

**ATTESTATION REPORT
OF THE
NEBRASKA ACCOUNTABILITY
AND DISCLOSURE COMMISSION**

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on March 31, 2006

NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

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NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

BACKGROUND

The 1976 Legislature created the Nebraska Accountability and Disclosure Commission through the enactment of the Nebraska Political Accountability and Disclosure Act.

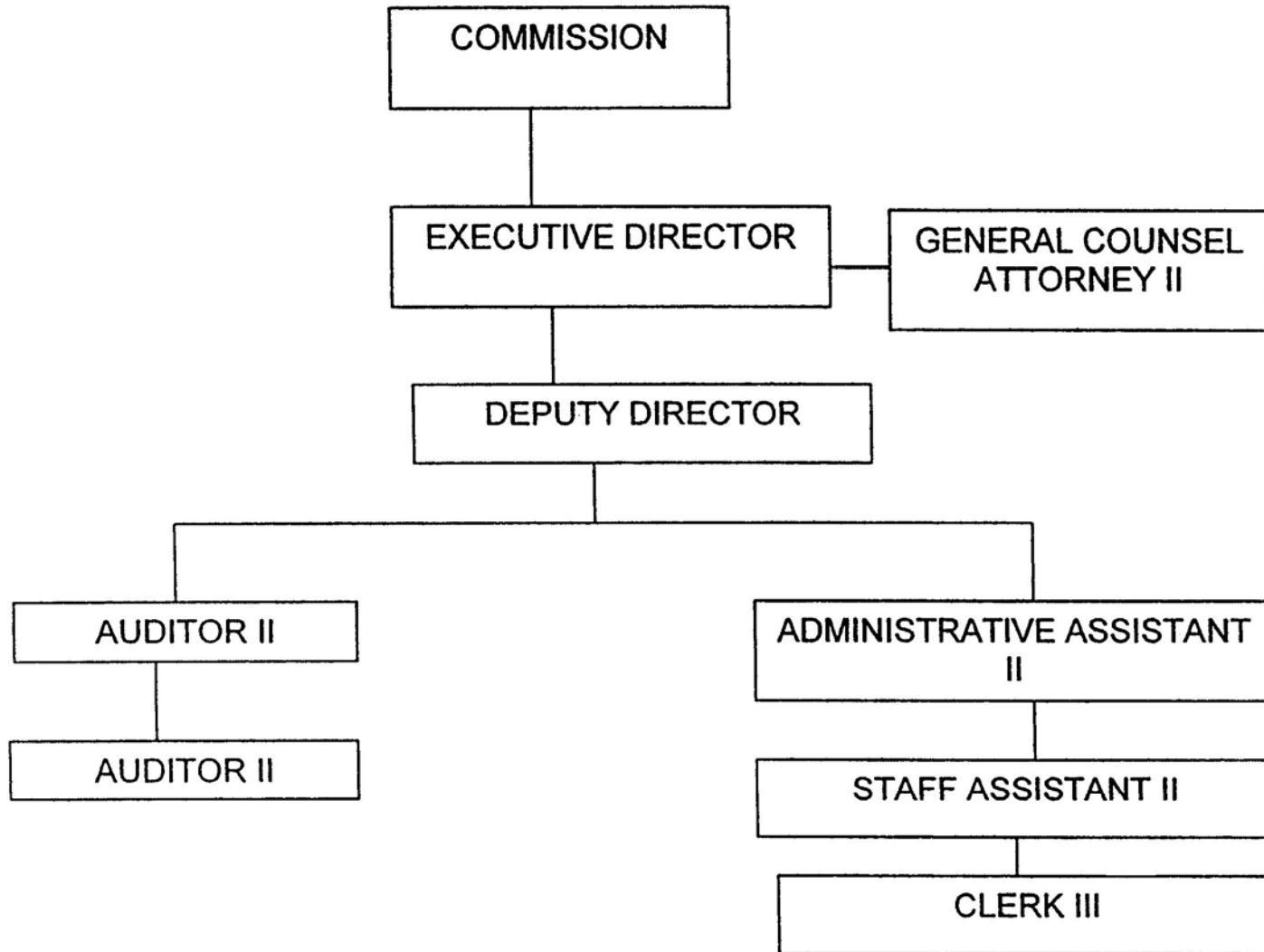
The purpose of the Commission is to provide disclosure of 1) campaign finance activities of candidates and other committees and entities, 2) the activities of lobbyists and principals of lobbyists who seek to influence legislation, and 3) the conduct of public officials and public employees. The Commission is also charged with providing guidance with respect to the conduct of candidates, lobbyists, and public officials and employees, to help ensure 1) the proper operation of government, 2) that governmental decisions and policies are made in the proper channels of the governmental structure, and 3) that public office or employment not be used for private gain.

MISSION STATEMENT

The mission of the Nebraska Accountability and Disclosure Commission is to administer and enforce the Nebraska Political Accountability and Disclosure Act and the Campaign Finance Limitation Act.

NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

ORGANIZATIONAL CHART



NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

EXIT CONFERENCE

An exit conference was held March 16, 2006, with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Accountability and Disclosure Commission were:

NAME	TITLE
Frank Daley	Executive Director
Mark Hinman	Deputy Director

NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

SUMMARY OF COMMENTS

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

1. ***Fines and Penalties:*** As authorized by statute, the Commission deposited their fines and penalties into the Permanent School Fund and the Campaign Finance Limitation Cash Fund, which is in apparent conflict with the Nebraska State Constitution.
2. ***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 Commission to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. 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 ACCOUNTABILITY AND DISCLOSURE COMMISSION

COMMENTS AND RECOMMENDATIONS

1. Fines and Penalties

The Nebraska Constitution Article VII, Section 5(1) states, “. . . all fines, penalties, and license money arising under the general laws of the state . . . shall belong and be paid over to the counties respectively where the same may be levied or imposed . . . All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue . . .”

Neb. Rev. Stat. Section 79-1035.01 R.R.S. 2003 created the Permanent School Fund and states the principal balance of the fund “shall be held and invested in perpetuity by the state in trust for the support of its common schools. The annual interest and other income, but not the principal, is subject to use for the support and maintenance of the common schools in each public school district of the state as the Legislature provides in accordance with Article VII, Section 9, of the Constitution of Nebraska.”

Neb. Rev. Stat. Section 49-1446.04 R.R.S. 2004, directed the Commission to deposit civil penalties for candidate committee loans into the Permanent School Fund. After fiscal year 2005 this statute was amended. Effective January 1, 2006, the amended statute directed the Commission to deposit the civil penalty in accordance with Article VII, Section 5, of the Constitution.

Neb. Rev. Stat. Section 49-14,123 directs the Commission to deposit all late filing fees, civil penalties (except the civil penalty for candidate committee loans), and interest imposed pursuant to the Campaign Finance Limitation Act or the Nebraska Political Accountability and Disclosure Act into the Campaign Finance Limitation Cash Fund.

During fiscal year 2005, the Commission deposited \$25,112 into the Permanent School Fund and \$65,387 into the Campaign Finance Limitation Cash Fund.

There is a conflict between the Commission statutes and the Nebraska Constitution. If fines and penalties are deposited into the Permanent School Fund or the Campaign Finance Limitation Cash Fund as provided by statute, the monies are not being distributed as required by the Nebraska Constitution.

We recommend the Commission request a legal opinion from the Attorney General requesting guidance for the appropriate fund to deposit all fines and penalties. We also recommend the Commission work with the Legislature to resolve the apparent conflict between State statutes and the Nebraska Constitution.

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Fines and Penalties (Concluded)

Commission's Response: An opinion by the Attorney General is not dispositive of the issue. State agencies are required to presume the constitutionality of the state statutes. See In Re Application A-16642, 236 Neb. 671 (1990). Section 49-14,123(12) clearly provides that late filing fees and civil penalties shall be deposited in the Campaign Finance Limitation Act Fund. Absent a change in statute or a decision of a court, the Commission is obliged to deposit these funds as directed by law. The Commission has no authority to do otherwise.

2. 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.

COMMENTS AND RECOMMENDATIONS

(Continued)

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

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.

Commission's Response: As stated in the comment, this statewide issue is outside of the control of the Nebraska Accountability and Disclosure Commission. Only the State Accounting Division and the State Treasurer are in a position to resolve this matter.

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NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

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Nebraska Accountability and Disclosure Commission
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Accountability and Disclosure Commission (Commission) for the fiscal year ended June 30, 2005. The Commission's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

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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 Accountability and Disclosure Commission for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2006, on our consideration of the Nebraska Accountability and Disclosure Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose

of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Commission and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

March 16, 2006


Assistant Deputy Auditor

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

	General Fund 10000	NADC Cash Fund 28710	Campaign Finance Limit Fund 28720	Permanent School Fund 63340	Total (Memorandum Only)
REVENUES:					
Appropriations	\$ 388,086	\$ -	\$ -	\$ -	\$ 388,086
Sales & Charges	-	34,495	-	-	34,495
Miscellaneous	53	8,809	94,350	25,112	128,324
TOTAL REVENUES	388,139	43,304	94,350	25,112	550,905
EXPENDITURES:					
Personal Services	324,577	54,695	-	-	379,272
Operating	55,472	429	-	-	55,901
Travel	8,037	-	-	-	8,037
TOTAL EXPENDITURES	388,086	55,124	-	-	443,210
Excess (Deficiency) of Revenues Over (Under) Expenditures	53	(11,820)	94,350	25,112	107,695
OTHER FINANCING SOURCES (USES):					
Deposit to General Fund	(53)	-	-	-	(53)
Deposit to/from Common Fund	-	-	-	(25,112)	(25,112)
TOTAL OTHER FINANCING SOURCES (USES)	(53)	-	-	(25,112)	(25,165)
Net Change in Fund Balances	-	(11,820)	94,350	-	82,530
FUND BALANCES, JULY 1, 2004	903	241,052	560,218	-	802,173
FUND BALANCES, JUNE 30, 2005	<u>\$ 903</u>	<u>\$ 229,232</u>	<u>\$ 654,568</u>	<u>\$ -</u>	<u>\$ 884,703</u>
FUND BALANCES CONSIST OF:					
General Cash	\$ -	\$ 229,232	\$ 654,568	\$ -	\$ 883,800
Petty Cash	25	-	-	-	25
Deposits with Vendors	878	-	-	-	878
TOTAL FUND BALANCES	<u><u>\$ 903</u></u>	<u><u>\$ 229,232</u></u>	<u><u>\$ 654,568</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 884,703</u></u>

The accompanying notes are an integral part of the schedule.

NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Accountability and Disclosure Commission are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed on NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Commission was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

The Commission had accounts receivable not included in the Schedule of \$240,138 from fees, fines, and penalties. DAS did not require the Commission 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 Commission are:

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

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

NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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 Commission are:

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

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, late filing fees, civil penalties, and Campaign Finance Limitation Act donations.

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

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

Operating – Expenditures directly related to a program's primary service activities.

Travel – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

Other significant object account codes established by NIS and used by the Commission include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts 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.

NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

NOTES TO THE SCHEDULE

(Continued)

2. State Agency

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

The Nebraska Accountability and Disclosure Commission is part of the primary government for the State of Nebraska.

3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Commission 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 Commission for the fiscal year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets				
Equipment	\$ 39,809	\$ -	\$ 15,037	\$ 24,772
Less accumulated depreciation for:				
Equipment				24,072
Total capital assets, net of depreciation				<u>\$ 700</u>

NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION

NOTES TO THE SCHEDULE

(Continued)

5. Deposits to/from Common Funds

Deposits to Common Funds include the collection of civil penalties per Neb. Rev. Stat. Section 49-1446.04 R.R.S. 2004.

6. Campaign Finance

The Campaign Finance Limitation Cash Funds are, as required by Neb. Rev. Stat. Section 32-1611 R.R.S. 2004, strictly to be used by individuals running for covered elective office who have requested public funding. State statute allows for certain elected offices to gain access to this public funding once the Campaign Finance Limitation Cash Fund balance exceeds predetermined dollar limits as set forth in statute. The agency's operational expenses are not permitted to be paid from this fund.

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NEBRASKA ACCOUNTABILITY AND DISCLOSURE COMMISSION **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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Nebraska Accountability and Disclosure Commission
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Accountability and Disclosure Commission for the fiscal year ended June 30, 2005, and have issued our report thereon dated March 16, 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 Accountability and Disclosure Commission's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted 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 Accountability and Disclosure Commission'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 2 (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 Accountability and Disclosure Commission's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted a certain additional item that we reported to management of the Nebraska Accountability and Disclosure Commission in the Comments Section of this report as Comment Number 1 (Fines and Penalties).

This report is intended solely for the information and use of the Commission and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

March 16, 2006


Assistant Deputy Auditor