# ATTESTATION REPORT
# OF THE
# NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

**JULY 1, 2005 THROUGH JUNE 30, 2006**



**Issued on September 28, 2006**

NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

**TABLE OF CONTENTS**

## BACKGROUND

The Nebraska Abstracters Board of Examiners, created in 1965, consists of five members appointed by the Governor to carry out the purposes of and enforce the Abstracters Act. The Board includes three members who shall at all times be actively registered abstracters who have engaged in the business of abstracting for at least five years, one member who shall be a lawyer experienced in the area of real estate law, and one member who shall be a representative of the public.

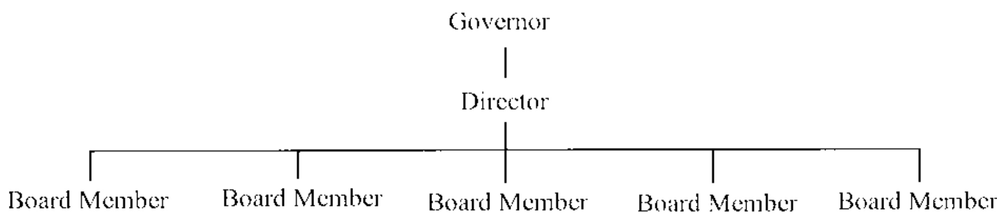
Registered abstracters compile, or certify abstracts of title to real property and prepare written reports of titles to real property. The Abstracters Board of Examiners reviews licensees' practices under the Abstracters Act. The Board regulates the registration and certification of individual abstracters and abstracting companies in the State. The Board also supervises continuing education programs, investigates complaints, and conducts hearings. The Board's primary goal is to ensure Nebraska real estate buyers, or those making payments to be secured by property, are fully informed of that property's legal status. The Board's activities are funded by license and examination fees. The Board employed one part-time person for the fiscal year ended June 30, 2006.

## MISSION STATEMENT

The Board has the responsibility of supervising, inspecting, examining, and reviewing the practices of licensees required under the abstracters licensing law, and regulating the registration and certification of individual abstracters, as well as those companies engaged in the business of abstracting.

NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

# ORGANIZATIONAL CHART




The Board consists of 5 members all appointed by the Governor. Each member services a term of 5 years.)

**EXIT CONFERENCE**

An exit conference was held August 30, 2006, with the Board to discuss the results of our examination. Those in attendance for the Nebraska Abstracters Board of Examiners were:

| NAME | TITLE |
|---|---|
| Mardy McCullough | Director |

## SUMMARY OF COMMENTS

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

1. ***Lack of Segregation of Duties Over Expenditures:*** One individual was capable of handling all aspects of the expenditure process. The same individual was responsible for preparing, approving, and posting their own batches on NIS. The Board did not review a detailed list of expenses.

2. ***Lack of Segregation of Duties Over Receipts:*** One individual was capable of handling all aspects of the receipt process. This individual reconciled cash receipts to the General Ledger. This same individual was capable of entering, approving, and posting their own batches on NIS. There was no detail review by the Board.

3. ***Payroll:*** One individual was capable of handling all aspects of the payroll process. Vacation leave and sick leave were accrued at incorrect rates and they were not balanced at December 31, 2005. The Board did not require their employee to complete a timesheet showing actual hours worked and leave used. The employee did not have an I-9 form on file. For one pay-period tested, there was no documentation showing payroll was certified. The Board paid $1.40 rather than $.70 for basic life insurance for the employee.

4. ***Lack of Segregation of Duties Over Fixed Assets:*** One individual was capable of handling all aspects of the fixed asset process. The individual had the ability to perform all transactions including adding, deleting, and conducting the annual physical inventory. There was no review by the Board of any of the Fixed Asset reports on NIS.

5. ***Items Not Removed From Fixed Assets:*** Two items on the Fixed Asset listing were below the Board's capitalization policy amount of items with a purchase cost of greater than $1,500. Total purchase cost of these two items was $1,908.

6. ***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.

**SUMMARY OF COMMENTS**
(Continued)

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. The Board declined to respond.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

## COMMENTS AND RECOMMENDATIONS

### 1. Lack of Segregation of Duties Over Expenditures

Good internal control requires an adequate segregation of duties so no one individual is in a position to handle all phases of a transaction from beginning to end. If a proper segregation of duties is not possible due to limited staff, controls should be implemented to compensate for the lack of segregation of duties and to ensure no individual can both perpetuate and conceal errors or irregularities.

One individual could handle all aspects of expenditures including receiving invoices, coding payments, preparing documents, and reconciling payments to the General Ledger. This same individual was responsible for preparing, approving, and posting all batches on NIS. The Board did not complete a documented review of a detailed list of expenses. The total amount of expenditures for Abstracters Cash Fund 26610 for fiscal year ended June 30, 2006, was $31,543. This was a prior comment in the fiscal year 2003 Management Letter.

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

> We recommend the Board implement procedures which ensure an adequate segregation of duties over expenditures. If this is not possible, a compensating control should be in place. This could include a documented review of the General Ledger detail report by the Board at their board meetings.

### 2. 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 individual also compared the Deposit Document to the initial listing of monies received by the Board and manually approved the Deposit Document. In addition, this same individual reconciled cash receipts to the General Ledger. This individual was also capable of entering, approving, and posting their own batches on NIS. There was no detail review by the Board. Total amount of receipts for the Abstracters Cash Fund 26610 for fiscal year ended June 30, 2006, was $67,598. This was a prior comment in the fiscal year 2003 Management Letter.

The possibility of a 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.

**COMMENTS AND RECOMMENDATIONS**
(Continued)

**2. Lack of Segregation of Duties Over Receipts** (Concluded)

> We recommend the Board implement procedures which ensure an adequate segregation of duties over receipts. If this is not possible, a compensating control should be in place. This could include a documented review of the General Ledger Detail report by the Board at their board meetings.

**3. Payroll**

**Lack of Segregation of Duties Over Payroll**

Good internal control requires an adequate segregation of duties so no one individual is in a position to handle all phases of a transaction from beginning to end. If a proper segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation of duties and to ensure no individual can both perpetuate and conceal errors or irregularities.

One employee was able to handle all aspects of the payroll process, including preparing and approving journal entries, changing pay rates, entering hours worked, and reviewing the payroll register. The Board did not review the payroll register to mitigate risks associated with a lack of segregation of duties. This was a prior comment in the fiscal year 2003 Management Letter.

Without an adequate segregation of duties there is an increased risk of loss or misuse of State funds or for errors to go undetected.

> We recommend the Board implement procedures to ensure adequate segregation of duties over the processing of payroll. If this is not possible, as a compensating control, the Board could review the payroll register at their board meetings.

**Leave Accrual & Balancing**

Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 states, "Employees who are regularly employed less than forty hours a week shall be entitled to vacation leave proportionate to their regular workweek. The vacation leave account of each employee shall be balanced as of 11:59 p.m. Central Standard Time on December 31 each calendar year. Each employee, upon retirement, dismissal, or voluntary separation from state employment, shall be paid for unused accumulated vacation leave. Upon the death of an employee, his or her beneficiary shall be paid for unused

**COMMENTS AND RECOMMENDATIONS**
(Continued)

**3. <u>Payroll</u>** (Continued)

**<u>Leave Accrual & Balancing</u>** (Concluded)

accumulated vacation leave." Each employee shall be entitled to have accumulated as of such time the number of hours of vacation leave which he or she earned during that calendar year. Hours of vacation leave accumulated in excess of that number shall be lost."

Neb. Rev. Stat. Section 81-1323 R.R.S. 1999 states, "The sick leave account shall be balanced as of 11:59 p.m. Central Standard Time on December 31 each calendar year. Sick leave shall be cumulative for not more than one thousand four hundred forty hours."

Good internal control requires leave hours to be accrued based on actual hours worked.

The Board had one employee who worked part-time. This employee earned leave at the rate of a full-time employee. The employee did not have their leave balanced or lapsed on December 31, 2003, 2004, and 2005. A vacation leave balance of 544.41 hours and a sick leave balance of 583.04 hours had accrued as of June 30, 2006. The Auditor of Public Accounts calculated a vacation leave balance of 98.43 hours and a sick leave balance of 421.37 hours, a difference of 445.98 hours and 161.67 hours respectively. The employee has not recorded vacation leave used, sick leave used, and compensatory time earned and used on NIS since the implementation of NIS in 2003; therefore, we were unable to determine what the actual vacation, sick, and compensatory leave balances should have been at June 30, 2006.

Without adequate balancing and lapsing of leave earned, there is an increased risk for loss or misuse of State funds. Upon termination the employee would receive compensation for any unused vacation leave and one fourth of any unused sick leave.

> We recommend the Board work with the Department of Administrative Services to adjust leave balances in order to correct any excess accrued balances. We also recommend the Board manually adjust leave earnings each month to reflect earnings at a rate proportional to hours worked.

**3. <u>Payroll</u>** (Continued)

**<u>Timesheet</u>**

Good internal control requires procedures to ensure adequate documentation of actual hours worked each week. Title 273 NAC 9-002 (Nebraska Personnel Rules and Regulations) states that each agency shall maintain a record for each employee of time worked and all absences from work; however, the Board is not a classified agency and therefore is not required to follow Title 273 State of Nebraska Personnel Rules and Regulations.

The employee did not complete a timesheet indicating actual hours worked. We noted vacation and sick leave used, and compensatory leave earned and used were also not documented or recorded on NIS.

Without good internal controls there is an increased risk of fraudulent or inaccurate compensation to employees.

> We recommend the Board implement adequate procedures to ensure actual time worked and leave used is documented on timesheets, approved by the Board, and recorded on NIS.

**<u>Other Payroll Issues</u>**

The U.S. Department of Justice Immigration Reform and Control Act of 1986 requires an Employment Eligibility Verification Form, I-9, to be completed for every employee hired after November 6, 1986. New employees must complete section 1 of an original I-9 form on or before their first day of work. Form I-9 must be kept by the employer either for three years after the date of hire or for one year after employment is terminated, whichever is later.

Nebraska State Accounting Manual, AM-005, General Policies, Section 27 Certification of Payroll states that each agency shall certify their payroll to the Department of Administrative Services, State accounting division each pay period to ensure payroll is processed accurately and completely. This certification is to be emailed to State accounting. Good internal control requires documentation of the payroll certification be maintained by the Board.

Good internal control requires the State share of benefit contributions be earned at a rate proportional to hours worked. Title 273 NAC 4-006 (Nebraska Personnel Rules and Regulations) states that, “Part-time employees earn benefits on a prorated basis equal to the total yearly FTE for their positions.” However, the Board is not a classified agency and is therefore not required to follow Title 273 State of Nebraska Rules and Regulations.

**COMMENTS AND RECOMMENDATIONS**
(Continued)

**3. <u>Payroll</u>** (Concluded)

**<u>Other Payroll Issues</u>** (Concluded)

- The employee did not have an I-9 form on file. All employees hired after November 6, 1986, are required to complete an I-9 form.

- For one pay period tested, there was no documentation to verify the certification of payroll to the Department of Administrative Services (DAS)-Accounting. DAS-Accounting policy requires a payroll certification be sent each pay period by email.

- The State share of basic life insurance was incorrectly paid for the employee tested. Basic life insurance is provided by the State at no cost to full time employees. The Board employs a half time individual who should have paid $.70 of the $1.40 cost each month. The Board paid $1.40 rather than $.70.

The possibility of fines exists if an I-9 audit were conducted by the Office of Special Counsel for Immigration. Without adequate supporting documentation that payroll was certified and the contributions are correct, there is an increased risk payroll may be posted inaccurately and incompletely resulting in a loss of State funds.

> We recommend the Board review personnel files to ensure I-9 forms are on file for all necessary employees. We also recommend the Board implement controls to ensure documentation of the payroll certification sent to DAS-Accounting is maintained for each pay period. Finally, we recommend the Board review the State share of benefit contributions for its employee to ensure the correct State share is paid.

**4. <u>Lack of Segregation of Duties Over Fixed Assets</u>**

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.

One individual was able to process all fixed asset transactions for the Board. The individual had the ability to perform all transactions including adding, deleting, and conducting the annual physical inventory. The Board did not review the fixed asset list to ensure accuracy of items reported. There was no review of any of the fixed assets reports such as the Additions and Retirements report to ensure all items added and deleted were proper, nor was there a review of

**COMMENTS AND RECOMMENDATIONS**
(Continued)

**4. Lack of Segregation of Duties Over Fixed Assets** (Concluded)

the Passed Transactions report or the Unposted Fixed Asset report to ensure any items passed on or unposted, were correctly handled on NIS. This was a prior comment in the fiscal year 2000 audit report.

Without an adequate segregation of duties or compensating controls, there is an increased risk of errors and inaccurate reporting of fixed assets.

> We recommend the Board implement procedures to include an independent review of the fixed asset records to ensure all items are correctly recorded. This could include the Board reviewing the fixed asset reports, such as the Additions and Retirement report, Passed Transaction report, and the Unposted Fixed Asset report at their board meetings and documenting their review.

**5. Items Not Removed From Fixed Assets**

Good internal control requires items with a purchase cost less than the Board's capital asset capitalization policy amount not be included in fixed assets.

Two items on the fixed asset listing were below the Board's capitalization amount of items greater than $1,500. These two items consisted of a printer and a computer. The total purchase cost of these two items was $1,908.

Without removing items with a purchase cost of less than the Board's capitalization policy, there is an increased risk of inaccurate reporting of fixed assets.

> We recommend the Board remove all items with a purchase cost of less than $1,500 from their fixed asset listing.

**6. 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

**COMMENTS AND RECOMMENDATIONS**
(Continued)

**6. Reconciliation of Bank Records to the Nebraska Information System** (Continued)

(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 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.

**COMMENTS AND RECOMMENDATIONS**
(Continued)

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

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.

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NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

## INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Abstracters Board of Examiners
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska Abstracters Board of Examiners (Board) for the fiscal year ended June 30, 2006. 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.

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.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balance of the Nebraska Abstracters Board of Examiners for the fiscal year ended June 30, 2006, 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 August 30, 2006, on our consideration of the Nebraska Abstracters Board of Examiners' 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.

August 30, 2006

Assistant Deputy Auditor

NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

**SCHEDULE OF REVENUES, EXPENDITURES,**

**AND CHANGES IN FUND BALANCE**

For the Fiscal Year Ended June 30, 2006

| | Abstracters Fund 26610 |
|---|---|
| REVENUES: | |
| Sales & Charges | $ 64,750 |
| Miscellaneous | 2,848 |
| TOTAL REVENUES | 67,598 |
| | |
| EXPENDITURES: | |
| Personal Services | 19,406 |
| Operating | 9,143 |
| Travel | 2,994 |
| TOTAL EXPENDITURES | 31,543 |
| | |
| Excess of Revenues Over Expenditures | 36,055 |
| | |
| OTHER FINANCING SOURCES: | |
| Sales of Assets | 59 |
| TOTAL OTHER FINANCING SOURCES | 59 |
| | |
| Net Change in Fund Balance | 36,114 |
| | |
| FUND BALANCE, JULY 1, 2005 | 68,062 |
| | |
| FUND BALANCE, JUNE 30, 2006 | $ 104,176 |
| | |
| FUND BALANCE CONSIST OF: | |
| General Cash | $ 103,894 |
| NSF Items | 160 |
| Deposits with Vendors | 122 |
| TOTAL FUND BALANCE | $ 104,176 |

The accompanying notes are an integral part of the schedule.

## NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2006

### 1. Criteria

The accounting policies of the Nebraska Abstracters Board of Examiners (Board) 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 the Nebraska State Accounting Manual published by DAS – Accounting Division 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, 2006, includes only those payables posted to NIS before June 30, 2006, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2006, **does not** include amounts for goods and services received before June 30, 2006, which had not been posted to NIS as of June 30, 2006.

The Board had no accounts receivable at June 30, 2006. The NIS system does not include liabilities for accrued payroll, and compensated absences.

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

> **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.

**NOTES TO THE SCHEDULE**
(Continued)

**1. Criteria** (Concluded)

**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 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.

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, NSF items, 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 Abstracters Board of Examiners 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 Abstracters Board of Examiners is part of the primary government for the State of Nebraska.

**3. General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current

**NOTES TO THE SCHEDULE**
(Continued)

**3. General Cash** (Concluded)

operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

**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 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 the asset's life is not capitalized.

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

Capital asset activity of the Board for the fiscal year ended June 30, 2006, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital Assets | | | | |
| Equipment | $ 1,551 | $ - | $ - | $ 1,551 |
| Less accumulated depreciation for: | | | | |
| Equipment | | | | 1,076 |
| Total capital assets, net of depreciation | | | | $ 475 |

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NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

**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***

Nebraska Abstracters Board of Examiners
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska Abstracters Board of Examiners for the fiscal year ended June 30, 2006, and have issued our report thereon dated August 30, 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 Abstracters Board of Examiners' internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balance, and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Abstracters Board of Examiners' 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 Expenditures), Comment Number 2 (Lack of Segregation of Duties Over Receipts), Comment Number 3 (Payroll) and Comment Number 6 (Reconciliation of Bank Records to NIS).

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, of the reportable conditions described above, we consider Comment Numbers 1 (Lack of Segregation of Duties Over Expenditures) and Comment Number 2 (Lack of Segregation of Duties Over Receipts) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Abstracters Board of Examiners' 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 Abstracters Board of Examiners in the Comments Section of this report as Comment Number 4 (Lack of Segregation of Duties Over Fixed Assets) and Comment Number 5 (Items Not Removed From 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.

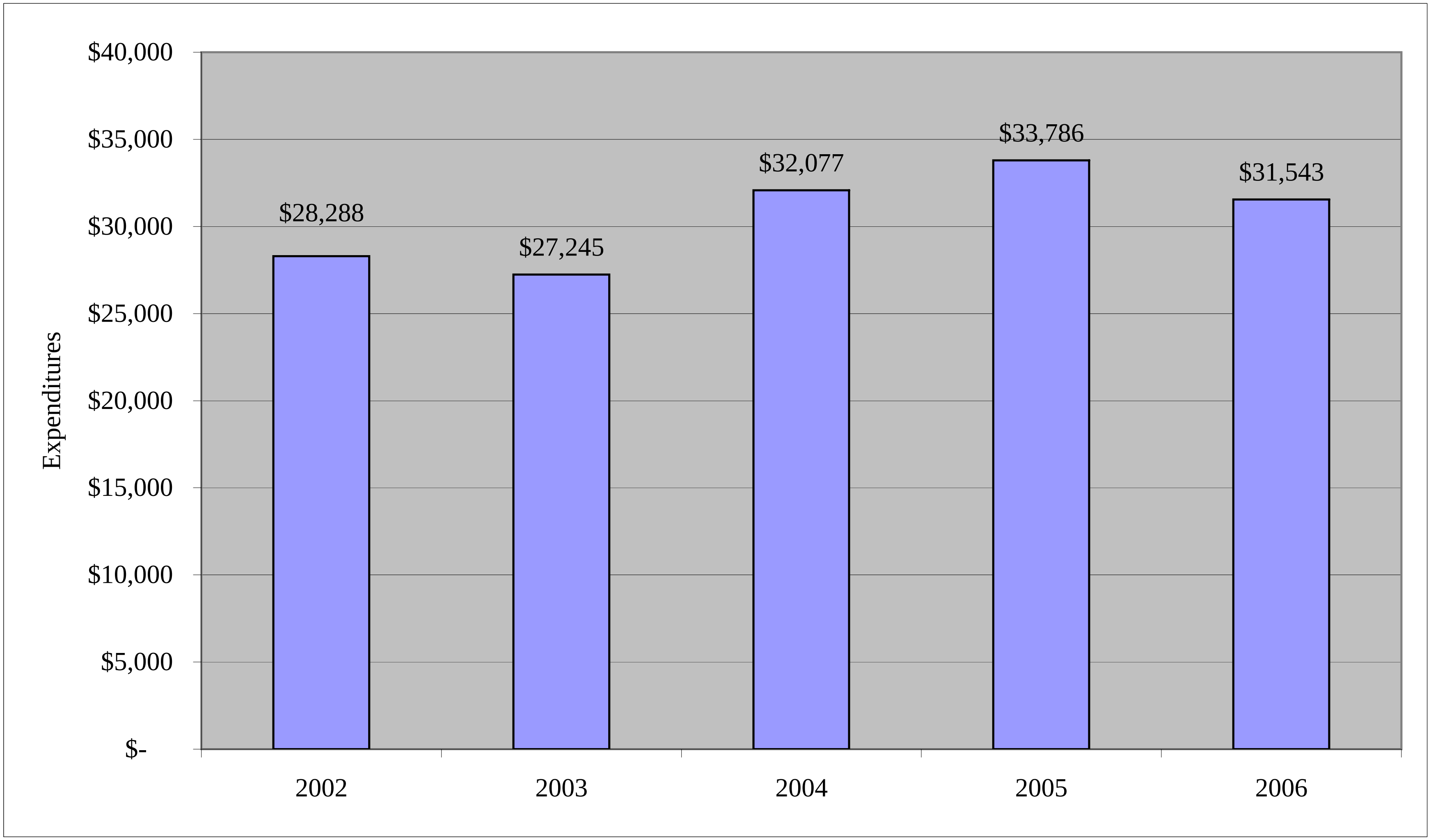
Timothy J. Channer CPA

August 30, 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 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 ABSTRACTERS BOARD OF EXAMINERS
**SCHEDULE OF EXPENDITURES BY FISCAL YEAR**
For the Fiscal Years Ended June 30, 2002, 2003, 2004, 2005, and 2006



NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

**SCHEDULE OF NUMBER OF CERTIFICATES ISSUED BY FISCAL YEAR**

For the Fiscal Years Ended June 30, 2002, 2003, 2004, 2005, and 2006