued)

2004, but does acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.

- e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State. The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the State Records Administrator schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

- f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.
- g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, "All critical function access rights have been secured down to the appropriate high level matrix codes." We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.

NEBRASKA RAILWAY COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Nebraska Information System and Accounting Procedures** (Continued)

- h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, “The NIS CNC's and the NIS Security team have developed a comprehensive security policy.” We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.
- i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, “We have now contracted with an outside vendor for business continuity planning.” Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.
- j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:
 - 1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.
 - 2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.
 - 3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

NEBRASKA RAILWAY COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Nebraska Information System and Accounting Procedures** (Concluded)

- k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

The issues identified above are the responsibility of the DAS 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 DAS, 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.

2. **Annual Report**

Neb. Rev. Stat. Section 74-1415.01(9) R.R.S. 2003 requires the Council to submit an annual report to the Legislature detailing investments and purchases and shall include a statement for each project.

The Council last submitted a report in March 1997 for the calendar year ended December 1996. This was also noted in our prior audit report. There were no loans outstanding at June 30, 2004.

We recommend the Council submit an annual report in accordance with Statute.

Council's Response: An Annual Report for 2004 has been submitted to the Legislature. Future reports will be submitted in accordance with statute.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA RAILWAY COUNCIL

INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Nebraska Railway Council
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Railway Council (Council) for the fiscal year ended June 30, 2004. The Council'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.

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

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.

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Railway Council for the fiscal year ended June 30, 2004, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005, on our consideration of the Nebraska Railway Council's 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 Council 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

February 14, 2005

NEBRASKA RAILWAY COUNCIL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	General Fund 10000	Light Density Rail Line Assistance Fund 59010	Total (Memorandum Only)
REVENUES:			
Appropriations	\$ 2,145	\$ -	\$ 2,145
Miscellaneous	-	147,514	147,514
TOTAL REVENUES	<u>2,145</u>	<u>147,514</u>	<u>149,659</u>
EXPENDITURES:			
Personal Services	129	-	129
Operating	414	-	414
Travel	1,602	-	1,602
TOTAL EXPENDITURES	<u>2,145</u>	<u>-</u>	<u>2,145</u>
Excess of Revenues Over Expenditures	<u>-</u>	<u>147,514</u>	<u>147,514</u>
OTHER FINANCING SOURCES (USES):			
Deposit to General Fund	(118,323)	-	(118,323)
Operating Transfers In	118,323	-	118,323
Operating Transfers Out	-	(118,323)	(118,323)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(118,323)</u>	<u>(118,323)</u>
Net Change in Fund Balances	-	29,191	29,191
FUND BALANCES, JULY 1, 2003	<u>-</u>	<u>2,883,016</u>	<u>2,883,016</u>
FUND BALANCES, JUNE 30, 2004	<u>\$ -</u>	<u>\$ 2,912,207</u>	<u>\$ 2,912,207</u>
FUND BALANCES CONSIST OF:			
General Cash	<u>\$ -</u>	<u>\$ 2,912,207</u>	<u>\$ 2,912,207</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA RAILWAY COUNCIL

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2004

1. Criteria

The accounting policies of the Nebraska Railway Council 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 Council 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, 2004 includes only those payables posted to NIS before June 30, 2004 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2004 **does not** include amounts for goods and services received before June 30, 2004 which had not been posted to NIS as of June 30, 2004.

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

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

50000 – Revolving Funds – The Light Density Rail Line Assistance Fund is used by the Council to carry out its responsibilities under the Light-Density Rail Line Assistance Act and included loan repayment money received and interest received on such money.

The major revenue object account codes established by NIS used by the Council 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.

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

NEBRASKA RAILWAY COUNCIL

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

Personal Services – Members of the Council who are not employed by the State may receive a per diem of sixty dollars, not to exceed six thousand dollars in any one year.

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.

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and receivable accounts. Cash accounts are also included in fund balance and are reported as recorded on NIS. The Council had no loans receivable at June 30, 2004.

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 Financing Sources – Operating transfers.

2. Reporting Entity

The Nebraska Railway Council (Council) is an entity established under and governed by the laws of the State of Nebraska. By statute, the Council is “a body politic and corporate, not a State agency, but an independent instrumentality.” Although the Council is not a State agency, the Council is part of the primary government in the State of Nebraska’s reporting entity. The Council receives monies appropriated by the Nebraska Legislature to implement the Nebraska Light-Density Rail Line Assistance Act. As such, the Council is exempt from State and Federal income taxes. The schedule includes all funds of the Council.

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. Transfers

Operating transfers includes \$118,323 from the Light Density Rail Line Assistance Revolving Fund to the General Fund per 2003 Neb. Laws LB 407.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA RAILWAY COUNCIL
**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**

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Nebraska Railway Council
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Railway Council for the fiscal year ended June 30, 2004, and have issued our report thereon dated February 14, 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 Railway Council'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 an opinion 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 Railway Council'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 and Accounting Procedures).

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 do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Railway Council'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 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 an additional item that we reported to management of the Nebraska Railway Council in the Comments Section of this report as Comment Number 2 (Annual Report).

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

February 14, 2005

Pat Reding, CPA
Assistant Deputy Auditor

NEBRASKA RAILWAY COUNCIL

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 RAILWAY COUNCIL
SCHEDULE OF FUND BALANCE
 Fiscal Years Ended June 30, 1995 Through 2004

