

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

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the Auditor of Public Accounts.**

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Issued on March 1, 2006

NEBRASKA LIBRARY COMMISSION

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NEBRASKA LIBRARY COMMISSION

BACKGROUND

The Nebraska Public Library Commission was established by an act of the Legislature on March 27, 1901, and the office of the Commission was opened November 11, 1901. The Commission was charged to “encourage the establishment of libraries where none existed and the improvement of those already established.” In 1933, due to economic hardships, the Legislature passed a bill abolishing the Library Commission and establishing in its place the Nebraska Public Library and relocated it to the University of Nebraska-Lincoln. The University Librarian served as the director of the institution under the title of Public Library Commissioner. The Nebraska Public Library Commission was re-established by law in 1935. In 1952, the Commission was designated by the Library of Congress as the official distribution center for the Books for the Blind Program. In 1972, the Nebraska Public Library Commission assumed its present identity, as the Nebraska Library Commission. The Commission has served as the State library administrative agency for Federal funds received under the Library Services and Technology Act.

The Nebraska Library Commission promotes, develops, and coordinates library and information programs and services statewide. As the State library agency, the Commission serves as an advocate for the library and information service needs of Nebraskans. Also, the Commission:

- Makes rules and regulations to govern itself
- Appoints a director authorized to hire staff as needed
- Receives and disburses Federal funds
- Accepts and administers gifts
- Makes a biennial report to the Governor
- Provides leadership, technical help, and financial support for improvement of library and information services through the State’s libraries
- Develops, coordinates, and promotes specialized statewide library and information services
- Provides information and library services to State government

The Commission’s six members are appointed by the Governor to three-year terms, with members serving no more than two consecutive terms. Members generally are appointed from each of the State’s six library system areas. Commissioners meet every other month, and are not paid, but are reimbursed for expenses. At June 30, 2005, the Library Commission employed 45 individuals.

NEBRASKA LIBRARY COMMISSION

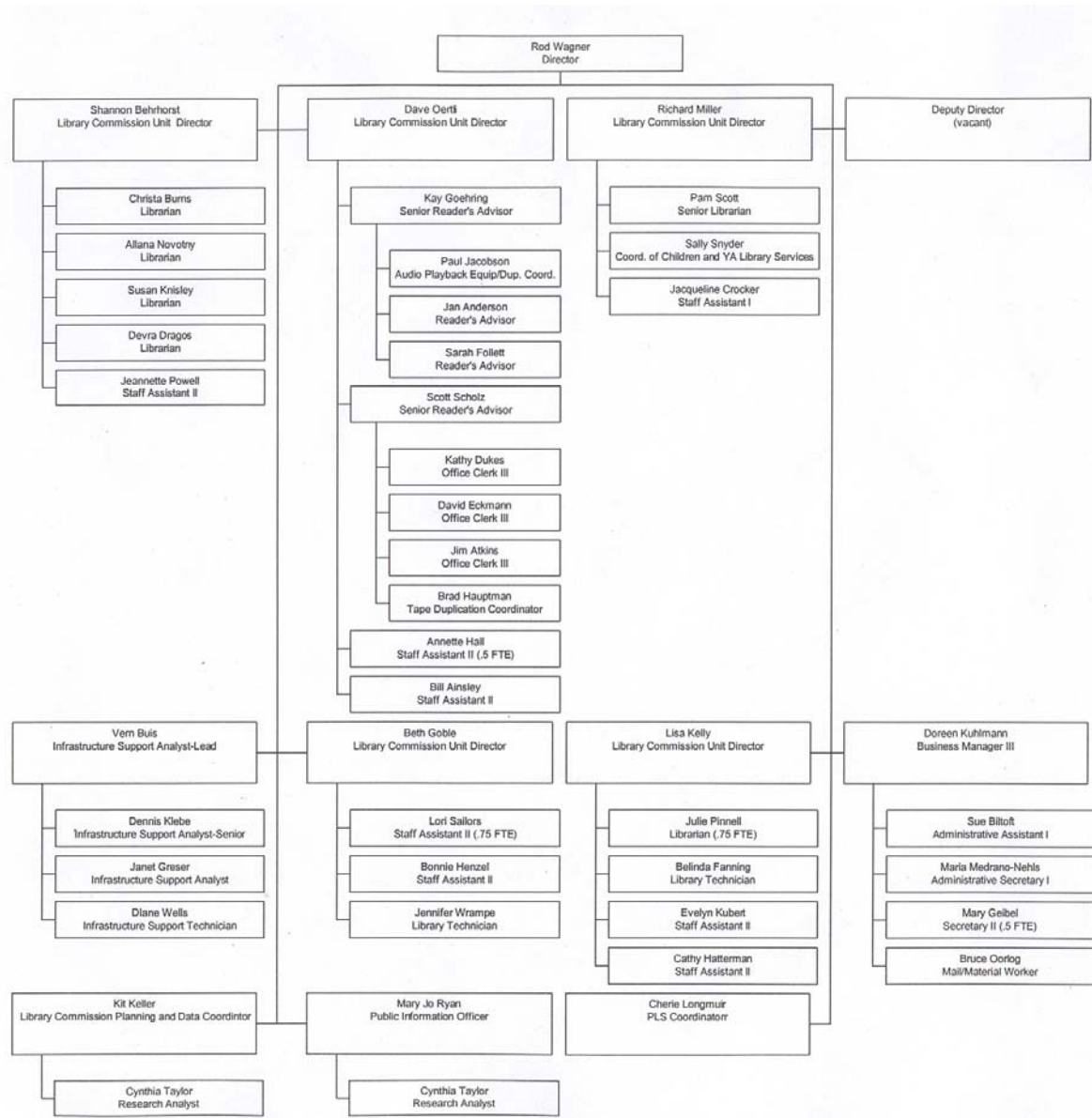
MISSION STATEMENT

The mission of the Nebraska Library Commission is statewide promotion, development, and coordination of library and information services. As the State Library agency, the Commission is an advocate for the library and information service needs of all Nebraskans. In meeting its mission, the Nebraska Library Commission has four major goals:

- Goal 1: Nebraska library personnel will have the knowledge, skills, and abilities necessary to provide quality library and information services for all Nebraskans.
- Goal 2: All Nebraskans will have improved access to enhanced library and information services.
- Goal 3: Nebraska libraries will have appropriate technology to access and deliver online library and information services.
- Goal 4: Eligible Nebraskans will have access to Talking Book and Braille Services.

NEBRASKA LIBRARY COMMISSION

ORGANIZATIONAL CHART



NEBRASKA LIBRARY COMMISSION

EXIT CONFERENCE

An exit conference was held February 1, 2006, with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Library Commission were:

NAME	TITLE
Rod Wagner	Director
Doreen Kuhlmann	Business Manager III
Sue Biltfoft	Administrative Assistant I

NEBRASKA LIBRARY COMMISSION

SUMMARY OF COMMENTS

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

1. ***Lack of Segregation of Duties Over Receipts:*** We noted a lack of segregation of duties over receipts. One individual was capable of handling all aspects of the receipt process. The total amount of receipts for Cash Fund 23400 during fiscal year 2005 was \$270,617.
2. ***Lack of Segregation of Duties Over Payroll:*** We noted a lack of segregation of duties over payroll. One individual was able to perform all functions of payroll including, entering new employees, changing pay rates, entering hours worked and leave used, and reviewing the payroll register.
3. ***Federal Compliance – Payroll:*** We noted one employee who worked solely on a single Federal program and their timesheet did not identify this, nor was the Commission able to provide a periodic certification showing the employee worked on a single Federal program, as required by OMB Circular A-87.
4. ***Lack of Segregation of Duties Over Capital Assets:*** We noted a lack of segregation of duties over capital assets. One individual was able to perform all functions of the capital asset process. We also noted there was no review of the Additions and Retirement Report or the Passed Transactions Report.
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.

NEBRASKA LIBRARY COMMISSION

SUMMARY OF COMMENTS

(Continued)

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. Where no response has been included, the Commission 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 LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

1. Lack of Segregation of Duties Over Receipts

Good internal control requires an adequate segregation of duties over the receipt of monies to ensure one individual is not in the position to both perpetrate and conceal errors or irregularities.

We noted a lack of adequate segregation of duties over receipts. One individual was capable of handling all aspects of the receipt process. This same individual was able to prepare invoices, apply payment to invoices, and manually approve the Deposit Document. This individual also compared the Deposit Document to the initial listing of monies received by the Commission, reconciled cash receipts to the General Ledger, reviewed the Aged Receivables Report, and approved credits, refunds, and allowances. The total amount of receipts for Cash Fund 23400 for the fiscal year was \$270,617. This condition was also noted in the fiscal year 2003 Management Letter.

The possibility of loss or misuse of State funds is increased when an adequate segregation of duties over receipts is not in place. In addition, when one person can handle a transaction from beginning to end there is a greater risk of errors or irregularities occurring.

We recommend the Commission implement procedures to ensure an adequate segregation of duties over receipts. This might include having an individual separate from the receipts process review the General Ledger and the Aged Receivables Report.

Commission's Response: To ensure segregation of duties over the receipt of monies the Administrative Secretary will review and initial the general ledger for correct posting of receipts, and will review and initial the aged receivable reports on a monthly basis. At some point we hope to be able to set up all the accounts receivable invoices, statements, ledgers and receivables on NIS.

2. Lack of Segregation of Duties Over Payroll

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

The Commission had one employee who was able to perform all payroll functions, including changing pay rates, entering hours worked and leave used, and reviewing the payroll register. There was no independent review performed to ensure the employee's pay and hours worked were accurate and to ensure payroll posted correctly. This was a comment in the 2001 Audit Report and the 2003 Management Letter.

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

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Lack of Segregation of Duties Over Payroll (Concluded)

We recommend the Commission implement procedures to ensure an adequate segregation of duties over the processing of payroll. We recommend a review of payroll be completed and documented by an individual who is independent of the payroll process to ensure it correctly posted.

Commission's Response: The director will review the payroll register and sign off on an attached spreadsheet which will include previous and current month payroll expenditures. The spreadsheet will note the reason(s) for any payroll amount changes from previous month. The director will also review and initial on an annual basis, a spreadsheet showing employees' current salaries, estimated salary increases and benefits for the upcoming state fiscal year.

3. Federal Compliance-Payroll

The Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Section A, (3)(a), states, "These principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal awards (including subawards)" Attachment B, Section (8)(h)(3) states, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

We noted one employee who worked solely on a single Federal program and their timesheet did not identify this. The Commission was also unable to provide a periodic certification showing the employee worked solely on a single Federal program. This was a comment in the 2001 Audit Report.

Without the periodic certification completed or a statement on the timesheet, the Commission is in noncompliance with Federal guidelines.

We recommend the Commission comply with A-87 requirements by preparing a semi-annual certification or adding a statement to the timesheet.

Commission's Response: A statement will be added to employees' timesheets who are paid with federal funds: "I hereby certify that the work I performed was solely duties covered under a Federal program administered by the Nebraska Library Commission."

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Lack of Segregation of Duties Over Capital Assets

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

We noted one individual was able to process all capital asset transactions for the Commission. The individual had the ability to perform all transactions including adding, deleting, maintaining, and reviewing the exception lists and history reports. We also noted there was not a review of the Additions and Retirements Report to ensure all items added and deleted were proper, nor was there a review of the Passed Transactions report to ensure any items passed on were correctly handled on NIS. This was a comment in the 2003 Management Letter.

Without adequate controls in place, there is an increased risk of errors and irregularities related to capital assets.

We recommend the Commission improve controls over capital assets by having a monthly, independent management review of capital asset transactions. We also recommend a documented review of the Additions and Retirements Report and the Passed Transaction report be completed in order to ensure all items are correctly recorded on NIS.

Commission's Response: The Director or Business Manager will review and initial the following NIS generated fixed asset reports: Unposted Fixed Asset Transaction Report; Fixed Asset No Cost Integrity Report; Additions and Retirements by Tag Number Report; and any other fixed asset integrity reports that could be required.

5. 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.

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

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

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

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.

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

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NEBRASKA LIBRARY COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

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Nebraska Library Commission
Lincoln, Nebraska

Don Dunlap, CPA
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Library 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 balances. Our responsibility is to express an opinion based on our examination.

Pat Reding, CPA
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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Library 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 February 1, 2006, on our consideration of the Nebraska Library 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.

Pat Reding, CPA

Assistant Deputy Auditor

February 1, 2006

NEBRASKA LIBRARY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	General Fund Fund 10000	Library Commission Cash Fund Fund 23400	DHEW LEAA Fund 43450	Library Commission Trust Fund Fund 68340	NEBASE Fund 73410	Total (Memorandum Only)
REVENUES:						
Appropriations	\$ 3,475,987	\$ -	\$ -	\$ -	\$ -	\$ 3,475,987
Intergovernmental	-	-	1,188,069	-	-	1,188,069
Sales & Charges	-	10,005	-	-	-	10,005
Miscellaneous	197	260,612	451	4,110	-	265,370
TOTAL REVENUES	3,476,184	270,617	1,188,520	4,110	-	4,939,431
EXPENDITURES:						
Personal Services	1,688,634	45,177	228,756	-	-	1,962,567
Operating	430,103	61,811	198,259	53	-	690,226
Travel	23,942	21,937	42,631	-	-	88,510
Capital Outlay	94,227	1,718	33,476	4,766	-	134,187
Government Aid	1,239,081	2,436	674,184	-	-	1,915,701
TOTAL EXPENDITURES	3,475,987	133,079	1,177,306	4,819	-	4,791,191
Excess (Deficiency) of Revenues Over (Under) Expenditures	197	137,538	11,214	(709)	-	148,240
OTHER FINANCING SOURCES (USES):						
Sales of Assets	1,522	-	-	-	-	1,522
Deposit to General Fund	(1,719)	-	-	-	-	(1,719)
Operating Transfers In	-	55,764	-	-	-	55,764
TOTAL OTHER FINANCING SOURCES (USES)	(197)	55,764	-	-	-	55,567
Net Change in Fund Balances	-	193,302	11,214	(709)	-	203,807
FUND BALANCES, JULY 1, 2004	2,230	110,117	33,580	59,201	(72,749)	132,379
FUND BALANCES, JUNE 30, 2005	\$ 2,230	\$ 303,419	\$ 44,794	\$ 58,492	\$ (72,749)	\$ 336,186
FUND BALANCES CONSIST OF:						
General Cash	\$ -	\$ 300,805	\$ 41,226	\$ 58,492	\$ 702,844	\$ 1,103,367
Deposits with Vendors	2,230	2,599	-	-	-	4,829
Accounts Receivable Invoiced	-	15	-	-	85,490	85,505
Due to Vendors	-	-	3,568	-	(490,642)	(487,074)
Due to Fund	-	-	-	-	(370,441)	(370,441)
TOTAL FUND BALANCES	\$ 2,230	\$ 303,419	\$ 44,794	\$ 58,492	\$ (72,749)	\$ 336,186

The accompanying notes are an integral part of the schedule.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Library 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 balances for the Commission was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 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 Tax Refund Payable, Deposits, Due to Fund and Due to Government. 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 fund types established by NIS that are used by the Commission are:

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

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 LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

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

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

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

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

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

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, reimbursement from non-governmental sources, operating donations, and operating grants from non-governmental sources.

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.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

Other significant object account codes established by NIS and used by the Commission 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 Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

2. State Agency

The Nebraska Library 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 Library Commission 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 Report (CAFR). The Commission's values all capital assets at cost where historical records are

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE
(Continued)

4. Capital Assets (Concluded)

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 \$300 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 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	\$ 670,131	\$ 79,053	\$ 108,984	\$ 640,200
Less accumulated depreciation for:				
Equipment				<u>534,638</u>
Total capital assets, net of depreciation				<u>\$ 105,562</u>

5. Distributive Activity

NEBASE is a consortium of Nebraska libraries, media centers, and cooperative processing centers, which is managed and organized by the Commission. NEBASE provides training, technical information and administrative services to member libraries. NEBASE contracts with On-Line Computer Library Center, Inc. (OCLC) in Dublin, Ohio. The Commission's distributive activity for the audit period relates to a statewide database of materials in public, academic, school, and special libraries in the State. These materials are accessible to libraries through (OCLC), either directly or through system resources libraries. The OCLC first bills the Nebraska Library Commission for these services and the Commission then bills the individual users and remits the users' payments to OCLC.

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NEBRASKA LIBRARY 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 BALANCES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Nebraska Library Commission
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Library Commission for the fiscal year ended June 30, 2005, and have issued our report thereon dated February 1, 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.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Library Commission's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide 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 Library Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Lack of Segregation of Duties Over Receipts), Comment Number 2 (Lack of Segregation of Duties Over Payroll), and 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 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 Library Commission's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Library Commission in the Comments Section of this report as Comment Number 3 (Federal Compliance-Payroll), and Comment Number 4 (Lack of Segregation of Duties Over Capital 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.

Pat Reding, CPA

Assistant Deputy Auditor

February 1, 2006

NEBRASKA LIBRARY COMMISSION

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 LIBRARY COMMISSION
GRANTS FUNDED THROUGH THE NEBRASKA LIBRARY COMMISSION
For the Fiscal Years Ended June 30, 2002, 2003, 2004, and 2005

	Fiscal Year			
	2002	2003	2004	2005
Children's Grants for Excellence	\$ 41,480	\$ 34,535	\$ 43,907	\$ 62,773
Children's Program: Leading to Reading	-	900	-	-
Collaborative Summer Library Program	-	7,358	6,081	5,308
Continuing Education and Training Grants	43,608	56,140	39,556	52,747
CHIRS (Consumer Health Information Resource Serv)	886	-	-	-
Digitization Grants and Projects	-	-	-	39,730
Electronic Information Resources	348,182	351,219	424,409	387,044
Gates Computer Grnats	-	8,209	-	-
Interlibrary Loan (Lender Compensation)	130,932	142,003	167,876	207,431
ICON (Health HQ) Web Site	5,000	-	-	-
Library Cataloging Software (OCLC CatExpress)	6,478	6,748	-	-
LSCA Construction Grant	-	10,175	-	-
LSTA Grants	296,630	280,196	108,370	82,469
Master of Library Science and Library Technical Assistant Scholarships	5,000	4,000	10,000	11,569
Motion Picture Licensing for Public Library	16,810	-	-	15,995
Nebraska Center for the Book	7,500	10,000	10,000	20,000
Nebraska Community Foundation	-	7,996	-	-
Nebraska Library Association Grant	-	2,051	2,100	2,100
Nebraska Library Association Trustee Grant	-	-	-	10,000
Public Library Statistical Reporting Software	16,000	3,750	3,750	3,750
Regional Library System Funding	658,984	624,589	545,215	670,598
Sponsorship of Statewide Conferences	3,500	-	-	-
State Aid to Public Libraries	364,071	367,855	323,025	351,493
State Depository Libraries Cataloging Assistance	-	-	3,500	-
State Technology Grants	78,206	42,439	-	33,000
Univ. of Nebr.-Omaha - Library Education Options	-	-	-	3,000
Utah State Library (Braille Services)	-	4,140	4,200	3,900
	<u>\$ 2,023,267</u>	<u>\$ 1,964,303</u>	<u>\$ 1,691,989</u>	<u>\$ 1,962,907</u>

Source: Prepared by Nebraska Library Commission personnel.