

**ATTESTATION REPORT
OF THE
NEBRASKA BOARD OF
ENGINEERS AND ARCHITECTS**

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on May 18, 2006

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

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NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

BACKGROUND

The Board of Examiners for Professional Engineers and Architects was created by the Legislature in 1937. In 1997, legislation changed the name to the Board of Engineers and Architects. The Board consists of eight members appointed by the Governor to five-year terms. Four of the eight are professional engineers, three are professional architects, and one is a public member. An architecture professor and an engineering professor from the University of Nebraska serve as members and are recommended by their colleges' dean. Board members must be U.S. citizens who have lived in Nebraska for at least a year. Members must be licensed and active in engineering or architecture for at least ten years, and must have been in charge of architecture or engineering work for at least five of those years. The Board meets ten times a year and members are paid \$60 a day when conducting Board business.

The purpose of the Board is to enforce and administer the laws regulating professional engineers and architects by processing applications, administering examinations to applicants, and registering engineers and architects. The Board also investigates any complaints against engineers and architects to ensure the statutory code of practice is not violated.

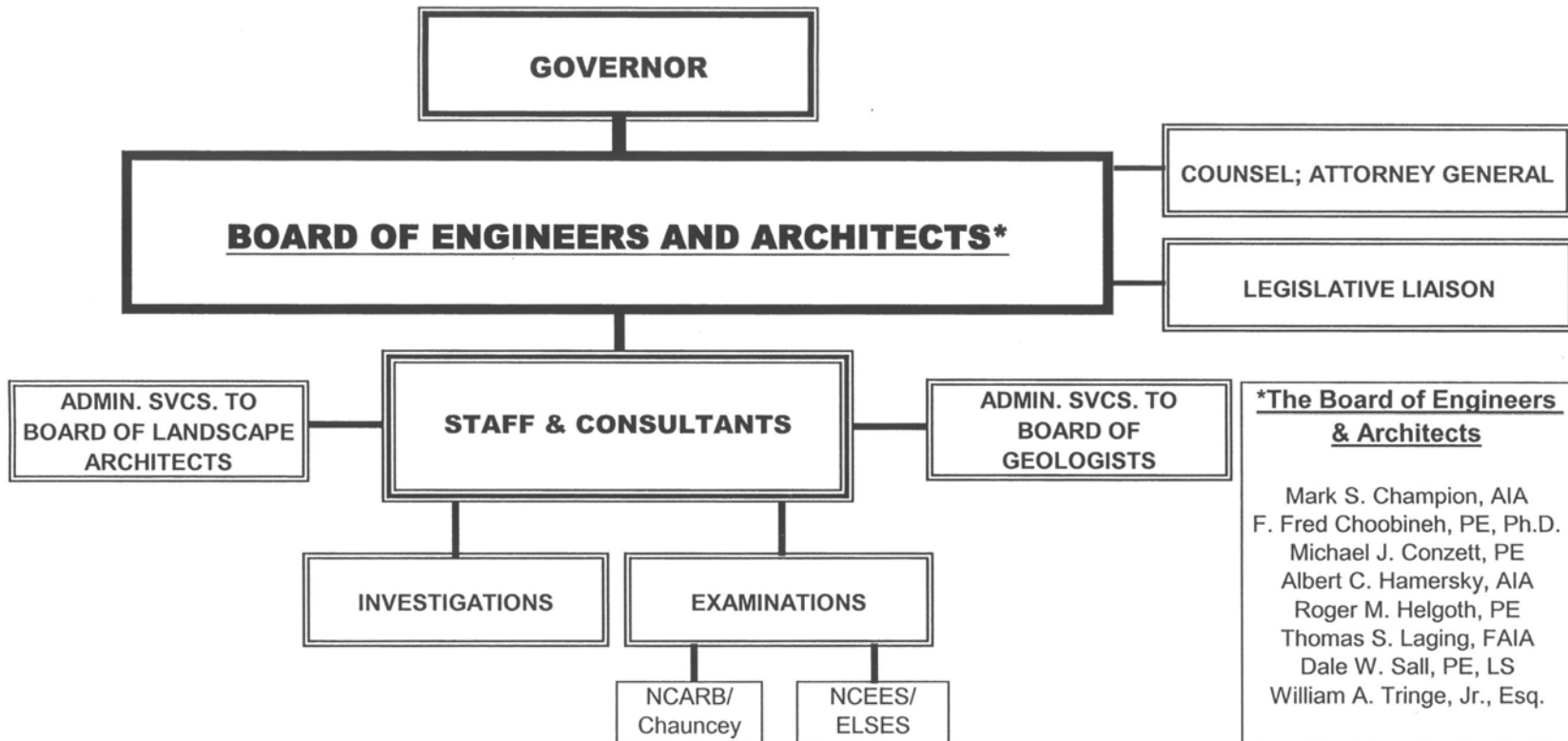
MISSION STATEMENT

The Mission of the Nebraska Board of Engineers and Architects is:

- To assure that the education, experience, and examination of those who practice engineering and architecture qualifies them to serve the public.
- To ensure the enforcement of Nebraska statutes through education and enforcement.
- To provide quality and responsive regulatory services.

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

ORGANIZATIONAL CHART



NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

EXIT CONFERENCE

An exit conference was held April 19, 2006, with the Board to discuss the results of our examination. Those in attendance for the Nebraska Board of Engineers and Architects were:

NAME	TITLE
Melinda Pearson	Executive Director
Roger M. Helgoth	Board Chairman
Mark Champion	Board Secretary
Michael J. Conzett	Board Vice Chairman
Gloria Dougherty	Administrator

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

SUMMARY OF COMMENTS

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

1. **Termination Pay:** Final pay for an employee terminated was calculated incorrectly and incorrect leave balance amounts were used in the calculation.
2. **Internal Controls Over Payroll:** The Board did not have adequate internal control procedures in place over the payroll process.
3. **Timely Deposits of Receipts:** The Board was not depositing all checks received in a timely manner.
4. **Legal Service and Contract Expenses:** The Board did not have adequate procedures in place for entering into and monitoring contracts and did not have full authority from the Attorney General for all outside legal services obtained.
5. **Travel Expenses:** The Board's procedures when reimbursing travel expenses were not adequate.
6. **Review of General Ledger Detail Report:** The Board did not have procedures in place to document the review of the General Ledger Detail Report.
7. **Internal Controls over Fixed Assets:** The Board did not review NIS fixed asset reports and did not have a written capitalization policy.
8. **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 Board 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 BOARD OF ENGINEERS AND ARCHITECTS

COMMENTS AND RECOMMENDATIONS

1. Termination Pay

Neb. Rev. Stat. Section 81-1325 R.R.S. 1999 states “Each employee who meets the minimum age and service requirements for retirement under any existing state or federal retirement system shall, upon termination of employment with the state by reason of retirement or voluntary resignation in lieu of retirement, be entitled to a one-time payment of one-fourth of his or her accumulated unused sick leave, with the rate of payment based upon his or her regular pay at the time of termination or retirement.”

Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 states “Each employee, upon retirement, dismissal, or voluntary separation from state employment, shall be paid for unused accumulated vacation leave.”

Neb. Rev. Stat. Section 84-1308 R.S.Supp., 2004 states “Each employee who is a member of the retirement system shall pay or have paid on his or her behalf a sum equal to four and thirty-three hundredths percent of his or her monthly compensation until such time as he or she has paid during any calendar year a total of eight hundred sixty-four dollars, after which time he or she shall pay a sum equal to four and eight-tenths percent of his or her monthly compensation for the remainder of such calendar year.”

Good internal control and business practice requires procedures to ensure terminated employees are paid correctly including all leave they are entitled to and appropriate deductions are withheld at the correct rates. Good internal control also requires procedures to take all necessary steps to terminate an employee including notifying the Department of Administrative Services (DAS) to terminate the employee’s Nebraska Information System (NIS) access. Additionally, good internal control requires procedures to process warrant cancellations by submitting the required DAS form and the actual warrant to DAS in a timely manner.

For one termination tested, the amount owed to the employee did not equal the amount paid. The employee terminated at the end of the 2005 calendar year. The final vacation and sick leave payout was made in January 2006. During testing we noted, beginning with the 2003 calendar year, the hours recorded on the timesheets for vacation and sick leave were not entered into NIS correctly, which affected the final payout amount. The employee’s earned leave from the final regular pay period was not included in the calculation for the final payout of leave balance; therefore, a leave balance remained on NIS. The appropriate deductions were not withheld from the final pay, such as taxes and retirement.

There were additional pay stubs being held by the Board, which were processed on NIS for the terminated employee, after the final pay check and termination date. The employee was not properly terminated on NIS. There also was no documentation the Board contacted DAS after the termination to remove the NIS access of the terminated employee.

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Termination Pay (Continued)

The employee was paid a gross pay amount of \$11,616.63 for accrued vacation leave and \$17,616.58 for accrued sick leave, totaling \$29,233.21. The employee's correct gross pay for vacation and sick leave should have been \$8,884.76 and \$12,590.33 respectively totaling \$21,475.09. Therefore, an overpayment of gross pay for accrued vacation and sick leave was made in the amount of \$7,758.12.

The variance between the gross amount owed and the gross amount paid to the employee for accrued vacation and sick leave was due to the following items.

- Beginning with the 2003 calendar year 41.5 hours of vacation recorded on the employee timesheet was not entered into NIS correctly.
- The Board did not lapse the employee's vacation hours balance down to 280 hours at the end of calendar years 2003 and 2004 as required. There were 8 hours that should have been lapsed at the end of calendar year 2003 and 42.5 hours that should have been lapsed at the end of calendar year 2004 for a total of 50.5 hours that should have lapsed.
- The Board did not include in the employee's final pay calculation an additional 5.39 vacation hours earned and not used during the last pay period, for which the employee was entitled.
- The vacation leave was therefore overpaid for a total of 86.61 hours (41.5 hours plus 50.5 hours minus 5.39 hours).
- The vacation hours were also paid at an incorrect rate of \$34.437 when the correct rate was \$35.437.
- The total unused balance of sick leave hours for the calculation of the final sick payout was understated by 3 hours due to 3 more sick hours being entered into NIS than were recorded on the employee's timesheets during the 2003 and 2005 calendar years. Therefore, 1,418 sick hours were used in the final sick leave payout calculation, while 1,421 should have been the amount used in the calculation.
- 25% of the 1,421 sick leave hours balance should have been paid to the employee, as required by State Statute, however 35% was used. The net effect was an overpayment of sick leave.

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Termination Pay (Concluded)

Additionally, there are still vacation and sick leave balances on NIS which need to be cleared.

The miscalculations noted above affect all withholding amounts such as taxes for the final net pay. Additionally, the final payout of sick and vacation leave did not have retirement withheld at the correct rate. The retirement rate used for the final vacation/sick payout was 4.33%. Retirement should have been withheld at two rates; 4.33% until \$864 in retirement had been withheld for the year and then at 4.8% for the remainder of the pay, as required by State Statute. The State contribution was also incorrect.

The employee was not properly terminated on NIS, so the Board continued to receive payroll warrants for the employee. Four additional payroll warrants were issued for this employee after the final payout of regular pay and final payout of sick and vacation leave were made. The warrants were dated January 18, 2006, February 1, 2006, February 15, 2006, and March 1, 2006. The warrant dated February 1, 2006, was voided and sent back to DAS with the appropriate warrant cancellation form. As of the beginning of the auditor's fieldwork on March 27, 2006, the Board had not yet cancelled three of the warrants and still had the warrants in their possession; however, subsequent to auditor inquiry, the remaining three warrants were located by the Board and submitted to DAS with the appropriate warrant cancellation form.

When a terminated employee is not paid at the correct rate and hours entitled to the employee, required withholdings are not withheld at the correct rate, and inappropriately issued warrants are not cancelled in a timely manner, there is an increased risk of loss or misuse of State funds and possible noncompliance with State Statute.

We recommend the Board attempt to recover from the former employee overpayments in final pay which were made. Also, we recommend the Board implement procedures to ensure final pay and withholdings are completed in an accurate manner, and warrants requiring cancellation are properly sent to DAS in a timely manner.

Board's Response:

- a. The Board is implementing procedures to ensure final pay and withholdings are completed in an accurate manner.*
- b. The Board is working with Paul Carlson, State Accounting Administrator for the State of Nebraska to determine the amount of overpayment the terminated employee received. The Board voted at their May 12, 2006 meeting to attempt to recover overpayments in final pay which were made.*
- c. The terminated employee is being corrected in NIS.*

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Internal Controls Over Payroll

Neb. Rev. Stat. Section 81-1320 R.R.S. 1999 states “Permanent employees of the State of Nebraska shall be entitled to sick leave with full pay computed at the rate of eight work hours per month for each calendar month of service.” Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 states “State employees shall, during each year of continuous employment, be entitled to ninety-six working hours of vacation leave with full pay.”

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. Good internal control requires procedures to ensure all timesheets are approved by a supervisor and the hours recorded on timesheets are correctly entered into NIS. Good internal control also requires procedures to ensure documentation and reports used during the payroll process, such as payroll authorization e-mails and payroll registers are maintained. Additionally, good internal control would also require personnel files to be complete and organized.

There was a lack of segregation of duties over payroll as one person performed all the steps during the payroll process. There was not a documented review of the payroll process or payroll registers. One employee entered the hours into NIS, processed the payroll, sent notification to DAS to process payroll, and also distributed the payroll warrants. It was noted during testing, hours recorded on timesheets were not always entered into NIS accurately.

We noted for each of the two employees tested, the timesheets were not approved by a supervisor. The Board did not maintain documentation of e-mails sent to DAS for notification to process payroll. We noted for one of two employees tested, the Board did not maintain a copy of the payroll register to verify the salary history on NIS agrees to the payroll register for that pay period.

During testing we also noted one employee was not earning any vacation or sick leave on NIS since their hire date. The employee started with the Board and should have begun earning leave on September 7, 2004. There was no vacation or sick leave earned, entered into NIS until March 2006.

Without adequate segregation of duties and proper internal controls, there is an increased risk of loss or misuse of State funds. Without procedures to ensure employees earned leave is recorded correctly there is an increased risk of loss or misuse of State funds and possible noncompliance with State Statute.

We recommend the Board implement procedures to ensure adequate internal controls are in place for processing payroll. We recommend the Board implement procedures to have a documented review of the payroll process and ensure hours recorded on timesheets are accurately entered into NIS. We also recommend

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Internal Controls Over Payroll (Concluded)

the Board maintain copies of e-mails sent to DAS for notification of payroll processing, and maintain copies of payroll registers. Additionally, we recommend the Board implement procedures to ensure all employees are earning leave at the correct rates and it is properly accounted for on NIS.

Board's Response:

- a. The Board is implementing procedures to ensure adequate internal controls are in place for processing payroll.*
- b. The lack of segregation of duties over payroll is being resolved.*
- c. The employee not earning sick or vacation leave in NIS since her hire date is being corrected in NIS.*

3. Timely Deposits of Receipts

Neb. Rev. Stat. Section 84-710 R.R.S. 1999 states, "It shall be unlawful for any executive department, state institution, board, or officer ... to receive ... any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars."

Good internal control requires a receipt be prepared upon receiving money into the Board's possession and the money be deposited with the State treasury to prevent loss or misuse.

We noted during a cash count of the Board's money on hand, 15 of 22 checks did not have a receipt prepared. Of the 22 checks, 16 were attached to applicant files and were being held and not deposited into the State treasury, pending the Board's approval of the applicants submitting the checks. The 16 checks had been held in the Board's possession, ranging from 1 to 52 days. Applicants would submit two separate checks: one check being for an initial registration fee and the second for the final licensure fee, the second being due after the Board's approval of the applicant. The Board would prepare a receipt and deposit into the State treasury the check for the initial registration fee; however, the Board would hold the check for the final licensure fee until the Board took action to approve the applicant. For 4 of the 16 checks held, the applicant had been approved by the Board in one or two of the previous month's Board meetings. Each of the 16 checks was for an amount of \$50. A similar comment was noted in our prior audit report.

When the Board holds checks and does not deposit them timely with the State treasury, they would not be in compliance with State Statute and there is also a greater risk for loss or misuse of State funds.

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Timely Deposits of Receipts (Concluded)

We recommend the Board implement procedures to ensure all money received is deposited with the State treasury within the time frame required by State Statute. We also recommend a receipt be prepared upon the Board receiving all money into their possession and, if at a later date, the Board does not approve an applicant then a refund to the applicant be issued at that time.

Board's Response:

- a. The Board has implemented a procedure that all checks are deposited with the state treasury within the time frame required by State Statute.*
- b. Receipts are being prepared upon the Board receiving all monies in our possession. If an applicant is not approved by the Board, then a refund is being issued.*

4. Legal Service and Contract Expenses

Neb. Rev. Stat. Section 73-503(1) R.R.S. 2003 states "All state agencies shall process and document all contracts for services through the state accounting system ... State agency directors shall ensure that contracts for services are coded appropriately into the state accounting system."

Neb. Rev. Stat. Section 73-505 R.R.S. 2003 states "State agency directors shall be responsible for maintaining accurate documentation of the process used for selection of all contracts for services and for ensuring and documenting that services required under the contract are being performed in compliance with the terms of the contract for services. Such documentation shall be kept with each contract for services."

Neb. Rev. Stat. Section 84-205 R.S.Supp., 2004 states "The duties of the Attorney General shall be: ... (5) At the request of the Governor, head of any executive department, Secretary of State, State Treasurer, Auditor of Public Accounts, Board of Educational Lands and Funds, State Department of Education, or Public Service Commission, to prosecute any official bond or any contract in which the state is interested ... Such officers shall not pay or contract to pay from the funds of the state any money for special attorneys or counselors-at-law unless the employment of such special counsel is made upon the written authorization of the Governor or the Attorney General."

Good internal control and business practice requires procedures to ensure contracts have specific and enforceable terms as to specific dates, maximum amounts, and a specified duration.

Good business practice requires a legal review of all contracts prior to acceptance to ensure the State's interests are fully protected. Good business practice also requires procedures to ensure the contract contains a termination clause.

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Legal Service and Contract Expenses (Continued)

Good internal control also requires procedures to ensure all services contracted for were actually received and procedures are in place which ensure the Board has documented evidence of monitoring the contract.

We tested three expense documents which related to contractual type services and noted the following:

- One document was paid to a law firm for legal expenses pertaining to two different cases. The Board did have a contract with the firm for services concerning one of the cases but did not have a contract on file with the firm for the second case invoiced in the payment made by the Board. The one contract did not contain necessary terms as to specific dates, maximum amounts, and had unlimited or unspecified duration. The contract did not have a documented legal counsel review. There was no documented basis for the selection of the vendor (law firm). The contract was entered into NIS with an amount of \$100,000 although no maximum amount was detailed in the contract and no documentation as to why this amount was entered. Additionally, the Board did not have documented approval from the Attorney General for the use of outside legal services for the second case invoiced in the payment made by the Board.
- One document was paid to a law firm (vendor) to act as a hearing officer for a case dispute. No contract was on file for this vendor and no contract was entered into NIS, nor any documented basis on file for the selection of this vendor.
- One document was paid for services pertaining to a database project. The contract with the vendor stated that Phase I shall not cost more than \$6,000 and Phase 2 shall not cost more than \$19,855; however, the contract was entered into NIS for an amount of \$100,000. The contract also did not contain a termination clause. There was no documented basis on file for the selection of the vendor. Additionally, there was no documented legal counsel review.

Without specific and enforceable terms in contracts, there is an increased risk of possible misuse or loss of State funds. Additionally, without a legal review of contracts there is an increased risk the State may not be fully protected in contractual agreements. Without documented approval for outside legal services, the Board may be in noncompliance with State Statute.

We recommend the Board establish procedures to ensure contracts have specific and enforceable terms and implement procedures to document monitoring of contracts to ensure all services contracted for were actually received. The Board should ensure that all

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Legal Service and Contract Expenses (Concluded)

service contracts are entered on NIS accurately. We also recommend the Board ensure all contracts contain a termination clause and that a legal review be performed prior to acceptance. In addition, we recommend the Board ensure all outside legal counsel services have documented approval from the Attorney General.

Board's Response:

- a. *The Board is establishing procedures to ensure contracts have specific and enforceable terms.*
- b. *The Board is implementing procedures to document monitoring of service contracts.*

5. Travel Expenses

Neb. Rev. Stat. Section 81-1177 R.R.S. 1999 states "The Director of Administrative Services is required to have prepared a uniform traveling expense account form to be used by all state officers and employees when making a request for payment or reimbursement for traveling expenses. No traveling expense request shall be approved for payment unless it is made on the form prescribed and furnished by the director."

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 states, when travel expense reimbursements are requested "Each request shall be fully itemized, including when, where, and why the expense was incurred and the actual amount involved. ... When reimbursement is requested for mileage by automobile, the license number, the owner of the automobile used, and the rate per mile being requested shall also be shown on each request."

Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 5, 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." Internal Revenue Service (IRS) Publication 463 requires an accountable plan to have adequate accounting of expenses. The publication states that adequate accounting requires employees to submit to their employers a statement of expense, an account book, a diary, or a similar record in which each expense is entered at or near the time of occurrence, along with documentary evidence. The publication additionally states, "Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense." Based on discussions with IRS staff, adequate documentation must include the name of the restaurant.

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Travel Expenses (Continued)

Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 11, states “The employee claiming reimbursement of expense must provide an original signature on the expense document or submit the document with an electronic signature.”

Good internal control requires procedures to ensure daily meal costs reimbursed to employees are allowable and reasonable. One method to determine whether meals are reasonable is to make sure they are within the General Services Administration (GSA) Federal per diem guidelines and GSA Federal meals and incidental expense breakdown.

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

We tested two travel expense documents and noted the following:

- Two expense reimbursement documents were not on DAS approved forms.
- Two expense reimbursement documents were not properly completed. Two expense reimbursement documents did not include the employee job title or the employee headquarter city as required. One expense reimbursement document was not signed by the employee, did not contain the rate per mile being reimbursed, or list all points of destination, and a second document did not contain start and stop times as required.
- Two expense reimbursement documents did not provide a breakdown of meals to allow determination if they were included in the conference or were allowable based on start and stop times. No meal logs were provided and not all meal receipts were on file. Additionally, one document included meal reimbursement for one day for an amount of \$48.60, while the GSA Federal guideline for this location was \$47 per day.

A similar comment was noted in our prior audit report.

Without proper controls to ensure travel reimbursements are reasonable, necessary, and in compliance with statute or accounting policies, there is an increased risk of loss or misuse of State funds. Without an adequate accounting of meal expense from the employee to the employer, the State could lose its accountable plan status. If the State does not have an accountable plan, the amounts reimbursed to employees for meals would be considered taxable income.

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Travel Expenses (Concluded)

We recommend the Board ensure all expense reimbursement documents used are approved by DAS and properly completed. We also recommend the Board ensure disbursements are reasonable, necessary, and in accordance with State guidelines.

Board's Response: The Board is implementing procedures to ensure all expense reimbursements are in accordance with State guidelines. The current written policy will be updated and all board members will receive training on filling out expense reimbursement forms.

6. Review of General Ledger Detail Report

Good internal control requires procedures be in place to have a documented review of General Ledger Detail Reports completed to ensure transactions are being recorded correctly for the Board.

The Board did not print or review the General Ledger Detail Report to monitor accounting transactions. Board documents and transactions were not reconciled to the General Ledger Detail Report.

Without a documented review of the General Ledger Detail Report, there is an increased risk of transactions not being recorded correctly or transactions for which the Board is not responsible, being posted to the Board's fund without the Board's knowledge.

We recommend the Board establish procedures to have a periodic documented review of the General Ledger Detail Report completed to ensure items are being recorded correctly.

Board's Response: The Board is establishing procedures to have a documented review of the General Ledger Detail report.

7. Internal Controls Over Fixed Assets

Good internal control requires procedures to ensure fixed asset records are adequately maintained. Good internal control also requires a documented capitalization policy to ensure fixed assets are correctly recorded. Good internal control additionally requires a segregation of duties or compensating controls to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities.

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Internal Controls Over Fixed Assets (Concluded)

Neb Rev. Stat. Section 81-1118.02(1) R.R.S. 1999 states “Each executive, department, commission, or other state agency, ... shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission, or other state agency as of June 30 and shall be completed and filed with the materiel administrator by August 31 of each year.”

The Board did not have a written capitalization policy and they did not monitor fixed assets not recorded on NIS. The Board did not perform a periodic inventory of fixed assets. There was a lack of segregation of duties as one person performed all the steps during the fixed asset process, including the maintenance of records and the addition and deletion of fixed assets from the records. There was not a documented review of the Surplus Property Notification forms. There was not an independent review of the F/A No Cost Report, the Additions and Retirements Report, or the F/A Integrity Reports.

Without proper procedures in place the risk of concealed errors or irregularities is increased and the Board is not in compliance with State Statutes.

We recommend the Board establish a written capitalization policy and establish procedures to ensure all fixed assets are monitored. We also recommend the Board implement policies and procedures to ensure a documented periodic inventory is performed in compliance with State Statute. We recommend the Board implement procedures to ensure an adequate segregation of duties to include a periodic documented review of all applicable fixed asset reports and all surplus property forms.

Board's Response:

- a. The Board is establishing a written capitalization policy and establishing procedures to ensure all fixed assets are monitored.*
- b. The Board is implementing policies to ensure a documented periodic inventory is performed in compliance with State Statute.*
- c. The Board is implementing a segregation of duties to include a review of fixed asset reports and surplus property reports.*

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Reconciliation of Bank Records to the Nebraska Information System

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:

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

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

COMMENTS AND RECOMMENDATIONS

(Continued)

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

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.

Board's Response: This is a State Accounting issue.

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NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

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 Board of Engineers and Architects (Board) for the fiscal year ended June 30, 2005. The Board'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.

Mary Avery
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Dennis Meyer, CGFM
Subdivision Budget
Coordinator
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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 Board of Engineers and Architects 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 April 19, 2006, on our consideration of the Nebraska Board of Engineers and Architects' 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 Board 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

April 19, 2006

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2005

	Engineers and Architects Regulation Cash Fund <u>25810</u>
REVENUES:	
Sales & Charges	\$ 447,399
Miscellaneous	42,428
TOTAL REVENUES	<u>489,827</u>
EXPENDITURES:	
Personal Services	259,892
Operating	277,215
Travel	23,490
Capital Outlay	5,495
TOTAL EXPENDITURES	<u>566,092</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(76,265)</u>
OTHER FINANCING SOURCES (USES):	
Sales of Assets	572
TOTAL OTHER FINANCING SOURCES (USES)	<u>572</u>
Net Change in Fund Balance	(75,693)
FUND BALANCE, JULY 1, 2004	<u>997,627</u>
FUND BALANCE, JUNE 30, 2005	<u><u>\$ 921,934</u></u>
FUND BALANCE CONSISTS OF:	
General Cash	\$ 920,572
NSF Items	198
Deposits with Vendors	1,164
TOTAL FUND BALANCE	<u><u>\$ 921,934</u></u>

The accompanying notes are an integral part of the schedule.

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Board of Engineers and Architects 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 Board 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.

The Board had no accounts receivable at June 30, 2005. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund type established by NIS that is used by the Board 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.

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

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

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

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 Board 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 Financing Sources – Proceeds of fixed asset dispositions.

2. State Agency

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

The Nebraska Board of Engineers and Architects is part of the primary government for the State of Nebraska.

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

NOTES TO THE SCHEDULE

(Continued)

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

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

Capital asset activity of the Board 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	\$ 117,650	\$ 5,495	\$ 19,152	\$ 103,993
Less accumulated depreciation for:				
Equipment				<u>59,050</u>
Total capital assets, net of depreciation				<u>\$ 44,943</u>

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**NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS
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 Board of Engineers and Architects for the fiscal year ended June 30, 2005, and have issued our report thereon dated April 19, 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.

Mary Avery
SAE/Finance Manager
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Mark Avery, CPA
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Review Coordinator
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Perry Pirsch, JD, MPA
Legal Counsel
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Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Board of Engineers and Architects' 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 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 Board of Engineers and Architects' 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 8 (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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Board of Engineers and Architects' 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 certain additional items that we reported to management of the Nebraska Board of Engineers and Architects in the Comments Section of this report as Comment Number 1 (Termination Pay), Comment Number 2 (Internal Controls Over Payroll), Comment Number 3 (Timely Deposits of Receipts), Comment Number 4 (Legal Service and Contract Expenses), Comment Number 5 (Travel Expenses), Comment Number 6 (Review of General Ledger Detail Report), and Comment Number 7 (Internal Controls Over Fixed Assets).

This report is intended solely for the information and use of the Board 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. Chamber CPA in black ink.

April 19, 2006

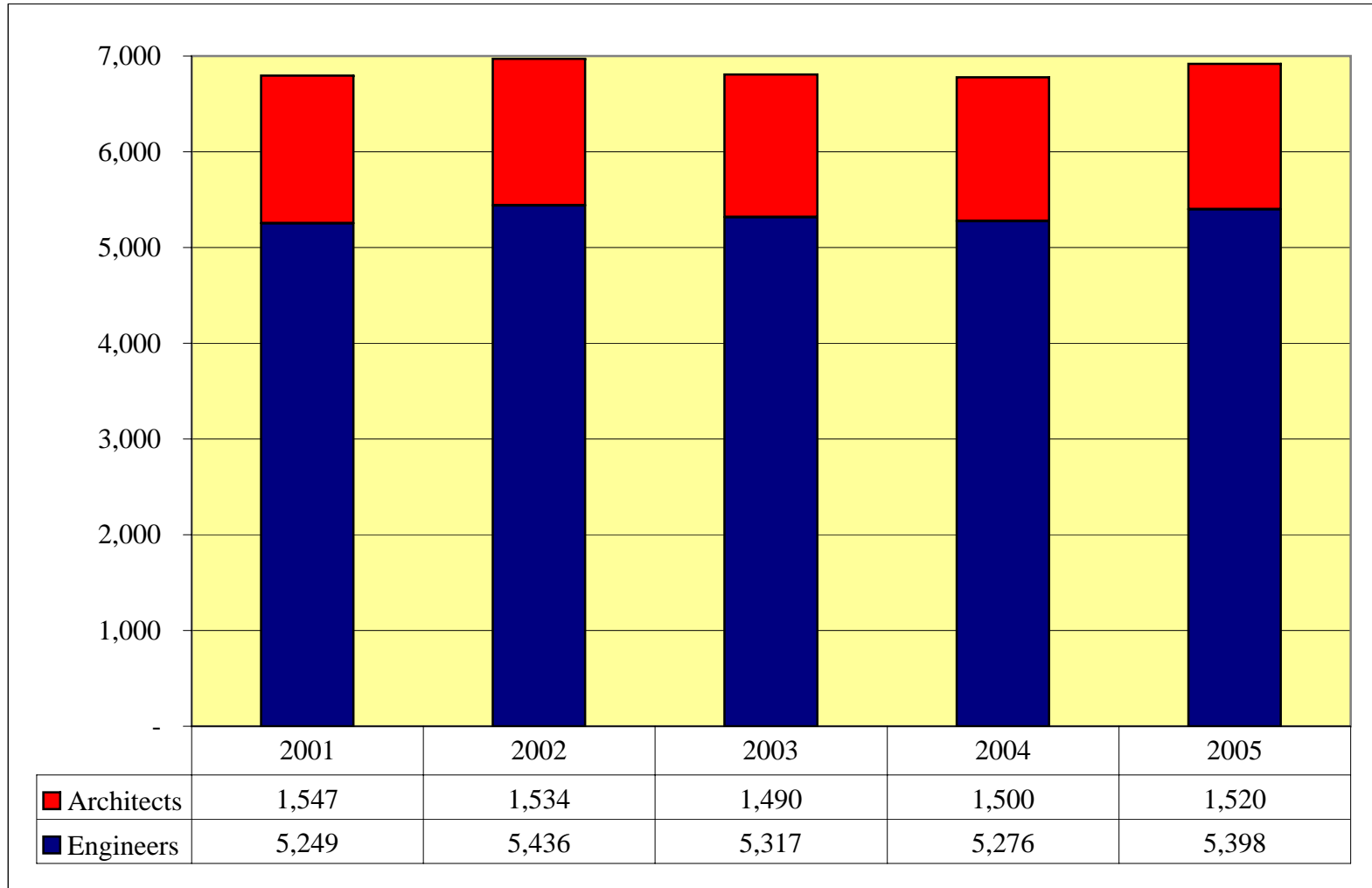
Assistant Deputy Auditor

NEBRASKA BOARD OF ENGINEERS AND ARCHITECTS

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 BOARD OF ENGINEERS AND ARCHITECTS
SCHEDULE OF ENGINEERS AND ARCHITECTS LICENSED
 For the Fiscal Years Ended June 30, 2001 through 2005



Source: Nebraska Board of Engineers and Architects Annual Reports.