

**ATTESTATION REPORT
OF THE
NEBRASKA REAL ESTATE COMMISSION
JULY 1, 2004 THROUGH JUNE 30, 2005**

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Issued on December 22, 2005

NEBRASKA REAL ESTATE COMMISSION

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NEBRASKA REAL ESTATE COMMISSION

BACKGROUND

The Nebraska Real Estate Commission, which was established in 1943, is a seven-member regulatory commission which enforces the Nebraska Real Estate License Act. The Commission licenses real estate salespersons and brokers on the basis of written examinations and minimum education and/or experience requirements. The Commission investigates applicants for licenses, investigates complaints against licensees, develops real estate courses in cooperation with public institutions of postsecondary education, reviews and approves activities for continuing education credit, and examines the trust accounts of real estate brokers.

The Nebraska Real Estate Commission consists of seven members, six of whom are appointed by the Governor to six-year terms. The Secretary of State is the Commission chairperson. Four members must be broker licensees with at least five years of broker or associate broker experience. The broker members are appointed from Nebraska's four congressional districts as they existed in 1961. Two members are appointed at large. One is a representative of the public, and the other is a licensed salesperson with at least three years of experience in the real estate business. All members are reimbursed for traveling expenses, and appointed members are paid \$100 a day while attending monthly Commission meetings. The Commission employs a director and other staff.

Until January 1, 1991, the Nebraska Real Estate Commission also regulated real estate appraisers. This function was moved on that date to a separate agency, the Nebraska Real Estate Appraiser Board.

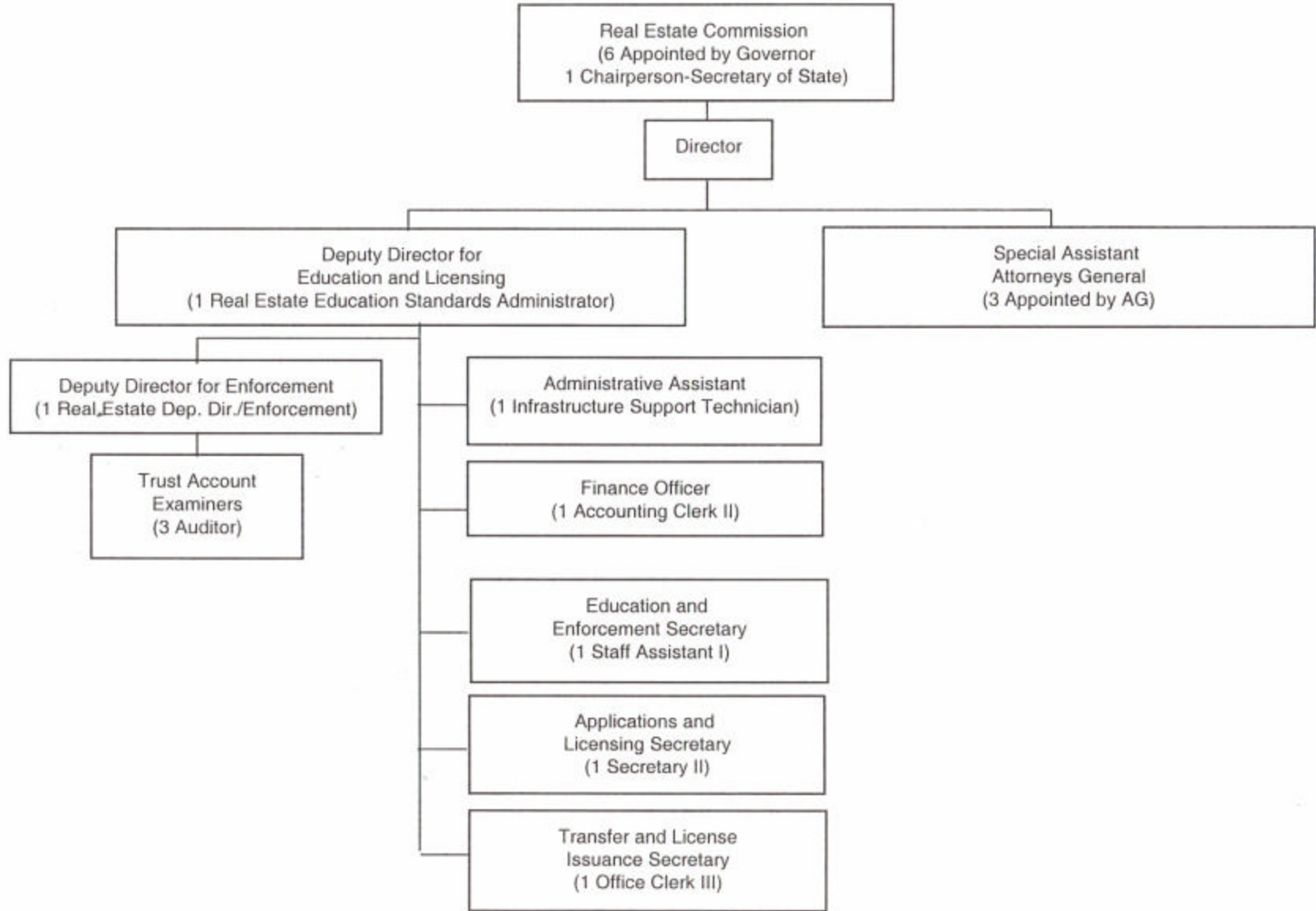
The revenue to operate the Commission is generated from license and testing fees.

MISSION STATEMENT

To protect the public interest of Nebraska citizens through the efficient and effective administration of the Nebraska Real Estate License Act, the registration of Time-Share projects, Subdivided Land projects, Retirement Communities and Subdivisions, and Membership Campgrounds.

NEBRASKA REAL ESTATE COMMISSION

ORGANIZATIONAL CHART



NEBRASKA REAL ESTATE COMMISSION

EXIT CONFERENCE

An exit conference was held November 17, 2005 with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Real Estate Commission were:

NAME	TITLE
Les Tyrrell	Director
Monica Wade	Finance Officer

NEBRASKA REAL ESTATE COMMISSION

SUMMARY OF COMMENTS

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

1. ***Segregation of Duties Over Expenditures/ Batch Management:*** There was a lack of segregation of duties over expenditures. Three individuals, the Director, Deputy Director for Education and Licensing, and the Finance Officer were authorized to prepare and approve/post their own documents per NIS batch management.
2. ***Segregation of Duties Over Fixed Assets:*** There was a lack of segregation of duties over fixed assets. One person performed all steps of the fixed asset process. A documented review of the NIS Fixed Asset reports was not completed by an individual separate from the individual who enters and deletes fixed assets. The Surplus Property Notification form was also not reviewed and the review documented by an individual not involved in the fixed asset process.
3. ***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 Commission 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. 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 REAL ESTATE COMMISSION

COMMENTS AND RECOMMENDATIONS

1. **Segregation of Duties Over Expenditures/Batch Management**

There was a lack of segregation of duties over expenditures. One individual was able to perform all steps of the expenditure process. One person was able to prepare and approve/post documents. There was no documented review of the NIS General Ledger Reports by someone other than the Finance Officer. The Finance Officer prepared all expenditure documents. In actual practice, the Director or Deputy Director approve and post all documents. However, per batch management three individuals, the Director, Deputy Director for Education and Licensing, and the Finance Officer were authorized to prepare and approve/post their own documents. The NIS General Ledger Detail Report was only reviewed by the Finance Officer and was documented in a separate book manually. The Director did review the budget status report.

Good internal control requires an adequate segregation of duties to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities. One individual should not be authorized to prepare and approve/post transactions.

There is an increased risk of loss or misuse of State funds when there is a lack of segregation of duties over expenditures.

We recommend the Commission implement procedures to ensure a documented review of the NIS General Ledger Detail Report is completed by an individual separate from the preparer. We also recommend the Commission implement procedures so no one person is authorized to prepare and approve/post their own documents in NIS batch management.

Commission's Response: The situations described in this Comment regarding Expenditures and Batch management arises from the approval by State Purchasing of a procedure to pay for contracted services. The approved procedure authorized the Finance Officer to be able to prepare, approve and post procurement documents prior to pre-audit by the Director and approval and posting for payment by the Deputy Director. The Director and Deputy Director were also authorized to prepare, approve and post procurement documents in case the Finance Officer was unavailable. After processing the procurement documents, the Director would pre-audit the A/P Voucher and the Deputy Director would approve and post it to NIS. NIS does not discriminate for this procurement procedure and therefore, the approval to prepare, approve and post documents follows through to all NIS modules. We emphasize that there were no situations where one of the three individuals performed the preparation, approval and posting in any module in NIS.

Duties will be reorganized to eliminate this situation in early 2006.

NEBRASKA REAL ESTATE COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Segregation of Duties Over Fixed Assets

There was a lack of segregation of duties over fixed assets. One person performed all steps of the fixed asset process. A documented review of the NIS Fixed Asset reports was not completed by an individual separate from the individual who enters and deletes fixed assets. The Surplus Property Notification form was also not reviewed and the review documented by an individual not involved in the fixed asset process. The Finance Officer stated she printed the reports and reviewed them. The review by the Finance Officer was not documented. The Finance Officer noted the Director was informed if there were problems with the reports. Also, the Finance Officer was the only person who signed the Surplus Property Notification form. The Finance Officer noted the Director or Deputy Director informed her of when items should be surplus.

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

There is an increased risk of loss or misuse of State property when there is a lack of segregation of duties.

We recommend the Commission implement procedures to have a documented review of the fixed asset reports completed by someone other than the Finance Officer. We also recommend the Commission implement procedures to have a documented review of the Surplus Property Notification forms completed by someone other than the Finance Officer.

Commission's Response: All procedures of the fixed asset process are supervised by either the Deputy Director or the Director. No items are included, deleted or surplus without the approval of one of the two. The Finance Officer does review all fixed asset printed reports, but had not "initialed" them to document said review. One of the reports noted, the Unposted Fixed Asset Transactions, rarely has any information on it to be reviewed. Either the Deputy Director or Director will document review as recommended by the Audit Report and Finance Officer will "initial" the documents to verify review.

3. 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 REAL ESTATE COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **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 REAL ESTATE COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. 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.

Commission's Response: It is the Commission's understanding that this comment is included in all Audit Reports and is a Department of Administrative Services issue. Since the Commission has no control over this matter, it has no comment and believes this issue should be discussed with the Department of Administrative Services.

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NEBRASKA REAL ESTATE COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska Real Estate Commission (Commission) for the fiscal year ended June 30, 2005. The Commission's management is responsible for the schedule of revenues, expenditures, and changes in fund balance. 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 balance 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 balance of the Nebraska Real Estate Commission 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 November 17, 2005, on our consideration of the Nebraska Real Estate Commission'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 Commission and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Timothy J. Chamber CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Assistant Deputy Auditor

November 17, 2005

NEBRASKA REAL ESTATE COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2005

	State Real Estate Commission Fund 24110
REVENUES:	
Sales and Charges	\$ 944,370
Miscellaneous	68,887
TOTAL REVENUES	1,013,257
EXPENDITURES:	
Personal Services	542,362
Operating	310,089
Travel	50,233
Capital Outlay	7,071
TOTAL EXPENDITURES	909,755
Excess of Revenues Over Expenditures	103,502
OTHER FINANCING SOURCES:	
Sales of Assets	201
TOTAL OTHER FINANCING SOURCES	201
Net Change in Fund Balance	103,703
FUND BALANCE, JULY 1, 2004	795,154
FUND BALANCE, JUNE 30, 2005	\$ 898,857
FUND BALANCE CONSISTS OF:	
General Cash	\$ 893,767
Deposits with Vendors	4,931
Sales Tax Collections	(38)
Due to Vendors	210
Due to Fund	(13)
TOTAL FUND BALANCE	\$ 898,857

The accompanying notes are an integral part of the schedule.

NEBRASKA REAL ESTATE COMMISSION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Real Estate Commission are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(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 balance for the Commission was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 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.

The Department had no accounts receivable at June 30, 2005.

The fund type established by NIS that is used by the Commission is:

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.

NEBRASKA REAL ESTATE COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

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

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

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

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

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

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

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

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are also included in 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 Commission'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 Balance as they are not recorded through revenue and expenditure accounts.

Other Financing Sources – Proceeds of fixed asset dispositions.

NEBRASKA REAL ESTATE COMMISSION

NOTES TO THE SCHEDULE

(Continued)

2. State Agency

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

The Nebraska Real Estate Commission is part of the primary government for the State of Nebraska.

3. 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 Commission 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 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 Commission 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	\$ 106,338	\$ 7,071	\$ 17,211	\$ 96,198
Less accumulated depreciation for:				
Equipment				<u>88,936</u>
Total capital assets, net of depreciation				<u>\$ 7,262</u>

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**NEBRASKA REAL ESTATE COMMISSION
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 BALANCE PERFORMED
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska Real Estate Commission for the fiscal year ended June 30, 2005, and have issued our report thereon dated November 17, 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.

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Internal Control Over Financial Reporting

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In planning and performing our examination, we considered the Nebraska Real Estate Commission's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balance, 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 Real Estate Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial

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schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Segregation of Duties Over Expenditures/Batch Management) and Comment Number 3 (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 Real Estate Commission's schedule of revenues, expenditures, and changes in fund balance, 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 Real Estate Commission in the Comments Section of this report as Comment Number 2 (Segregation of Duties Over Fixed Assets).

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

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

Assistant Deputy Auditor

November 17, 2005

NEBRASKA REAL ESTATE COMMISSION

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balance. 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 balance, and, accordingly, we express no opinion on it.

NEBRASKA REAL ESTATE COMMISSION
LICENSES ON RECORD AND
COMPLAINTS AGAINST LICENSEES
For the Fiscal Years Ended June 30, 2001, 2002, 2003, 2004, and 2005

