

**ATTESTATION REPORT  
OF THE  
NEBRASKA ARTS COUNCIL**

**JULY 1, 2004 THROUGH JUNE 30, 2005**

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**Issued on May 31, 2006**

# NEBRASKA ARTS COUNCIL

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## NEBRASKA ARTS COUNCIL

### BACKGROUND

Although the Nebraska Arts Council was created in 1965, its present form is the result of legislation in 1973 (Neb. Rev. Stat. Section 82-301 to 82-316 R.R.S. 1999) which created a Council of 15 members appointed by the Governor and approved by the Legislature. To ensure diversity, five members are appointed from each of Nebraska's three congressional districts. The members of the Council are known for their professional competence and experience or long-standing interest in the arts. The Council oversees all agency policy and makes final decisions on grant awards as recommended by review panels. The Council meets four times annually to conduct its business. Members are not paid for their services, but are reimbursed for expenses.

The duties of the Nebraska Arts Council (Neb. Rev. Stat. Section 82-312 R.R.S. 1999) include "To stimulate and encourage throughout the state the study and presentation of the performing and fine arts and public interest and participation therein;" and "To take such steps as may be necessary and appropriate to encourage public interest in the cultural heritage of our state and to expand the state's cultural resources." The Nebraska Arts Council allocates the majority of its funding from State and Federal sources in the form of matching grants to nonprofit organizations incorporated in the State of Nebraska and Nebraska schools to fulfill these mandates.

In addition to its grant programs, the Nebraska Arts Council provides nonprofit administrative research and advisory services to the State's cultural community, maintains an extensive database of information concerning the arts as a component of economic development, and undertakes activities to support and enhance arts education in Nebraska schools. The Nebraska Arts Council conducts the biennial Governor's Arts Awards and manages several exhibition programs at the Governor's Residence and at the Nebraska Showcase Gallery in the agency's Omaha office.

In 1978, the Legislature designated the Nebraska Arts Council to administer the acquisition of artworks for public buildings (Neb. Rev. Stat. Sections 82-317 to 82-329 R.R.S. 1999). Known as the 1% for Art program, artworks are purchased or commissioned as enhancements for State-owned buildings constructed or renovated through funds allocated by the Legislature. The Nebraska Arts Council maintains the inventory for the State's collection of public art and facilitates the administration of the collection.

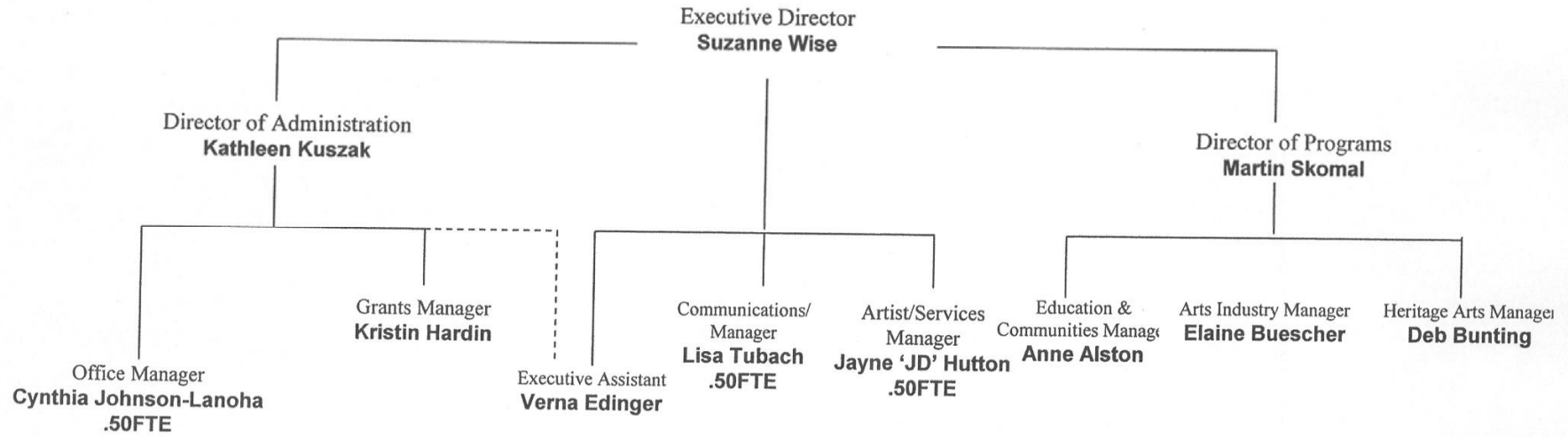
In 1998, the Legislature established the Cultural Preservation Endowment Fund and the Nebraska Arts and Humanities Cash Fund (Neb. Rev. Stat. Sections 82-331 to 82-332 R.R.S. 1999) to supplement State and Federal appropriations. The earnings may be used to support long-term stabilization of Nebraska's cultural institutions and to enhance arts education efforts in the State. A private dollar-for-dollar match must be established in order for the agency to access the earnings from this fund.

### MISSION STATEMENT

The Nebraska Arts Council is a State agency that promotes, cultivates, and sustains the arts for the people of Nebraska.

NEBRASKA ARTS COUNCIL

ORGANIZATIONAL CHART



NEBRASKA ARTS COUNCIL

**EXIT CONFERENCE**

An exit conference was held April 27, 2006, with the Council to discuss the results of our examination. Those in attendance for the Nebraska Arts Council were:

<b>NAME</b>	<b>TITLE</b>
Suzanne Wise	Executive Director
Kathleen Kuszak	Director of Administration
Art Thompson	Nebraska Arts Council Finance Committee Chair
Marty Skomal	Director of Programs
Kirstin Hardin	Grants Manager
Cindy Lanoha	Administrative Assistant
Verna Edinger	Executive Assistant

## NEBRASKA ARTS COUNCIL

### SUMMARY OF COMMENTS

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

1. ***NIS Batch Management:*** Three employees were set up within NIS Batch Management to prepare, approve, and post their own batches.
2. ***Fixed Assets:*** There was a lack of segregation of duties over fixed assets and no independent review of the Additions and Retirements Report. During testing, we noted a capital outlay for a projector costing \$2,907 that was not added to the Fixed Asset Listing on NIS and \$49,707 in expenditures were incorrectly coded to capital outlay object accounts.
3. ***Leave Balances:*** The Council was not relying on NIS in order to record the proper leave balances and three employees did not have leave balances zeroed out on NIS at termination.
4. ***Travel:*** Approval for out-of-state travel, Council meeting locations, and approval of staff travel to Council meetings was not documented. Meals exceeded maximum reasonable daily amounts, and receipts did not contain adequate detail or were not present. Expense reimbursement documents were not properly completed, approved, and were not on approved forms.
5. ***Segregation of Duties - Payroll:*** There was a lack of segregation of duties over payroll as one person had the authority to do everything on NIS for payroll.
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.

Draft copies of this report were furnished to the Council 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 ARTS COUNCIL

### COMMENTS AND RECOMMENDATIONS

#### 1. NIS Batch Management

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. Individuals should not be authorized to prepare and approve/post their own batches.

There was a lack of segregation of duties over expenditures and revenues. Three individuals were able to perform all steps of the expenditure and revenue process. Three individuals listed on Batch Management had the ability to prepare, approve, and post their own batches.

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

We recommend the Council implement procedures so no one individual is authorized to prepare and approve/post their own batches.

*Council's Response: The Nebraska Arts Council is an agency of eleven, therefore, total segregation of duties is difficult. Each member of the administrative team is trained to know and understand all aspects of the batch management process to ensure efficiency and timeliness, however the NAC understands the concern about the ability to "perpetrate and conceal errors or irregularities." The NAC has a signed contract with the Department of Administrative Services that has approved our pre-audit procedures which includes the following policies:*

- a. A NAC employee responsible for preparing voucher or transaction cannot pre-audit or approve said documents. After document has been pre-audited and approved, the prepare will post said documents in NIS.*
- b. A NAC employee responsible for pre-auditing documents cannot prepare said documents.*
- c. A NAC employee responsible for approving documents cannot prepare said documents.*

#### 2. Fixed Assets

Good internal control requires an adequate segregation of duties be in place over fixed assets to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities. Good business practices and internal controls require the review of reports be adequately documented. The Department of Administrative Services (DAS) Materiel Division policies and procedures states, "... all assets being procured with a total cost of at least \$1,500 must be established as assets within the fixed asset system of NIS." Good internal control requires expenditures be coded to the correct fund, object account, and program to ensure expenditures are properly accounted for.

NEBRASKA ARTS COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Fixed Assets (Concluded)**

The following was noted during testing of fixed assets:

- Two individuals could perform all phases of transactions relating to fixed assets. Additionally, there was no independent review of the Additions and Retirements Report and the review of the Unposted Fixed Asset Transaction report was not documented. It was also noted the Council did not review Fixed Assets Integrity Reports including the Fixed Assets Category Code Omissions Report, the Fixed Assets No Attachment Report, and the Fixed Assets Passed Transactions Report.
- An expenditure for a projector costing \$2,907 was coded to a capital outlay object account, but the asset was not added to the fixed asset listing on NIS.
- Expenditures totaling \$49,707 for furniture and office equipment were incorrectly coded to capital outlay object accounts. These purchases were for items with a purchase cost below the Council's capitalization policy of \$1,500 and should not have been coded to capital outlay object accounts.

Without adequate control over fixed asset records, there is an increased risk of loss or theft of State assets.

We recommend the Council implement procedures which ensure an adequate segregation of duties over fixed assets is in place. This could include an independent documented review of the Additions and Retirements Report, as well as reviewing the Fixed Asset Integrity Reports. We also recommend the Unposted Fixed Asset Transaction Report be saved to a disk or hard drive and the Council use a log to document their review of this report. This log would note the date of the review, the report reviewed, and the initials of the person reviewing the report. Furthermore, we recommend all assets costing over \$1,500 be recorded as fixed assets on NIS and items under the Council's capitalization policy not be coded to capital outlay object accounts on NIS.

*Council's Response: The NAC has taken steps to segregate duties regarding fixed assets. This includes review of the Additions and Retirement Report and the Fixed Asset Integrity Report by the Director of Administration. The recommendation to save Unposted Fixed Asset Transaction Report to a disk or hard drive and to create a means to document review of this report has been addressed by putting the report in a logbook with a column for the reviewer to note date of review.*



## NEBRASKA ARTS COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 3. Leave Balances

Nebraska State Accounting Manual, AM-005, Unused Leave Recorded on NIS Policy, Section 34 states, in part, “ ... State Accounting has adopted the Nebraska Information System (NIS) to record all earned but not used sick and vacation leave and compensatory time. State Accounting needs this data in the system to be able to verify the dollar amount of the earned but unpaid days when the employee leaves State employment ... If an agency does not input such leave data into NIS, it is State policy to consider such liability NOT to exist. Therefore, when any employee of such agency leaves State government, NO payment will be allowed for any claimed unused vacation or sick leave or compensatory time until proper accounting for such leave or time is provided.” Good internal control requires leave balances be reviewed to determine they have been calculated correctly and are accurate and complete. Good internal control requires all vacation and sick leave earned and used to be recorded on NIS. Good internal control requires verifying vacation and sick leave balances are correctly zeroed out after paying employees their vacation and sick balances upon termination.

During testing of payroll, the following was noted:

- Three terminated employees’ leave balances were incorrectly calculated resulting in negative leave balances on NIS.
- One employee’s compensatory time was not recorded correctly on NIS.
- The Council was relying on employee timesheet calculations of leave balances and not using NIS for leave balances.

Without proper procedures in place to ensure leave balances are correct on NIS, there is an increased risk that improper or incorrect payments will be made to employees.

We recommend the Council use NIS to record all earnings and usage of vacation and sick leave. The leave balances on NIS should accurately reflect the earnings and usage of vacation, sick, and compensatory leave for each employee. If the leave balance is not correct on NIS, we recommend the Council take the necessary steps in order to correct the leave balance. When calculating final pay, the vacation and sick leave balances used should agree to those on NIS. We recommend the Council verify vacation and sick leave balances are correct on NIS after an employee terminates.

*Council’s Response: For the first two years that NIS was implemented, there were unexplained discrepancies for employee leave balances in the software; therefore, the NAC maintained a separate spreadsheet to insure accuracy of the balances. Now that NIS balances are accurate, the NAC is maintaining all leave in the NIS system including vacation and comp time payoff.*

## NEBRASKA ARTS COUNCIL

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 4. Travel

We selected six documents coded as travel expenses to test. Three documents were expense reimbursement documents of Council employees. One document was a direct payment to a hotel for lodging. Two documents were bills for State-owned transportation.

##### Travel Approval

Sound business practice and good internal control requires policies to ensure State funds are used appropriately. These policies would include documented Council or Director approval of out-of-state travel, approval of Council meeting locations, and approval of staff travel to those meetings.

There was no documented approval in Council minutes or any other approval form for all four documents tested for out of state travel. Two employees traveled to Washington, D.C.; one traveled to Orlando, Florida; one panel member flew to Omaha from New Jersey; and one panel member flew to Omaha from Minnesota. For both travel documents tested there was no documented approval in Council minutes or any other approval form for the location of Council meetings.

Without proper controls to ensure travel approval is documented, there is an increased risk of loss or misuse of State funds.

We recommend the Council document their approval of out of state travel and Council meeting locations.

##### Meals

Good internal control requires procedures which ensure meal costs reimbursed to employees are allowable and are reasonable. The Federal General Services Administration (GSA) provides meal guidelines which can be used as reasonable maximums for reimbursement of actual meal costs. Internal Revenue Service (IRS) Publication 463 requires an accountable plan to have adequate accounting. The publication also states, "Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense ... A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information. The name and location of the restaurant. The number of people served. The date and amount of the expense." In essence, an itemized receipt from the restaurant is adequate evidence. Discussion with IRS staff noted the name of the restaurant should also be included to provide adequate documentation.

For all three expense reimbursement documents tested, which included meal reimbursements, the meals were not within the Federal GSA maximum rate or did not have a detailed receipt attached per Council policy.

NEBRASKA ARTS COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Travel** (Continued)

- The maximum daily rate for meals was \$51 in Washington D.C. The employee claimed \$68.31 for meals for one day, \$17.31 over the maximum. This document also included 12 meals reimbursed when the receipts provided did not contain adequate detail.
- One document included a meal reimbursement when the receipt provided was not a detailed receipt.
- One document included reimbursement for two meals when no receipts were provided or the name of the restaurant was not included on the document.

Without proper controls to ensure meal reimbursements are reasonable, necessary, and in compliance with statute or accounting policies, there is an increased risk of loss or misuse of State funds.

We recommend Federal GSA meal rates be used as a guideline to determine the reasonableness of actual meal costs claimed. Based on the Council's policy of requiring receipts for meal reimbursement, we further recommend the Council follow IRS guidelines requiring a detailed restaurant receipt be used as adequate documentary evidence for meal reimbursement.

Expense Reimbursement Documents

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 states, "Each request shall be fully itemized, including when, where, and why the expense was incurred and the actual amount involved." Good internal control requires procedures which ensure employees include start and stop times of travel so that meals are reimbursed appropriately. Nebraska State Accounting Manual, Expense Reimbursement Guidelines state that start/stop times, employee title, address, and headquarter city should be filled out. Sound business practice requires an authorized approver sign the completed expense form to guarantee the reimbursement is reasonable, necessary, and allowed. 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."

All three expense reimbursement documents tested were not properly completed by including start and stop times, employee job title, residence, and headquarter city. One of three expense

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Travel** (Concluded)

reimbursement documents tested did not have an authorized approval signature by an immediate supervisor. The Council did not use the DAS approved form for reimbursement requests by State employees or an alternate form that was approved by the State Accounting Administrator.

Without proper controls to ensure travel expense reimbursements are properly completed, reviewed, and on authorized forms, there is an increased risk of loss or misuse of State funds.

We recommend the Council adhere to Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 and the Nebraska State Accounting Manual, Expense Reimbursement Guidelines by recording start/stop times, employee title, address, and headquarter city on all expense reimbursement documents. We recommend an authorized approver sign all completed expense documents to guarantee controls are in place and reimbursement amounts are reasonable. We also recommend the Council comply with State statute and either use the DAS form or have their current form approved by the State Accounting Administrator.

*Council's Response: Travel by NAC employees is discussed at each quarterly board meeting. In addition, travel dates and locations for staff travel are written in each quarterly meeting agenda. Internally, employee travel is noted weekly on the NAC staff calendar and discussed at each weekly staff meeting. NAC employees are required to assemble a travel budget for supervisor approval prior to travel. While the NAC understands the concern regarding this issue, with a staff of eleven, the whereabouts of each individual is observed on a daily basis. The NAC has taken steps to ensure that the board reviews and approves the projected possibilities of travel of the executive director on an annual basis. The review and approval of other staff travel is considered by the board to be the responsibility of the executive director.*

*Regarding the issue of reimbursed meals, the NAC requires a receipt for all reimbursable meals. The NAC has taken steps to insure that in the future, if a meal receipt is missing, meal expenses will be recorded on a log and attached to the travel reimbursement form. NAC employees have been provided training on the types of receipts that are considered acceptable documentation for meal expenses. The NAC has also taken steps to insure that meals are only reimbursed up to the accepted GSA meal guideline amount. The NAC would like to note that in the incident cited regarding employee reimbursement of a \$68.31 meal in Washington, D.C., which is \$17.31 over the allowable GSA guidelines, the overage was charged to taxable travel for the employee.*

*The NAC has received verbal approval to continue using the current NAC travel reimbursement document pending a revised employee reimbursement document issued by DAS Accounting.*

NEBRASKA ARTS COUNCIL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Segregation of Duties – Payroll**

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

One person had the authority to do everything on NIS for payroll. There was no one who compared the final payroll journal entries (after payroll had been posted) to the general ledger; therefore, the individual responsible for payroll could increase their own salary and no one would be aware of the change.

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

We recommend someone other than the individual responsible for preparing payroll compare the final payroll journal entries to the general ledger. This review should be documented.

*Council's Response: The NAC has taken steps to ensure that an employee other than the individual responsible for preparing payroll is comparing the final payroll journal entries to the general ledger. This will be documented by the employee comparing the final payroll journal entry to the payroll general ledger and noting this action by indicating the date the action was completed along with initials in the payroll register.*

**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 (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

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

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

months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of \$3,425,381, \$3,405,702, and \$3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

We recommend State Accounting continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

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

*Council's Response: The NAC has discussed this issue with DAS Accounting and steps have been taken to eliminate the variance for June 30, 2006.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA ARTS COUNCIL

### INDEPENDENT ACCOUNTANT'S REPORT

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Arts Council (Council) for the fiscal year ended June 30, 2005. The Council'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.

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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 Arts Council 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 27, 2006, on our consideration of the Nebraska Arts Council'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 Council 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 27, 2006



NEBRASKA ARTS COUNCIL  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2005

	General Fund 10000	Arts Council Cash Fund 26900	Nebraska Arts & Humanities Fund 26920	Fine Arts Federal Fund 46910	Arts Council Trust Fund 66910	<b>Totals (Memorandum Only)</b>
<b>REVENUES:</b>						
Appropriations	\$ 1,147,504	\$ -	\$ -	\$ -	\$ -	\$ 1,147,504
Intergovernmental	-	-	-	626,500	-	626,500
Sales & Charges	-	1,400	-	-	-	1,400
Miscellaneous	580	537	1,508	1,509	977	5,111
<b>TOTAL REVENUES</b>	<b>1,148,084</b>	<b>1,937</b>	<b>1,508</b>	<b>628,009</b>	<b>977</b>	<b>1,780,515</b>
<b>EXPENDITURES:</b>						
Personal Services	308,304	-	-	123,840	-	432,144
Operating	189,448	4,255	-	6,893	-	200,596
Travel	22,684	-	-	579	-	23,263
Capital Outlay	4,718	-	-	-	-	4,718
Government Aid	622,350	-	367,847	462,752	725	1,453,674
<b>TOTAL EXPENDITURES</b>	<b>1,147,504</b>	<b>4,255</b>	<b>367,847</b>	<b>594,064</b>	<b>725</b>	<b>2,114,395</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	580	(2,318)	(366,339)	33,945	252	(333,880)
<b>OTHER FINANCING SOURCES (USES):</b>						
Sales of Assets	302	-	-	-	-	302
Adjustment to Fund Balance	(1,108)	-	-	-	-	(1,108)
Deposit to General Fund	(882)	-	-	-	-	(882)
Operating Transfers In (Note 5)	-	-	288,446	-	-	288,446
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,688)</b>	<b>-</b>	<b>288,446</b>	<b>-</b>	<b>-</b>	<b>286,758</b>
Net Change in Fund Balances	(1,108)	(2,318)	(77,893)	33,945	252	(47,122)
FUND BALANCES, JULY 1, 2004	1,689	4,306	79,070	91,815	28,469	205,349
FUND BALANCES, JUNE 30, 2005	<u>\$ 581</u>	<u>\$ 1,988</u>	<u>\$ 1,177</u>	<u>\$ 125,760</u>	<u>\$ 28,721</u>	<u>\$ 158,227</u>
<b>FUND BALANCES CONSIST OF:</b>						
General Cash	\$ -	\$ 1,988	\$ 1,177	\$ 125,760	\$ 28,896	\$ 157,821
Petty Cash	250	-	-	-	-	250
Deposits with Vendors	331	-	-	-	-	331
Tax Refunds Payable	-	-	-	-	(173)	(173)
Deposits	-	-	-	-	(2)	(2)
<b>TOTAL FUND BALANCES</b>	<b>\$ 581</b>	<b>\$ 1,988</b>	<b>\$ 1,177</b>	<b>\$ 125,760</b>	<b>\$ 28,721</b>	<b>\$ 158,227</b>

The accompanying notes are an integral part of the schedule.

NEBRASKA ARTS COUNCIL

**NOTES TO THE SCHEDULE**

For the Fiscal Year Ended June 30, 2005

**1. Criteria**

The accounting policies of the Nebraska Arts Council 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 Council was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, does not include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

NIS also records other liabilities in accounts titled Deposits and Nonresident Personal Service Withholding. 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 Council had accounts receivable not included in the Schedule of \$1,290 from 1% for Art projects. DAS did not require the Department to record their receivables on the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. The NIS system does not include liabilities for accrued payroll and compensated absences.

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

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

NEBRASKA ARTS COUNCIL

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

**20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

**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.

The major revenue object account codes established by NIS used by the Council 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 for expenses incurred by the Council for 1% for Art projects, and refunds from grantee of unused grant award monies.

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

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

**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 ARTS COUNCIL

**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 Council include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for the Commission's funds at June 30, 2005, included Deposits and Nonresident Personal Service Withholdings. The activity of these accounts are not recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

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

**2. State Agency**

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

The Nebraska Arts Council 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

NEBRASKA ARTS COUNCIL

**NOTES TO THE SCHEDULE**

(Continued)

**4. Capital Assets** (Concluded)

Report (CAFR). The Council 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 Council 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	\$ 110,629	\$ 4,718	\$ 21,269	\$ 94,078
Less accumulated depreciation for:				
Equipment				79,850
Total capital assets, net of depreciation				<u>\$ 14,228</u>

**5. Transfers**

During fiscal year 2005, the Council received an operating transfer into the Nebraska Arts and Humanities Cash Fund of \$288,446 in investment earnings. These investment earnings were from the \$5 million Nebraska Cultural Preservation Endowment Fund which was created by Neb. Rev. Stat. Section 82-331 R.R.S. 1999.

**6. Adjustments to Fund Balance**

Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a revenue or expenditure account. This adjustment was in the Deposits with Vendors account.

**7. Component Units**

The NAC Development Corporation and the Nebraska Cultural Endowment are component units of the Nebraska Arts Council as defined by the Government Accounting Standards Board (GASB). Financial information for these component units was not included in the financial schedule of the Council. Additional information on the component units is available from the Nebraska Arts Council.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA ARTS COUNCIL  
**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 Arts Council  
Omaha, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Arts Council for the fiscal year ended June 30, 2005, and have issued our report thereon dated April 27, 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 Arts Council's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Arts Council's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 6 (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 Arts Council'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 Arts Council in the Comments Section of this report as Comment Number 1 (NIS Batch Management), Comment Number 2 (Fixed Assets), Comment Number 3 (Leave Balances), Comment Number 4 (Travel), and Comment Number 5 (Segregation of Duties - Payroll).

This report is intended solely for the information and use of the Council 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 cursive script.

Assistant Deputy Auditor

April 27, 2006

NEBRASKA ARTS COUNCIL

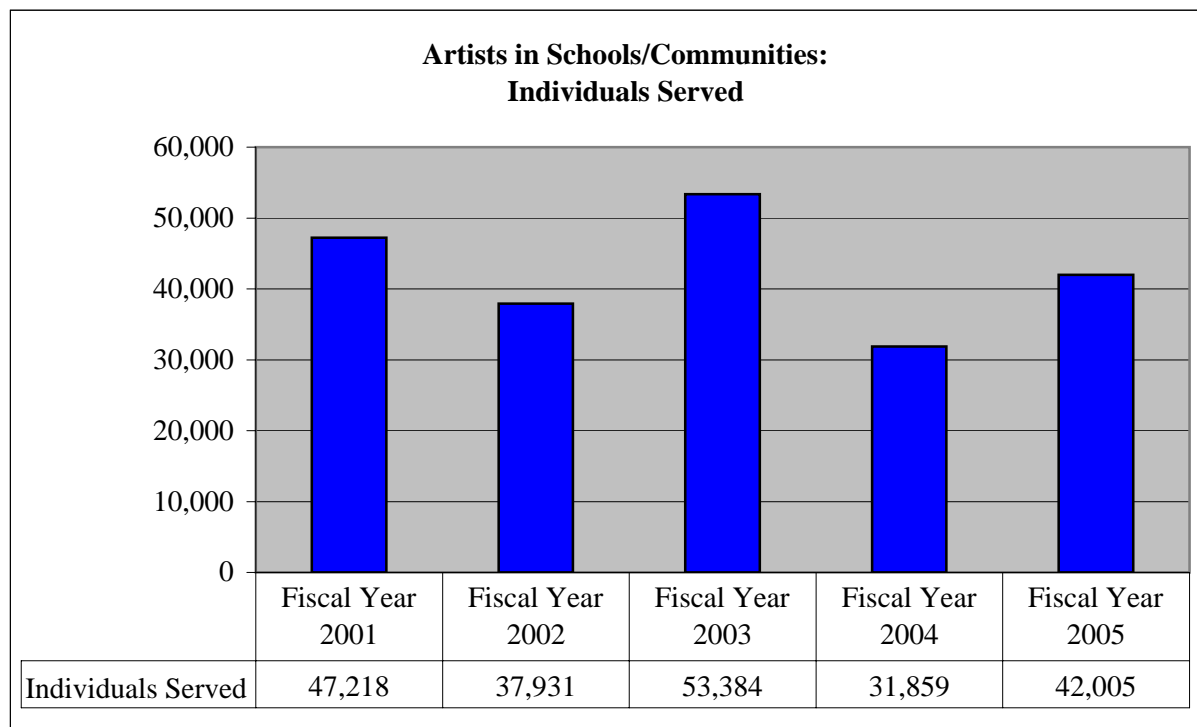
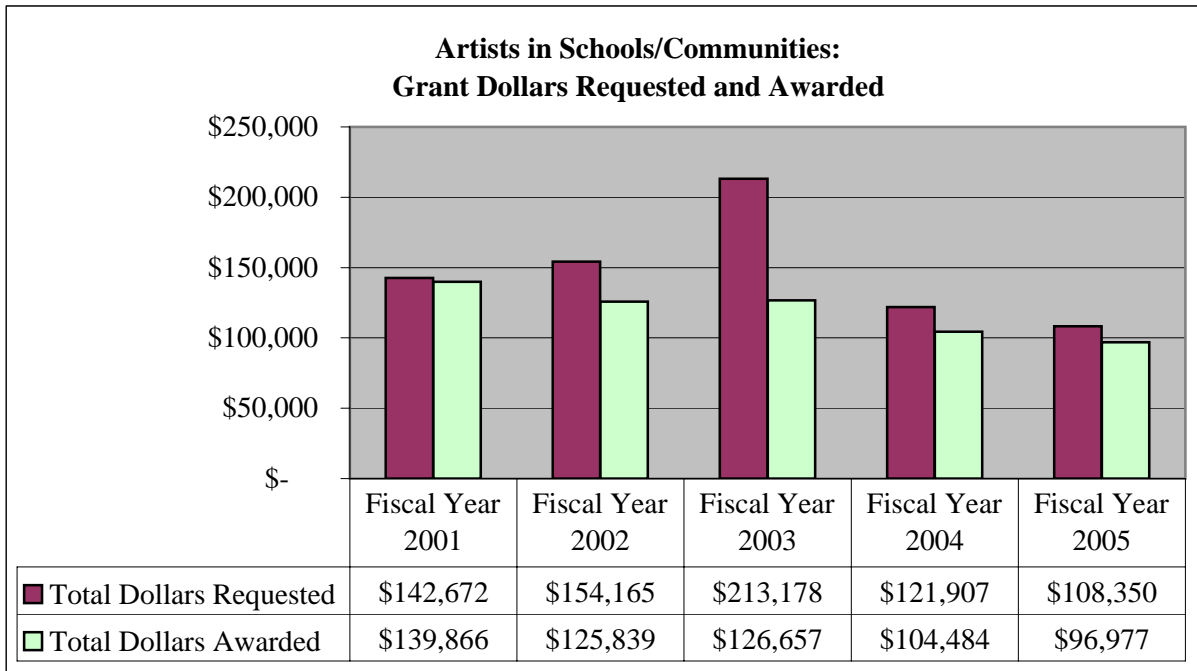
**STATISTICAL SECTION**

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.



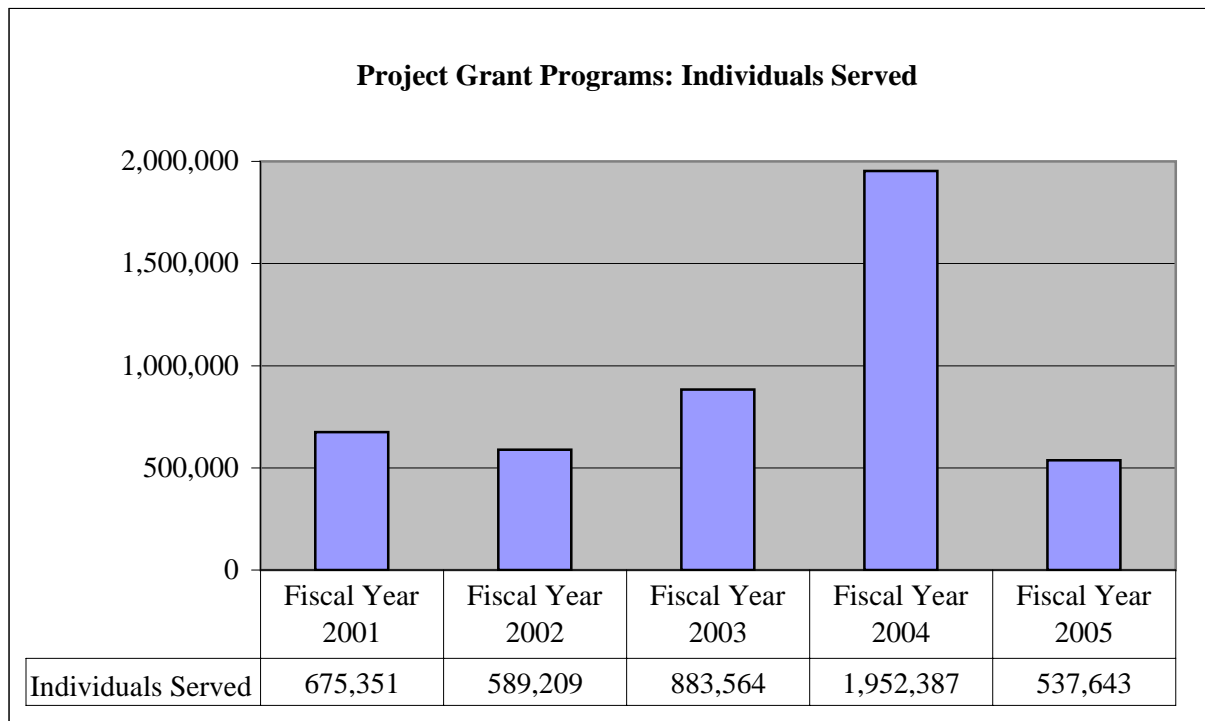
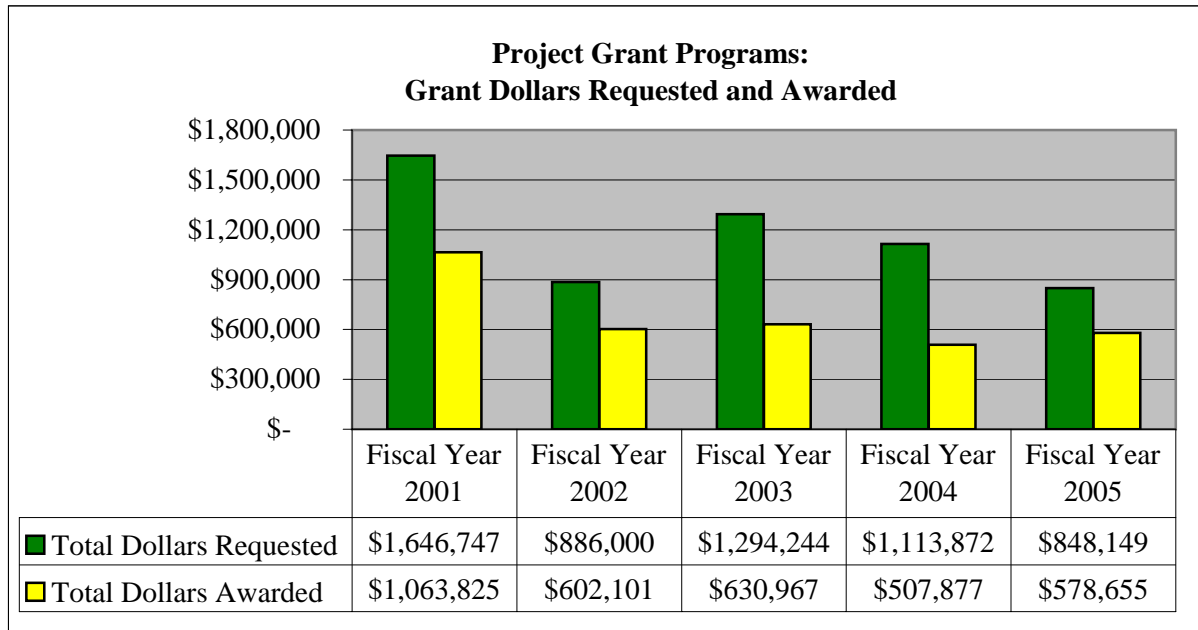
**NEBRASKA ARTS COUNCIL  
ARTISTS IN SCHOOLS/COMMUNITIES**

These awards support artist residencies in school or community settings for a minimum of five days in one or more arts disciplines. The recipient pays up to 50% of the total cost.



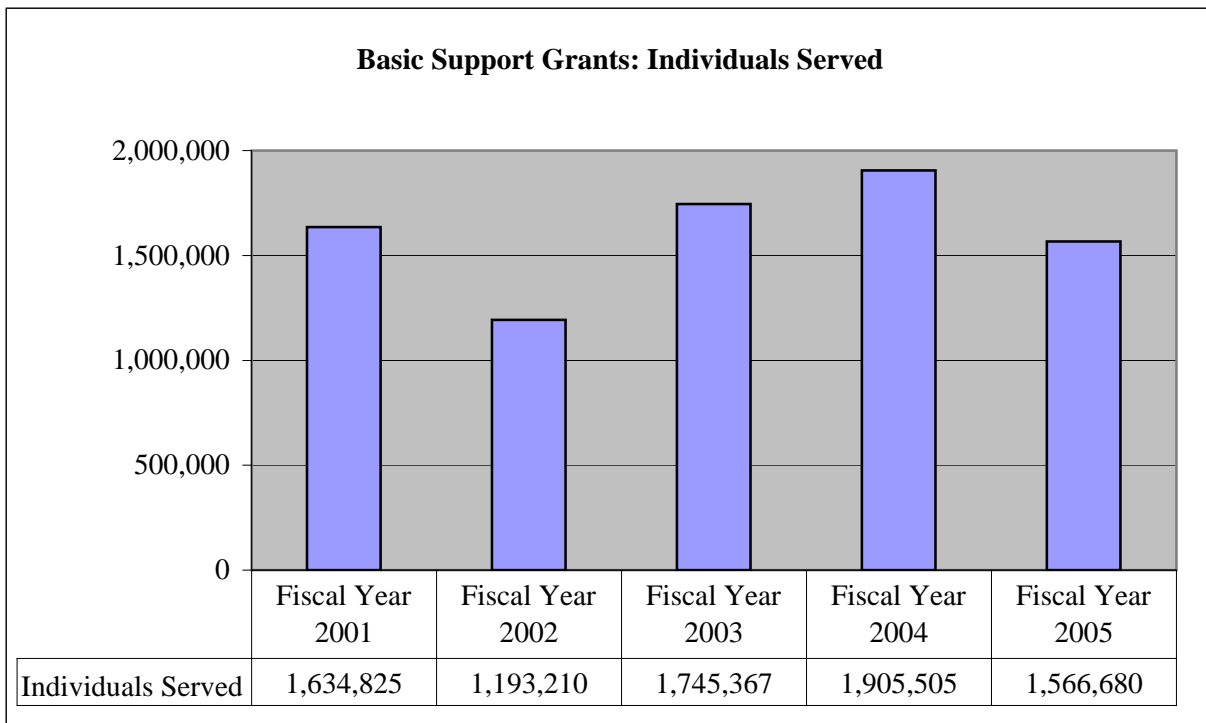
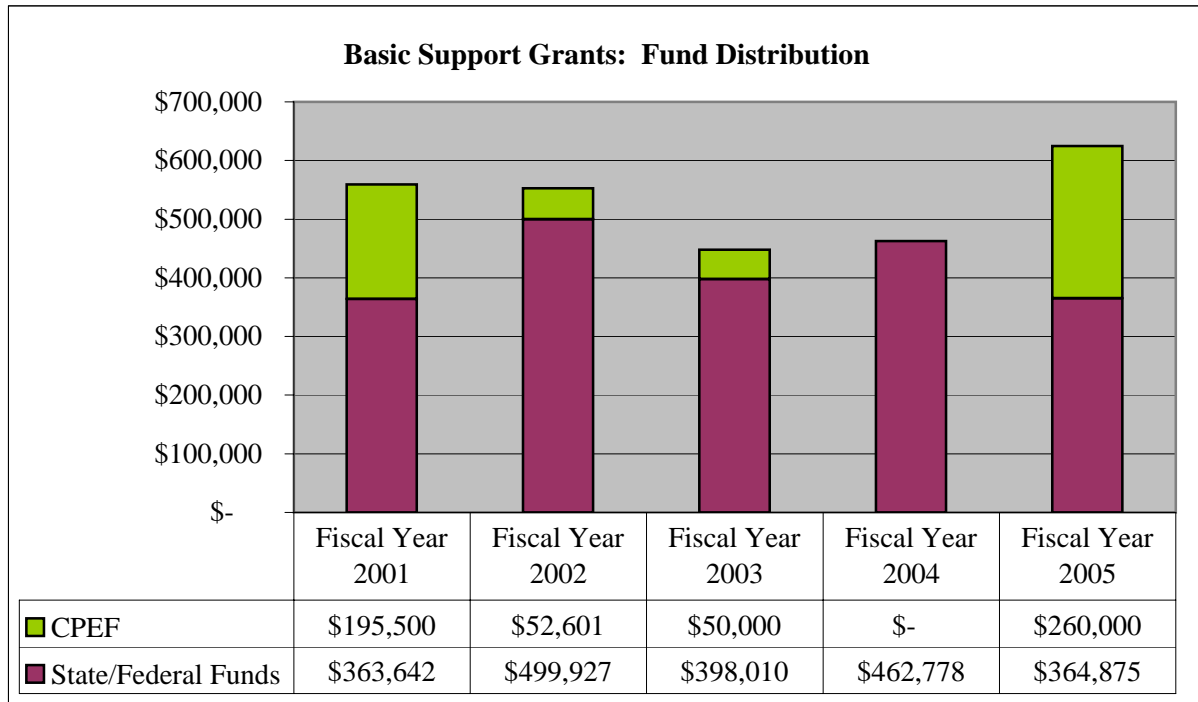
**NEBRASKA ARTS COUNCIL  
PROJECT GRANT PROGRAMS**

There are many grant opportunities available to nonprofit organizations. The data below represents totals for all grant categories excluding Artists in Schools/Communities and Basic Support Grants.



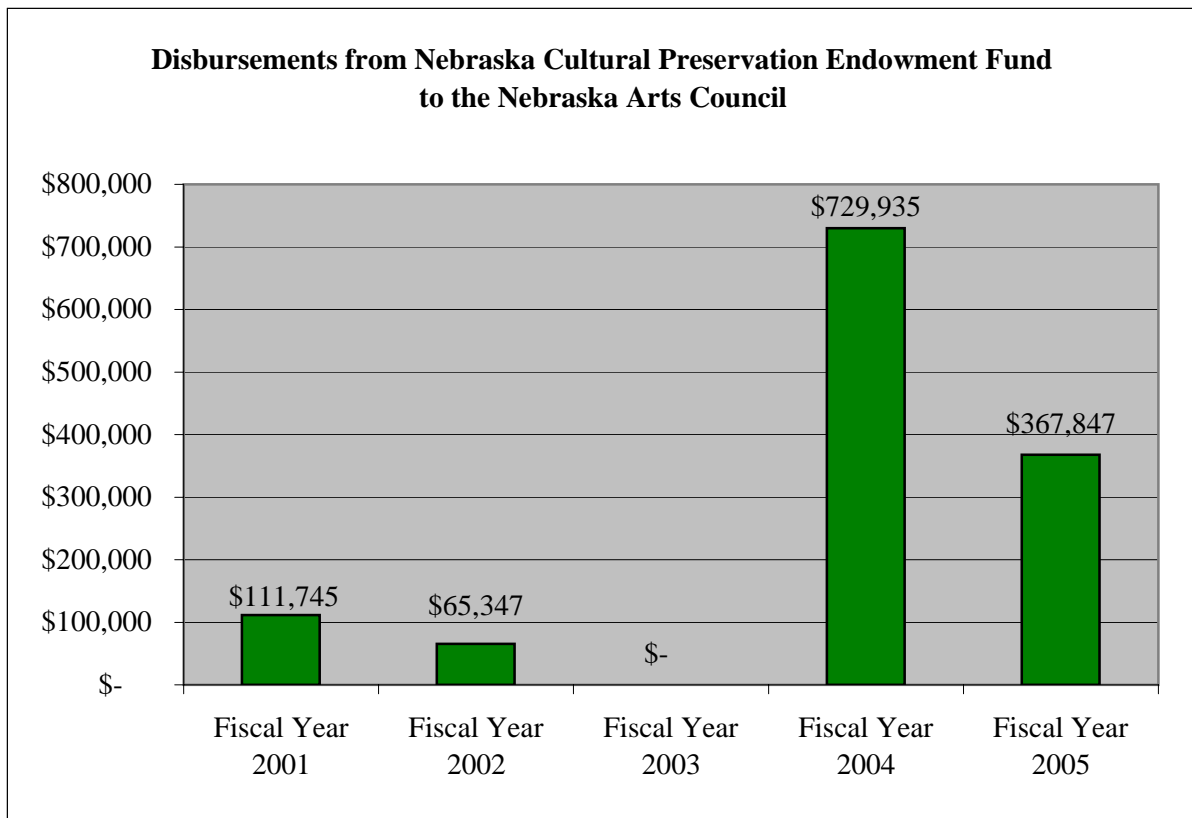
**NEBRASKA ARTS COUNCIL  
BASIC SUPPORT GRANTS**

These awards provide general operating support to arts organizations, allowing them to improve and extend the arts services they annually provide to their communities. Recipients are required to provide a 50% match.



**NEBRASKA ARTS COUNCIL  
NEBRASKA CULTURAL PRESERVATION ENDOWMENT FUND**

The Nebraska Cultural Preservation Endowment Fund (CPEF) consists of \$5.5 million held by the State Treasurer and invested by the Nebraska Investment Council. Earnings in excess of \$5.5 million are deposited into the Nebraska Arts and Humanities Cash Fund Program 329, Fund 26920 by request to the State Investment Officer and State Treasurer from the chair of the Nebraska Arts Council. The request is accompanied with documentation of the required dollar for dollar match as outlined in Neb. Rev. Stat. Section 82-331 to 82-332 R.R.S. 1999. After the documentation has been reviewed and affirmed by the State Budget Office, DAS Budget Division is directed to increase the allotment to Program 329.



NEBRASKA ARTS COUNCIL

