ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

JULY 1, 2004 THROUGH JUNE 30, 2005

Issued on March 23, 2006

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

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NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

BACKGROUND

The Nebraska Department of Property Assessment and Taxation (Department) was officially created by the 1999 Legislature's enactment of Section 77-701, effective on July 1, 1999, and the Property Tax Administrator was designated as the Department's chief executive officer. Specific statutes regarding the duties and responsibilities of the Department of Property Assessment and Taxation and the Property Tax Administrator are primarily contained in Chapter 77 of the Revised Statutes of Nebraska.

The Department of Property Assessment and Taxation was formerly the Property Tax Division of the Nebraska Department of Revenue. The Property Tax Administrator was created in 1996 with the implementation of LB 490 as a six-year appointment to handle all property tax functions independent of the Tax Commissioner.

Beginning July 1, 1998, counties were able to elect to turn over their county assessment functions to the Department. As of June 30, 2005, the Department had assumed the assessment functions in the following counties: Dakota, Dodge, Garfield, Greeley, Harlan, Hitchcock, Keith, Saunders, and Sherman.

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

MISSION STATEMENT

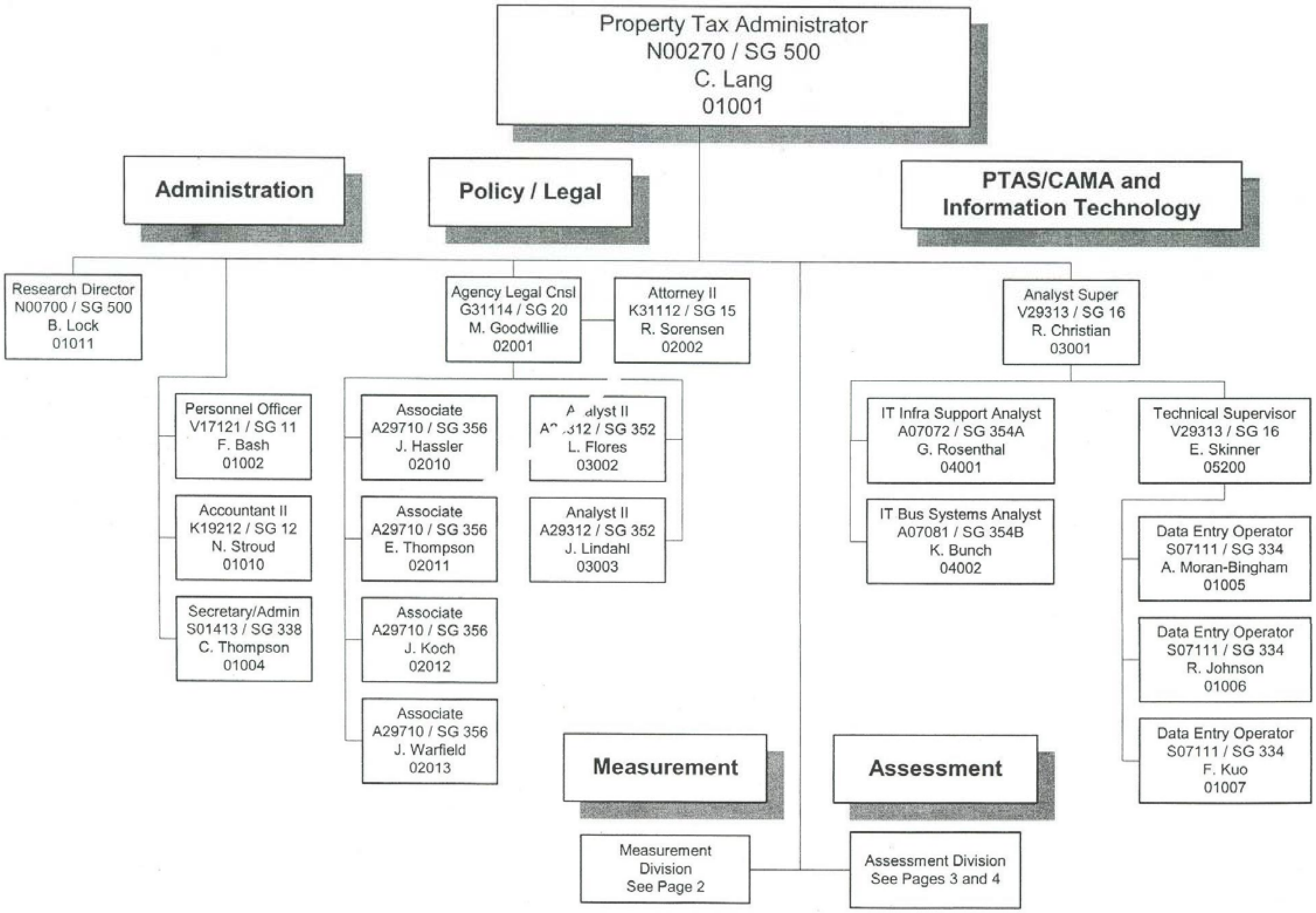
The purpose of the Nebraska Department of Property Assessment and Taxation is to develop information, in various formats, that assists the administrators, payers, and beneficiaries of the property taxes to make informed decisions concerning the quality of the assessment function of the property tax system in Nebraska.

The Department, directed by the Property Tax Administrator, is statutorily created and is governed by the Nebraska Constitution and statutes. Its functions include, but are not limited to, the following:

- To provide legal, policy, and assessment information through regulations, rulings, directives, standards, manuals, and education, to the county assessors and other assessing officers to ensure the uniform execution of the property tax laws.
- To administer the assessment function in counties which have transferred that responsibility to the Property Tax Administrator.
- To provide advice concerning the assessment of real property to ensure the uniform and proportionate valuation of real property.
- To provide information to the property owner concerning the level of value and quality of the assessment of real property in each county.
- To determine the assessable valuation of all taxable property in each school district.
- To value and distribute the value of property required to be valued by the State, such as railroad companies, public service entities, car companies, and air carriers.
- To administer the assessment administrative program for contracted counties.

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

ORGANIZATIONAL CHARTS



NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

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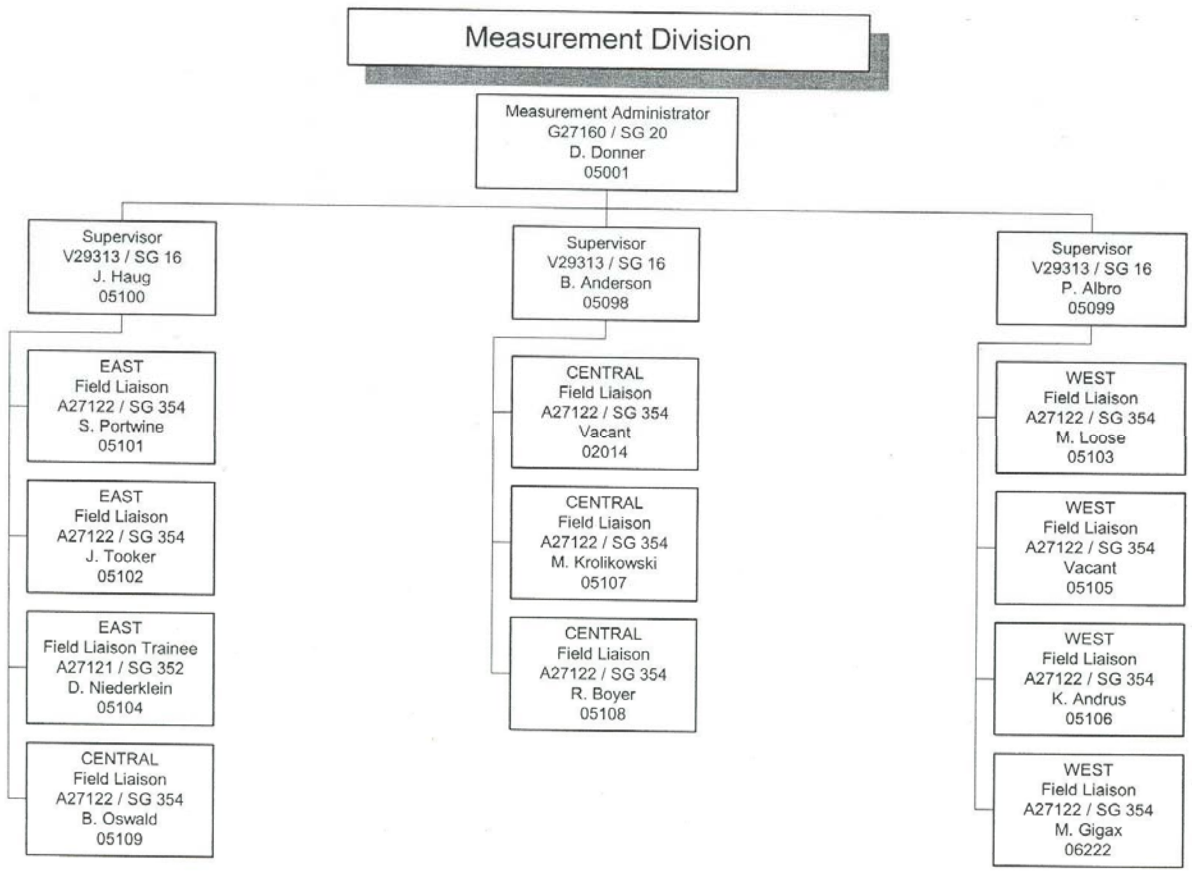

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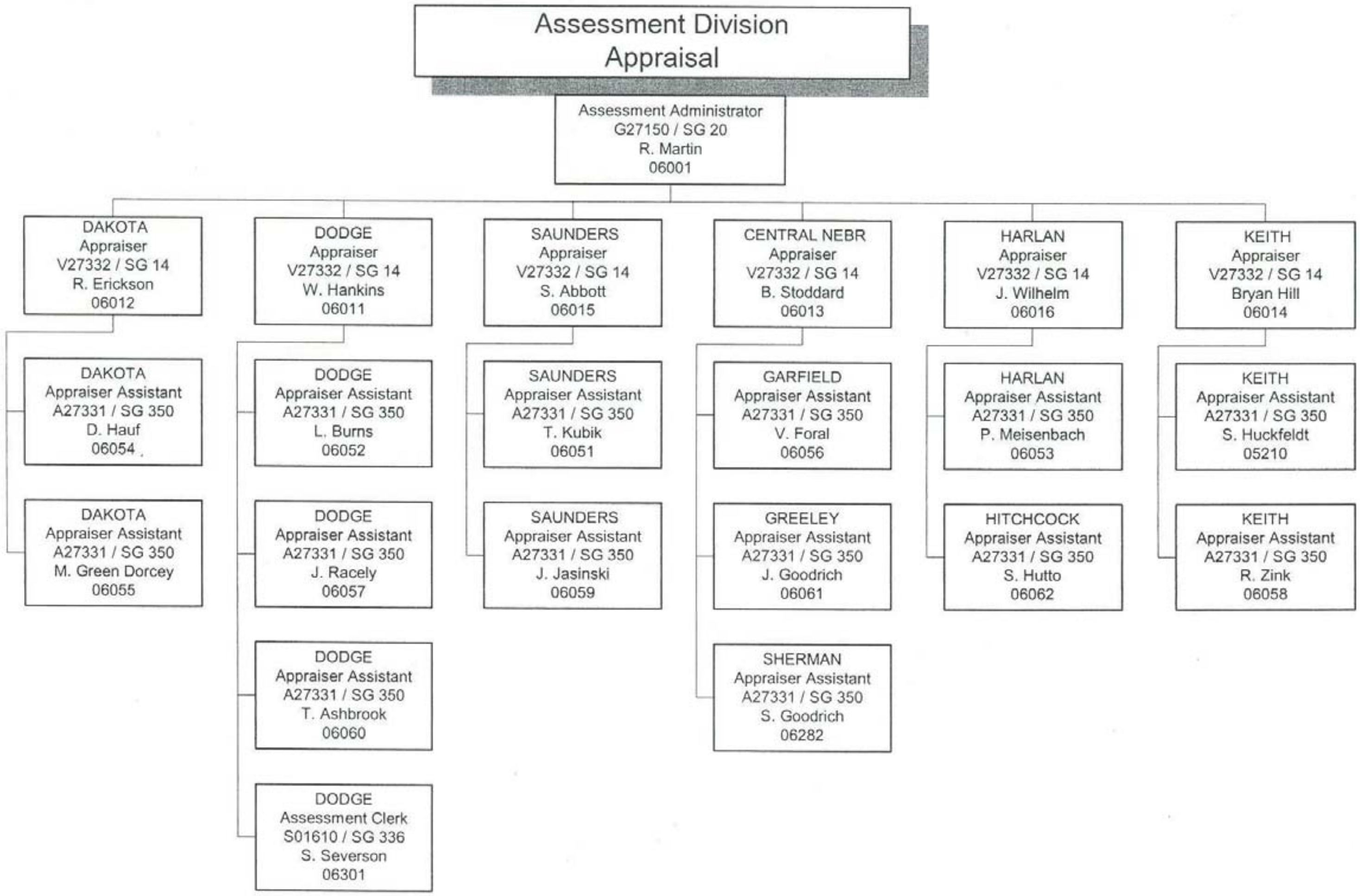

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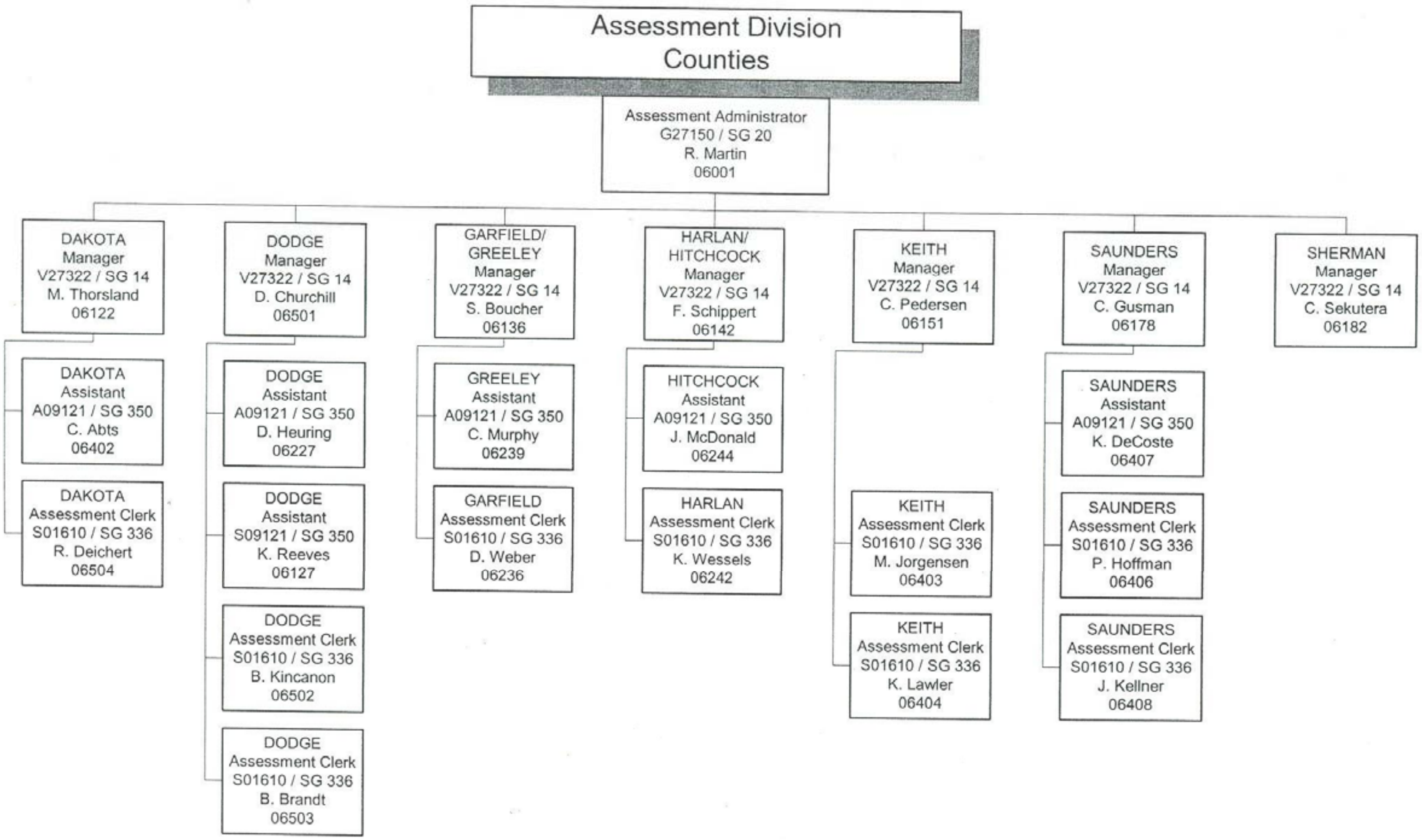


NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

EXIT CONFERENCE

An exit conference was held February 23, 2006, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Property Assessment and Taxation were:

NAME	TITLE
Catherine Lang	Property Tax Administrator
Natalie Stroud	Accountant II

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

SUMMARY OF COMMENTS

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

1. ***Travel Disbursements:*** Receipts or a meal log was not maintained and Federal meal guidelines were exceeded. Alcohol was reimbursed on one document and no conference agenda was maintained. Expense reimbursements were not completed on a timely basis as per State Statute.

2. ***Deposits Not Timely:*** Eleven of fourteen receipts tested were not deposited within three business days. The time from receipt until deposit ranged from 4 to 35 business days.

3. ***Lack of Segregation of Duties Over Fixed Assets:*** One individual was capable of handling all phases of a fixed asset transaction from beginning to end. The individual had access to the fixed asset records on NIS, added new items to the list, reviewed the "Unposted Fixed Asset Transaction Report," and initiated the disposal of assets. No one reviewed the "Additions and Retirements Report" or compared the asset listing to ensure all items were added and deleted properly.

4. ***Lack of Segregation of Duties Over Payroll:*** Two individuals controlled all aspects of the payroll process. The payroll duties were not segregated between them but were shared. The pre-payroll register, the final payroll register, and the Department's spreadsheet of payroll calculations were reviewed by both the Personnel Officer and the Administrator for any discrepancies; however, this review was not documented.

5. ***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.

COMMENTS AND RECOMMENDATIONS

1. Travel Disbursements

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 states "… he or she shall be required to present a request for payment or reimbursement each month to the Director of Administrative Services."

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies states, "Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary, or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, place (e.g. city) or description, and purpose for each expense or meal/food cost. A combination of receipts and detailed itemization is permitted."

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 Federal Travel Regulations.

Good internal control also requires procedures to ensure all reimbursements are reasonable, accurate, complete, and that adequate supporting documentation be maintained.

The Department had $150,469 in travel expenditures for the fiscal year ended June 30, 2005. We tested six travel expenditure documents and noted the following:

- One employee did not have receipts or a meal log for 5 of 7 meals reimbursed. The total of these meals was $131.50.

- One employee was reimbursed for a meal in excess of the Federal per diem rate with no documentation to support the reason. The per diem rate was $51 for the entire day and the employee was reimbursed $57.60 for one meal.

- One employee was reimbursed for $7 of alcohol.

- One reimbursement document tested for out-of-state travel did not have a conference agenda on file.

- Two reimbursement documents tested were not completed on a monthly basis. Both documents included four months of activity on each document.

Noncompliance with State guidelines increases the risk of possible loss or misuse of State funds. Without an adequate accounting of meal expenses from the employee to the employer, the State could lose its accountable plan status and then all employee reimbursements would be included as taxable income. When the Federal guidelines are not followed, there is an increased risk of reimbursement for unreasonable expenses.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **<u>Travel Disbursements</u>** (Concluded)

> We recommend the Department implement policies and procedures to ensure provisions of the State's accountable plan are met and amounts being reimbursed are reasonable. We also recommend the Department implement policies and procedures to review the reimbursement documents for accuracy and completeness.

Department's Response: The Department is implementing procedures to ensure provisions of the State's accountable plan are met and amounts being reimbursed are reasonable. A new procedure has been implemented for reviewing the reimbursement documents for accuracy and completeness, hopefully eliminating the risk of possible loss or misuse of State funds as well as the reimbursement for unreasonable expenses. The Accountant will continue to verify the reimbursements are reasonable as well as accurate and complete. However, where in the past the Administrative Secretary reviewed the reimbursement documents to verify dollar amounts only, now she too, will scrutinize the documents for accuracy and completeness before entering the documents on NIS.

2. **<u>Deposits Not Timely</u>**

State Statute Section 84-710 R.R.S. 1999, requires "any money belonging to the State" to be paid "into the State treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more."

Of the 14 receipts tested, 11 were not deposited within the statutory limit of three days. All of the receipts tested were over $500 and the time from receipt until deposit ranged from 4 to 35 business days. This was a prior comment in our 2002 audit of the Department.

Without procedures in place to ensure deposits are made on a timely basis, the State of Nebraska loses the opportunity to earn interest on these funds.

> We recommend the Department improve procedures to comply with the statutory deposit time requirements.

Department's Response: The Department will improve procedures to comply with the statutory deposit time requirements. There are some instances when a check is held for a few days because there are some questions or issues about the payment. Once these issues are resolved, the check is deposited or sent back. If a check is not deposited within the statutory limit of three days there will be documentation attached explaining what the circumstances were and why the check was held and deposited outside the statutory limit of three days.

3. Lack of Segregation of Duties Over Fixed Assets

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include adequate segregation of duties so no one individual can control all phases of a transaction from beginning to end. Good internal control would also require a review of the "Additions and Retirements Report" on a regular basis to ensure any errors are detected and corrected. Reviewing this report also ensures all deletions are appropriate and items are removed from the list when deleted.

One individual was capable of handling all phases of a fixed asset transaction from beginning to end. The individual had access to the fixed asset records on NIS, added new items to the list, reviewed the "Unposted Fixed Asset Transaction Report," and initiated the disposal of assets. No one reviewed the "Additions and Retirements Report" or compared the asset listing to ensure all items were added and deleted properly. This was also noted in the fiscal year 2003 management letter.

Without adequate controls in place, there is an increased risk of the misuse or loss of State funds.

> We recommend the Department implement procedures to ensure an adequate segregation of duties over the fixed asset process. If an adequate segregation of duties is not possible, controls should be implemented for the lack of segregation. A documented review of the "Additions and Retirements Report" should be done to ensure all items are correctly recorded on NIS.

Department's Response: An adequate segregation of duties over the fixed asset process is not possible; however, controls will be implemented for the lack of segregation. A documented review of the "Additions and Retirements Report" will be done by the Information Technology Supervisor to ensure all items are correctly recorded on NIS.

4. Lack of Segregation of Duties Over Payroll

Good internal control requires that two individuals should not control all aspects of the payroll process.

Two individuals controlled all aspects of the payroll process. The payroll duties were not segregated between the individuals but were shared. The pre-payroll register, the final payroll register, and the Department's spreadsheet of payroll calculations were reviewed by both the Personnel Officer and the Administrator for any discrepancies; however, this review was not documented. This was also noted in the fiscal year 2003 management letter.

4. <u>Lack of Segregation of Duties Over Payroll</u> (Concluded)

Without adequate controls in place, there is an increased risk of the misuse or loss of State funds.

> We recommend the Department implement procedures to ensure an adequate segregation of duties over the payroll process. If an adequate segregation of duties is not possible, controls should be implemented for the lack of segregation. The Department should consider having a separate individual document their review of the pre-payroll register, the final payroll register, and the Department's payroll spreadsheet.

Department's Response: The Department is already implementing control over the payroll process for the lack of segregation. The Administrator is a separate individual from the payroll process. She is reviewing the pre-payroll register, the final payroll register, and the Department's payroll spreadsheet. She is documenting her review of these documents to the Personnel Officer.

5. <u>Reconciliation of Bank Records to the Nebraska Information System</u>

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.

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 the Nebraska Information System (NIS) and the Nebraska Accounting System (NAS), system before NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. The APA's previous comments 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 State Accounting 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 December 19, 2005 to be as follows:

5. <u>Reconciliation of Bank Records to the Nebraska Information System</u> (Concluded)

State Accounting has worked on the reconciliation process, but continued progress is needed. State Accounting's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. State Accounting has completed their reconciliation process for the months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of $3,425,381, $3,405,702, and $3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

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 NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. 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.

> We recommend State Accounting 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.

This issue is the responsibility of State Accounting; 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.

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
Kate.Witek@apa.ne.gov

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Property Assessment and Taxation
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Property Assessment and Taxation (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.

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.

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 Property Assessment and Taxation 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2006, on our consideration of the Nebraska Department of Property Assessment and Taxation'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 Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Don Dunlap CPA

February 23, 2006 Assistant Deputy Auditor

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

	General Fund 10000	Property Assessment and Taxation Fund 21550	Relief to Property Taxpayers 29610	**Total (Memorandum Only)**
REVENUES:				
Appropriations	$ 4,358,384	$ -	$ -	$ 4,358,384
Taxes	-	6,564,293	-	6,564,293
Intergovernmental	-	684	-	684
Sales & Charges	-	480,129	-	480,129
Miscellaneous	-	28,377	1,830	30,207
TOTAL REVENUES	4,358,384	7,073,483	1,830	11,433,697
EXPENDITURES:				
Personal Services	3,468,824	98,833	-	3,567,657
Operating	647,335	225,477	-	872,812
Travel	149,713	756	-	150,469
Capital Outlay	92,512	28,591	-	121,103
TOTAL EXPENDITURES	4,358,384	353,657	-	4,712,041
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	6,719,826	1,830	6,721,656
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	788	-	788
Operating Transfers In	-	166,378	-	166,378
Operating Transfers Out	-	(5,545,922)	-	(5,545,922)
TOTAL OTHER FINANCING SOURCES (USES)	-	(5,378,756)	-	(5,378,756)
Net Change in Fund Balances	-	1,341,070	1,830	1,342,900
FUND BALANCES, JULY 1, 2004	-	333,306	50,921	384,227
FUND BALANCES, JUNE 30, 2005	$ -	$ 1,674,376	$ 52,751	$ 1,727,127
FUND BALANCES CONSIST OF:				
General Cash	$ -	$ 1,659,159	$ 52,751	$ 1,711,910
Deposits with Vendors	-	3,915	-	3,915
Accounts Receivable Invoiced	-	11,477	-	11,477
Due to Vendors	-	(175)	-	(175)
TOTAL FUND BALANCES	$ -	$ 1,674,376	$ 52,751	$ 1,727,127

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Department of Property Assessment and Taxation 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 in the account titled Due to Vendor. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals and private organizations. The recording of those liabilities reduces the fund balance.

The Department had accounts receivable not included in the Schedule of $296,515 from carline taxes. 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.

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.

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

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 carline and airline 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.

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.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

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 Due to Vendor. 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.

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

2. State Agency

The Nebraska Department of Property Assessment and Taxation (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 Property Assessment and Taxation is part of the primary government for the State of Nebraska.

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

NOTES TO THE SCHEDULE
(Continued)

4. Capital Assets (Concluded)

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 $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:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Equipment	$ 509,642	$ 130,242	$ 99,716	$ 540,168
Less accumulated depreciation for:				
Equipment				389,433
Total capital assets, net of depreciation				$ 150,735

5. Transfers

The Department transferred $5,545,922 from the Carline and Air Carrier Distribution Fund to the State Treasurer to distribute the carline/airline taxes to counties and political subdivisions.

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
Kate.Witek@apa.ne.gov

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION

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*

Nebraska Department of Property Assessment and Taxation
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Property Assessment and Taxation for the fiscal year ended June 30, 2005, and have issued our report thereon dated February 23, 2006. 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our examination, we considered the Nebraska Department of Property Assessment and Taxation'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 Department of Property Assessment and Taxation'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 5 (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 the reportable condition described above is not a material weakness.

<u>Compliance and Other Matters</u>
As part of obtaining reasonable assurance about whether the Nebraska Department of Property Assessment and Taxation'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 certain additional items that we reported to management of the Nebraska Department of Property Assessment and Taxation in the Comments Section of this report as Comment Number 1 (Travel Disbursements), Comment Number 2 (Deposits Not Timely), Comment Number 3 (Lack of Segregation of Duties Over Fixed Assets), and Comment Number 4 (Lack of Segregation of Duties Over Payroll).

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.

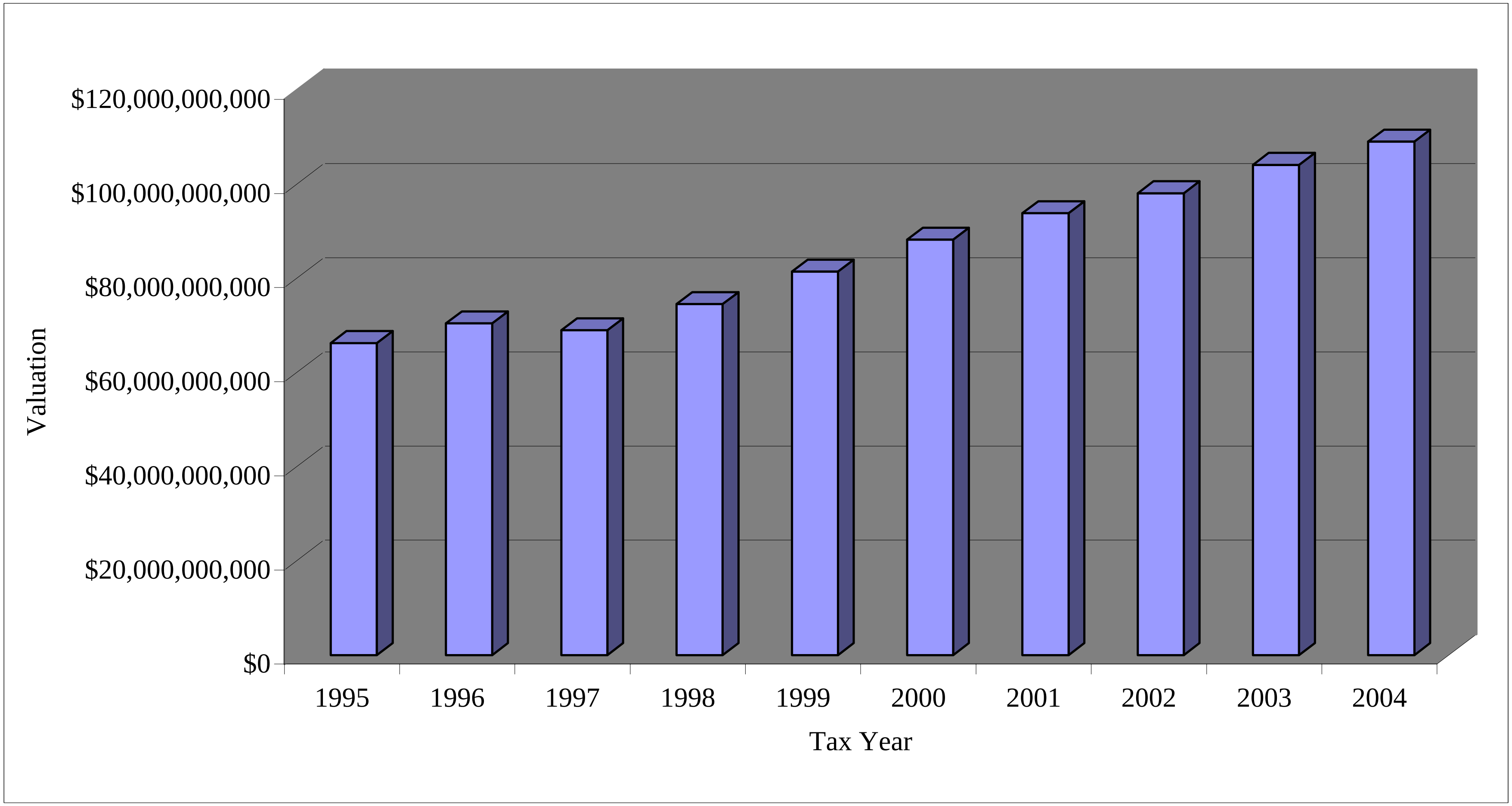
Don Dunlap CPA

February 23, 2006 Assistant Deputy Auditor

STATISTICAL SECTION

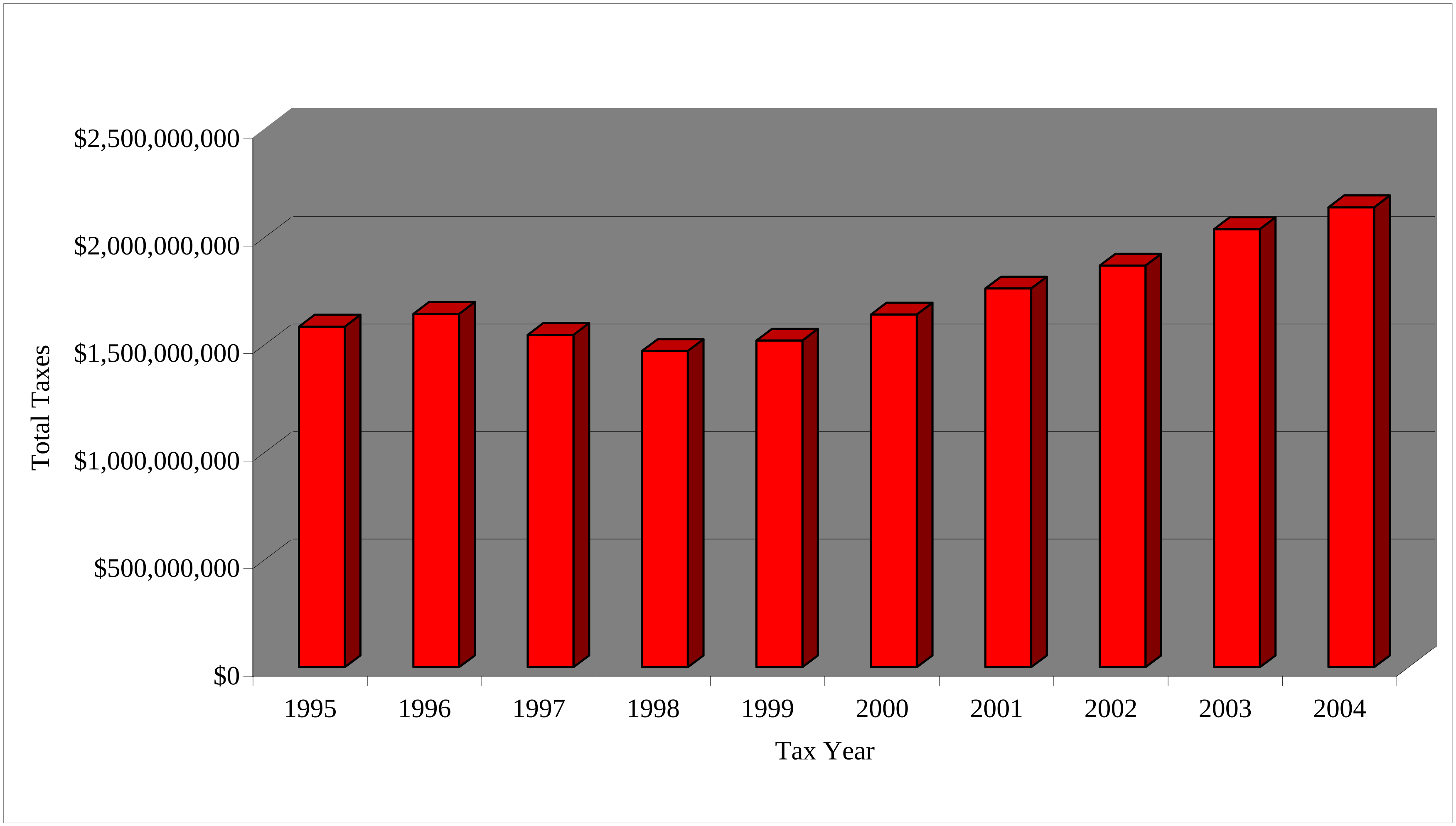
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION
STATE OF NEBRASKA ASSESSED VALUATION BY TAX YEAR



Source: Nebraska Department of Property Assessment and Taxation 2004 Annual Report.

NEBRASKA DEPARTMENT OF
PROPERTY ASSESSMENT AND TAXATION
STATE OF NEBRASKA TOTAL PROPERTY TAXES BY TAX YEAR



Source: Nebraska Department of Property Assessment and Taxation 2004 Annual Report.