ATTESTATION REPORT
OF THE
NEBRASKA BRAND COMMITTEE

JULY 1, 2005 THROUGH JUNE 30, 2006

Issued on June 11, 2007

NEBRASKA BRAND COMMITTEE

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BACKGROUND

The Nebraska Brand Committee (Committee) was created by the 1941 Legislature to protect livestock owners through brand recording, brand inspection, and theft investigation. The Committee is composed of the Secretary of State as chairperson, and four other members appointed by the Governor to four-year terms. These members must be active cattlemen engaged in the cattle business in the brand area.

The primary duties of the Brand Committee are to:

- Maintain records of all brand transactions;
- Investigate thefts or missing livestock; and
- Inspect cattle moved outside the brand area or that change ownership.

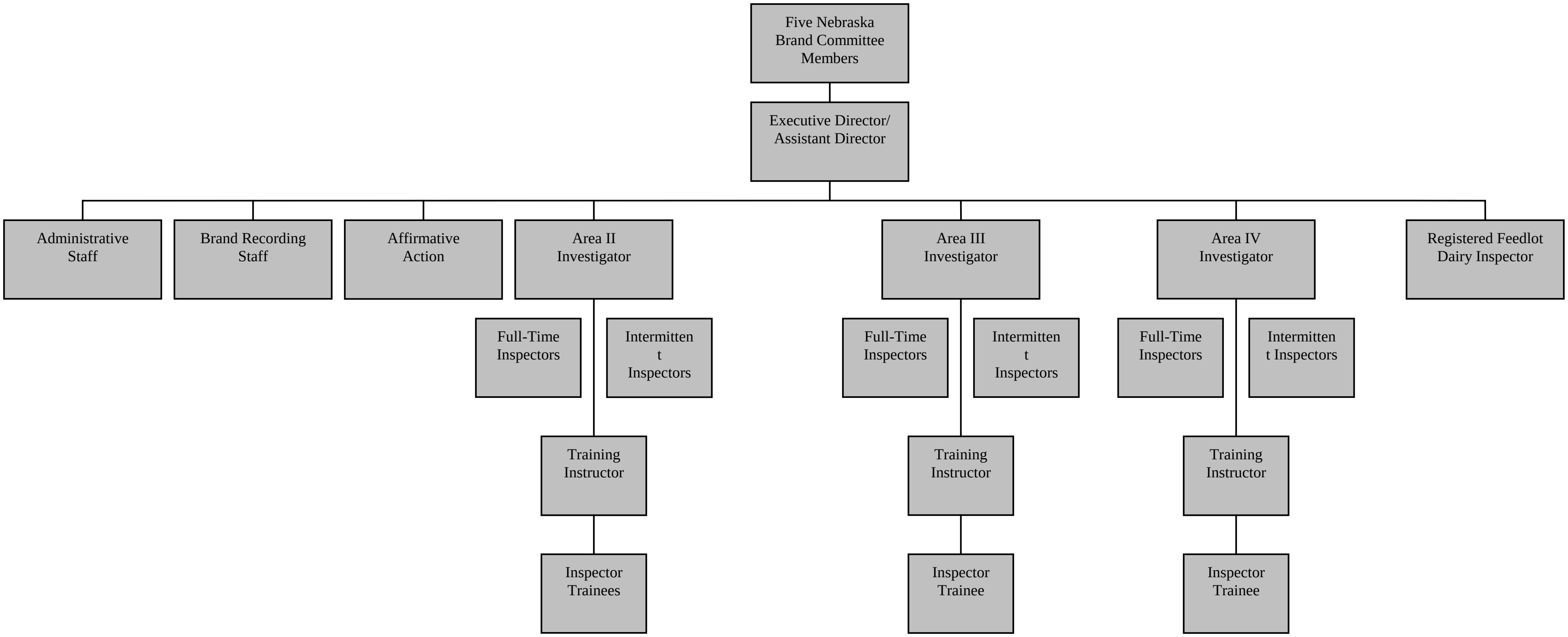
The Committee is self-supporting, operating on the proceeds collected from the inspection of cattle and recording of brands. The Committee employs an Executive Director who manages 58 full-time and 53 intermittent employees as of June 30, 2006.

MISSION STATEMENT

The Nebraska Brand Committee provides individual herd identification through brand recording; ownership protection through brand inspection at markets, packing plants, during private treaty sales, and when leaving the State and/or brand inspection area; investigations of cases which involve fraud in marketing cattle; and theft of livestock. This State Committee has an Administrative Division that oversees the entire operation which includes Brand Recording, Brand Inspection and Livestock Theft Investigation, all under the control of the four (4) Brand Committee members and the Secretary of State, who serves as the Chairperson of the Committee. Major goals are placed on increased training of personnel at all levels and cooperation in the research of new forms of livestock identification.

NEBRASKA BRAND COMMITTEE

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held April 25, 2007, with the Committee to discuss the results of our examination. Those in attendance for the Nebraska Brand Committee were:

NAME	TITLE
Steven F. Stanec	Executive Director
Beverly Preble	Assistant Executive Director

SUMMARY OF COMMENTS

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

1. ***Labor Rendered:*** Full-time inspectors did not render at least 40 hours of labor each week or a total of 2,088 full-time equivalent hours each year.

2. ***Estray Fund Authority:*** The Committee's independently established estray bank account was not a custodial account of the State Treasurer and the activity was not recorded in the State of Nebraska's general accounting system as transactions occurred.

3. ***Estray Fund Deposits Not Fully Secured:*** Subsequent to the fiscal year ended June 30, 2006, the Committee's estray bank account had daily balances which exceeded FDIC coverage by at least $40,572. The Committee did not obtain pledged securities to secure the excess deposit balance.

4. ***Local Inspections Deposit Procedures:*** Local inspection certificate fees were not submitted to the Alliance headquarters in compliance with Committee policy.

5. ***Vehicle Utilization:*** During the fiscal year ended June 30, 2006, the Committee incurred a cost per mile, including depreciation, of $.703 for a Committee-owned vehicle permanently assigned to its Executive Director; a cost which was $.218 per mile higher than the standard IRS mileage rate of $.485.

6. ***Termination Pay:*** One full-time Inspector was overpaid $411 upon termination and the Committee did not have procedures in place to identify and subsequently correct the error.

7. ***Estray Administrative and Investigative Costs:*** Various calculation errors were noted in the Committee's determination of its administrative reimbursement rate and actual investigative costs related to estray cases.

8. ***Encumbrances:*** The Committee's biweekly, intermittent employee payroll for the period of June 15 through June 28, 2006, was incorrectly encumbered.

9. ***CAFR Accounts Receivable:*** Accounts receivable were not completely and accurately reported to the Department of Administrative Services State Accounting Division for State of Nebraska Comprehensive Annual Financial Report (CAFR) purposes.

10. ***Management Representation Letter:*** The Nebraska Secretary of State, who serves as the Chairperson of the Nebraska Brand Committee, declined to sign a management representation letter.

SUMMARY OF COMMENTS
(Continued)

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 Committee 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. The 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.

COMMENTS AND RECOMMENDATIONS

1. Labor Rendered

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." Additionally, Neb. Rev. Stat. Section 84-1005 exempts various entities, including the Nebraska Brand Committee, from *only* Subsection (2) of Section 84-1001 which relates to work performed on paid holidays, Saturdays, or Sundays. Finally, good internal control requires adequate documentation to support whether employees have actually earned the vacation and sick leave recorded in the leave records. In the case of full-time employees earning full-time benefits, those employees should be rendering full-time service of not less than forty hours each week.

We noted the Committee's full-time inspectors often rendered, and documented via timesheets, fewer than 40 hours of actual labor and/or leave each week. However, because these inspectors were full-time employees of the Committee, they were paid a salary based on their full-time employment status rather than on any actual work or leave hours. The Committee's Executive Director previously asserted to auditors the nature of inspectors work is somewhat cyclical and that overall inspectors put in enough hours throughout a given year to support their full-time status. To test that assertion for the fiscal year ended June 30, 2006, timesheets for all 43 full-time inspectors who were employed by the Committee during all months of the fiscal year ended June 30, 2006, were summarized. This summarization determined that 41 of the 43 inspectors, or 95%, had not worked, or used leave, to support 2,088 hours; the number of hours for a full-time equivalent position in the fiscal year ended June 30, 2006.

Following are the summarized total hours, consisting of actual hours worked as well as vacation, sick, holiday, and compensatory leave used, for the 41 inspectors with less than 2,088 in recorded hours based on timesheets on file at the Committee (also noted is each inspector's hourly salary as of June 30, 2006):

Inspector	Calculated Hours Worked	Hours Paid but Not Worked	Hourly Pay Rate June 2006	$ Paid for Hours Not Worked
1	2,087	1	$ 16.783	$ 17
2	2,085	3	$ 18.341	$ 55
3	2,068	20	$ 17.326	$ 347
4	2,050	38	$ 17.383	$ 661
5	2,047	41	$ 17.793	$ 730
6	2,040	48	$ 17.735	$ 851
7	2,032	56	$ 17.221	$ 964
8	2,024	64	$ 12.260	$ 785
9	2,013	75	$ 18.600	$ 1,395

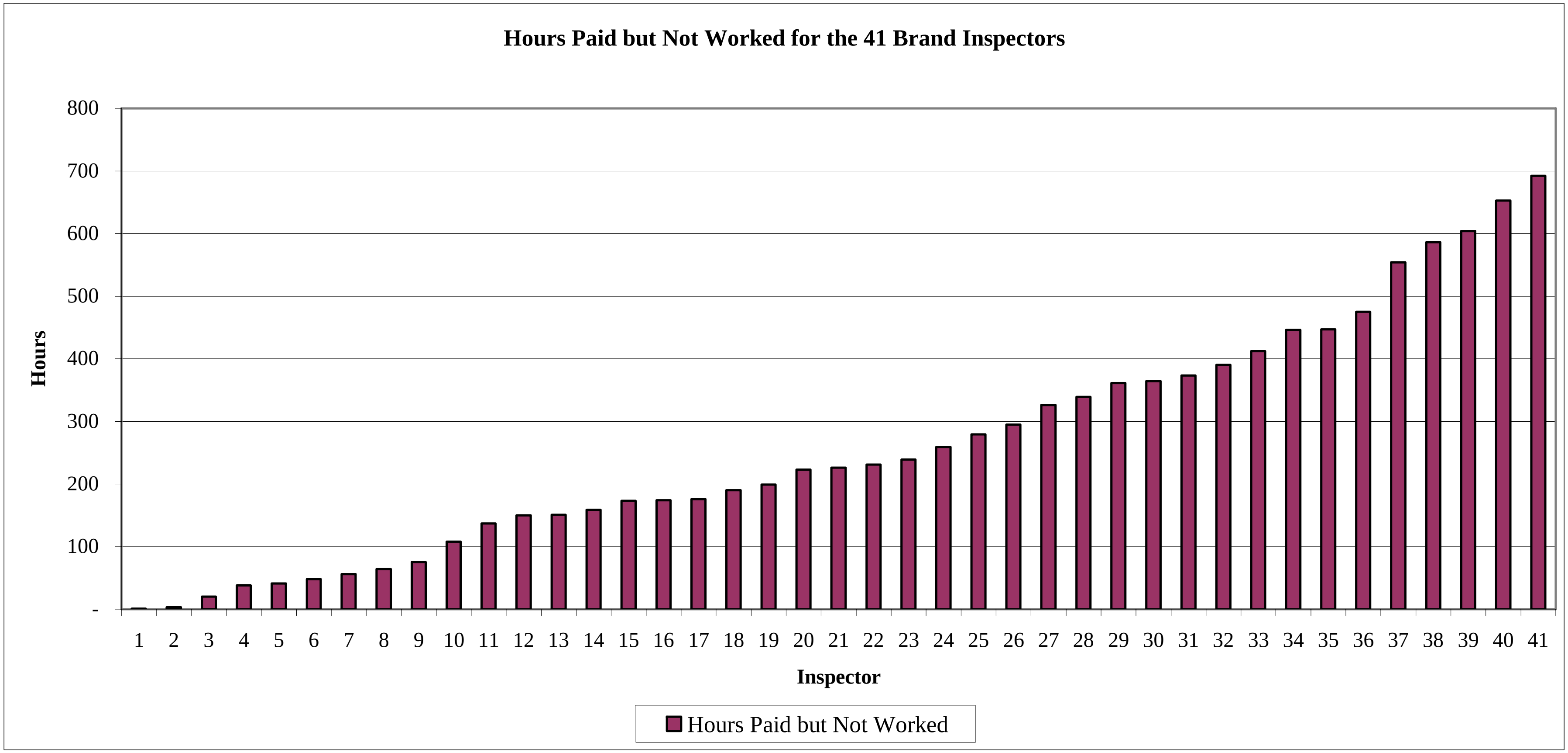
COMMENTS AND RECOMMENDATIONS
(Continued)

1. Labor Rendered (Continued)

Inspector	Calculated Hours Worked	Hours Paid but Not Worked	Hourly Pay Rate June 2006	$ Paid for Hours Not Worked
10	1,980	108	$ 15.122	$ 1,633
11	1,951	137	$ 17.709	$ 2,426
12	1,938	150	$ 15.900	$ 2,385
13	1,937	151	$ 16.615	$ 2,509
14	1,929	159	$ 15.842	$ 2,519
15	1,915	173	$ 16.840	$ 2,913
16	1,914	174	$ 15.323	$ 2,666
17	1,912	176	$ 17.296	$ 3,044
18	1,898	190	$ 17.706	$ 3,364
19	1,889	199	$ 12.790	$ 2,545
20	1,865	223	$ 15.813	$ 3,526
21	1,862	226	$ 16.615	$ 3,755
22	1,857	231	$ 14.302	$ 3,304
23	1,849	239	$ 16.638	$ 3,976
24	1,829	259	$ 14.331	$ 3,712
25	1,809	279	$ 12.260	$ 3,421
26	1,793	295	$ 14.388	$ 4,244
27	1,762	326	$ 17.267	$ 5,629
28	1,749	339	$ 17.677	$ 5,993
29	1,727	361	$ 12.260	$ 4,426
30	1,724	364	$ 12.260	$ 4,463
31	1,715	373	$ 17.100	$ 6,378
32	1,698	390	$ 16.754	$ 6,534
33	1,676	412	$ 12.260	$ 5,051
34	1,642	446	$ 16.442	$ 7,333
35	1,641	447	$ 17.706	$ 7,915
36	1,613	475	$ 17.763	$ 8,437
37	1,534	554	$ 15.640	$ 8,665
38	1,502	586	$ 16.558	$ 9,703
39	1,484	604	$ 16.725	$ 10,102
40	1,435	653	$ 15.785	$ 10,308
41	1,396	692	$ 17.971	$ 12,436
Totals	74,871	10,737		$ 171,120

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Labor Rendered</u> (Continued)



COMMENTS AND RECOMMENDATIONS
(Continued)

1. Labor Rendered (Concluded)

Based on this documentation, during the fiscal year ended June 30, 2006, it appears the Committee incurred excess hourly wages of approximately $171,120 by paying for well over 10,000 hours that were not actually worked.

It should be noted the Committee lapsed a total of 1,980 vacation hours for the 41 employees as of December 31, 2005, to ensure these employees did not carry over more vacation leave hours at the end of each calendar year than allowed by statute or labor contract.

We did not include three inspectors in the calculations of hours paid but not worked. These inspectors were not included because they were not employed by the Committee during all months of the fiscal year ended June 30, 2006. Our analysis showed that had these inspectors been employed throughout the year, they likely would also have been short of 2,088 hours worked or leave used.

As of June 30, 2006, the Committee employed 49 full-time inspectors and 53 intermittent inspectors. The Committee incurred $1,819,587 in inspection related personal services for both full-time and intermittent inspectors during the fiscal year ended June 30, 2006. Intermittent inspectors did not receive a set salary but instead were paid by the number of cattle inspected (the intermittent rate was increased to $.35 per head effective November 1, 2006; with a minimum of $19.50 guaranteed). Intermittent inspectors did not accrue annual leave and did not receive any personnel benefits such as health insurance, retirement, etc.

As a result, the Committee is not complying with State Statute. This comment was also noted in the prior examination of the Committee. In its response to the prior comment the Committee stated, in part, "… the Committee has requested that staff obtain an Attorney General's opinion …." and reserved the right to respond to the matter until such an opinion had been obtained. However, Committee staff did not subsequently request an opinion on the issue from the Attorney General.

> We recommend the Committee reassess its full-time inspector staffing practices and require them to work the appropriate full-time hours or adjust their compensation and leave earnings accordingly.

Committee's Response: The Committee will establish policy by utilizing Monthly Time Reports of all full time employees to require that they will work 40 hours each week or will be required to take annual vacation leave or compensation time earned or salaries will be deducted accordingly.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Estray Fund Authority

Neb. Rev. Stat. Section 84-602 R.R.S. 1999 requires all money received to be processed through the State Treasurer's Office. In addition, an informal Attorney General's Opinion issued May 2, 2005, regarding a bank account established by the Committee for the purpose of deposited funds received related to the sale of estray livestock, concluded that, "the better answer is that the funds should be remitted to the State Treasurer for deposit into a segregated custodial fund." Such a fund would remain under the control of the Nebraska Brand Committee.

The Committee has an independently established bank account for the sale of estray livestock. This bank account is not a custodial account of the State Treasurer and the activity is not recorded on the Nebraska Information System (NIS), the State of Nebraska's general accounting system, as transactions occur. During the fiscal year ended June 30, 2006, this account had $27,491 in deposits and $18,072 in checks. As of June 30, 2006, the account had a bank balance of $49,790.

When funds received by State agencies are not handled in accordance with State Statute there is an increased risk of loss, theft, or misuse.

> We recommend all estray activity be processed through the State Treasurer's Office and be completely and accurately recorded on NIS in a timely manner.

Committee's Response: The Committee shall direct the Executive Director forthwith to contact the State Treasurer to implement transfer of funds from the separate custodial fund known as Estray Fund at Wells Fargo bank/Alliance to a segregated custodial fund to be established by the State Treasurer.

3. Estray Fund Deposits Not Fully Secured

Neb. Rev. Stat. Section 77-2395 R.R.S. 2001 requires that no public monies or funds be on deposit which are in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) unless a depository has furnished additional pledged securities which are in an amount not less than one hundred two percent of the amount on deposit which is in excess of the FDIC amount insured.

Review of the Committee's independently established bank account for the sale of estray livestock during and subsequent to the fiscal year ended June 30, 2006, noted that in February 2007 the Committee deposited one large sale proceed totaling $99,644. Once deposited the Committee's bank account exceeded FDIC coverage by at least $40,572. The Committee did not obtain any pledged securities to cover this excess deposit balance.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Estray Fund Deposits Not Fully Secured (Concluded)

When deposits are not fully secured, there is an increased risk of loss of public monies or funds.

> We recommend all deposits be fully secured. As recommended in Comment Number 2 (Estray Fund Authority), we again recommend all estray activity be processed through the State Treasurer's Office which would then be responsible for securing all deposits.

Committee's Response: The Committee directs all estray fund activity be processed through the State Treasurer's office which would then be responsible for securing all deposits.

4. Local Inspections Deposit Procedures

Nebraska Brand Committee Employee Handbook Section I, "Local Certificates, Inspections, Reports, Forms," requires remittance of all monies received on at least a weekly basis to the Committee's Alliance headquarters. If for some reason fees are not collected at the time of inspection, those fees are to be collected and remitted to the Alliance headquarters by the 10th of the following month. Additionally, Neb. Rev. Stat. Section 84-710 R.R.S. 1999, requires that all monies received be deposited within three business days of receipt when the aggregate amount is five hundred dollars or more and within seven days of receipt when the aggregate amount is less than five hundred dollars. The State Treasurer may, upon written request, grant additional time to remit funds if the applicable time period cannot be met.

During our examination, 4 of 15 local inspection certificates tested did not have inspection fees submitted to the Alliance headquarters in compliance with the Committee's remittance policy. Two of these certificates were remitted in excess of two months after the date of inspection, with one remitted 64 days after inspection and the other remitted 97 days after inspection.

When monies received are not deposited in a timely manner there is an increased risk of loss, theft, or misuse of such monies.

> We recommend all monies received be deposited in a timely manner. We further recommend the Committee review Neb. Rev. Stat. Section 84-710 as it appears the Committee's current remittance policy does not ensure compliance with the timely depositing requirements set forth in statute.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Local Inspections Deposit Procedures (Concluded)

Committee's Response: The Committee is amending its current policy to require that all fees received when the aggregate amount is five hundred dollars or more, shall be sent to the headquarters' office upon receipt thereof. Our current auditing system involves the tracking of unsubmitted certificates when submitted out of sequence. We will upgrade this system to include the capability to monitor inactivity as well.

5. Vehicle Utilization

Good internal control requires periodic review of the utilization of permanently assigned vehicles in an effort to ensure their most cost efficient use. Sound accounting practice requires the cost per mile, including depreciation, of a permanently assigned vehicle be reasonable, necessary, and typically more cost efficient than paying personal vehicle mileage at the standard mileage rate established by the Internal Revenue Service (IRS). Department of Administrative Services Transportation Services Bureau (TSB) issues requirements for permanently assigned motor vehicles for the State of Nebraska as a whole and includes such criteria as whether vehicles are required for a period of thirty days or longer, will travel a minimum of 1,000 miles per month, and will be utilized seventeen working days per month. Although the Committee is not required to specifically follow TSB policies, sound accounting practice requires the Committee employ similar reasonable criteria to guide its assignment of vehicles.

The Committee has five Committee-owned vehicles. During our review of the accounting and utilization of these vehicles we noted one of the vehicles, a 2004 Dodge Ram pickup assigned to the Committee's Executive Director, was not utilized in the most cost efficient manner possible. During the fiscal year ended June 30, 2006, the Committee's cost per mile, including depreciation, for this vehicle was $.703 per mile, which is $.218 per mile higher than the standard IRS mileage rate of $.485. During the fiscal year the vehicle was driven an average of 554 miles per month, and in one month was not driven at all. While we understand statutory authority designates the Committee's Executive Director as chief investigator and, thereby, as a deputy State sheriff, the Director, himself, stated that he rarely used the vehicle in a law enforcement capacity but instead primarily drove the vehicle to attend various Committee, personnel, and training meetings.

When vehicles are not utilized in the most cost efficient manner possible there is an increased risk of excessive costs being incurred.

> While we recognize the Committee has some unique law enforcement responsibilities, we recommend the Committee periodically review the utilization of each of its Committee-owned vehicles and consider, on a vehicle-by-vehicle basis, whether

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Vehicle Utilization (Concluded)

> vehicle costs are reasonable and necessary based, in part, on the necessity and actual use of each vehicle. Motor vehicles that are driven less than 1,000 miles monthly or appear to be used primarily for commuting should be carefully scrutinized and appropriate corrective action taken whenever possible.

Committee's Response: The Committee will periodically monitor vehicle logs, reports, and schedules to insure the use of agency owned vehicles is reasonable and necessary based.

6. Termination Pay

Good internal control requires adequate procedures be in place to ensure all expenditures, including final payments made to terminated employees, are complete and accurate.

During our examination we noted one full-time Inspector was overpaid $411 upon termination. When brought to the Committee's attention during the examination, the Committee's Executive Director asserted he was aware of the overpayment but consciously chose not to pursue collection. However, no documentation was on file at the Committee to support the Director's assertion, including whether or not the Committee had been aware of the overpayment and deliberately chose to not pursue collection.

Without adequate procedures to ensure the accuracy of termination pay there is an increased risk of incorrect payment.

> We recommend the Committee implement procedures to ensure all termination pay is complete and accurate and inaccuracies, if any, are promptly identified with corrective action taken in a timely manner.

Committee's Response: The Executive Director and staff followed existing procedures to ensure termination pay was complete and accurate but a direct deposit warrant was not stopped timely when requested by the office to prevent the overpayment.

7. Estray Administrative and Investigative Costs

Neb. Rev. Stat. Section 54-415 R.R.S. 1999 addresses, in part, the sale and disposition of proceeds of estrays and requires the actual expenses incurred by the Nebraska Brand Committee in the investigation and processing of the estray fund be deducted from proceeds of estray sales.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. <u>Estray Administrative and Investigative Costs</u> (Concluded)

Additionally, good internal control and sound accounting practices require adequate procedures be in place to ensure a complete and accurate determination of the various cost components of the Committee's actual expenses for purposes of compliance with this State Statute.

The Committee charges both administrative and investigative costs on estray cases. The Committee's administrative cost rate is set annually and ratified by the Brand Committee. Investigative costs are based on actual Committee expenses and are adjusted, as necessary, throughout the fiscal year. During our examination the following was noted:

- The 2005-2006 fiscal year administrative costs of $121.84 per hour, as ratified by the Brand Committee at its September 8, 2005, meeting, was understated by $.09 per hour due to an error in the calculation of retirement costs for one Committee employee.

- Two salary and retirement calculation errors resulted in a combined $.64 per hour understatement of Investigator costs.

- While the Committee adjusted the hourly costs of its Investigators throughout the fiscal year whenever there was a change in an Investigator's salary, the Committee did not similarly take into consideration various benefit changes throughout the year which could have potentially had an even greater impact on the overall investigator costs than salary changes. For example, life insurance costs increased significantly in January 2006. The Committee did not factor in increased benefit costs and, as a result, understated the Committee's costs for Investigator health insurance by $.84 per hour for two Investigators and $1.19 for a third Investigator following their benefit changes.

When administrative and investigative costs are not completely and accurately calculated there is an increased risk of gain and/or loss to the Committee.

> We recommend the Committee implement procedures which, at a minimum, include a secondary review of all amounts used in the calculation of administrative and investigative costs to ensure the completeness and accuracy of such costs. We also recommend the Committee, in addition to revising its investigator costs whenever salary adjustments occur, also consider other cost/benefit changes which could potentially have an even greater impact on the overall investigator costs.

Committee's Response: The Committee will direct the Executive Director to closely monitor and calculate on a regular basis any changes in Administrative, Investigator and Supervisor salaries, as well as any benefit changes and make adjustments accordingly.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Encumbrances

Neb. Rev. Stat. Section 81-138.01 R.R.S. 1991 regarding valid encumbrances states, in part, "… for appropriation and expenditure purposes, encumbrances represent financial obligations which are chargeable to the current biennium's appropriation and for which a part of that appropriation is reserved …." Furthermore, Section 11(d), Encumbrances, of the Nebraska State Accounting Manual issued by the Department of Administrative Services State Accounting Division requires salaries be encumbered at the end of each fiscal year in order to have the Personal Services Limitation carried over.

During our examination it was noted the Committee's biweekly, intermittent employee payroll for the period of June 15 through June 28, 2006, was incorrectly encumbered. When some intermittent inspectors turned in their headcounts following the fiscal year end a few July 2006 days had been included. Committee personnel separated out the June and July service days in an effort to correctly encumber those costs associated with June 2006 payroll. However, the Committee, in error, then encumbered the July Service of $1,028 rather than the June service of $14,104; a difference of $13,076.

When costs are not accurately encumbered, there is an increased risk of incorrect carryover of Personal Services Limitation.

> We recommend the Committee implement procedures to ensure the completeness and accuracy of its fiscal year end encumbrances.

Committee's Response: The Committee will direct the Executive Director to follow up on clerical staff's calculations per intermittent inspector salaries to ensure accuracy of its fiscal year end encumbrances.

9. CAFR Accounts Receivable

Standard practice in accrual-basis accounting, which is compliant with Generally Accepted Accounting Principles, is to record and recognize revenues in the period in which they incur and to match them with related expenses in a process known as matching. Even though cash is not received or paid in a credit transaction, the transactions are recorded because they are consequential in future income and cash flow. In addition, good internal control requires adequate procedures be in place to ensure complete and accurate financial reporting.

9. **<u>CAFR Accounts Receivable</u>** (Concluded)

During our examination the following was noted:

- June 30, 2006, accounts receivable reported to the Department of Administrative Services State Accounting Division for State of Nebraska Comprehensive Annual Financial Report (CAFR) purposes was overstated by $10,789 due to the inclusion of cattle inspections which took place in July 2006.

- June 30, 2005, accounts receivable was understated due to the omission of a $4,183 July 2005 packing house receipt which related to June 2005 inspections.

When accruals are not completely and accurately reported, there is an increased risk of misstatement in the State of Nebraska's annual financial reporting.

> We recommend the Committee implement procedures to ensure all accruals are completely and accurately reported.

Committee's Response: The Committee will direct the Executive Director to implement procedures to ensure that all end-of-the-year reports, fees received and accruals will have a cutoff date of June 30 of each year.

10. **<u>Management Representation Letter</u>**

Neb. Rev. Stat. Section 54-191 R.R.S. 2004, which created the Nebraska Brand Committee (Committee), states, in part, "… the brand committee shall consist of the Secretary of State, who shall be the chairperson, and four members appointed by the Governor …." Neb. Rev. Stat. Section 54-192 R.R.S. 2004 states in part, "The Nebraska Brand Committee shall employ such employees as may be necessary to properly carry out the Livestock Brand Act and section 54-415, fix the salaries of such employees, and make such expenditures as are necessary to properly carry out such act and section." The Chairperson is part of management and is responsible for financial and operating matters of the Committee. Good internal control and attestation standards require an active willingness on the part of management, including those with overall responsibility for financial and operating matters, to provide examiners with a written statement confirming representations. These representations include in part management's acknowledgement, to the best of their knowledge, of their responsibility for the financial statements and the completeness of information provided, given explicitly or implicitly to examiners during the course of an examination.

COMMENTS AND RECOMMENDATIONS
(Continued)

10. <u>Management Representation Letter</u> (Concluded)

Based on, 2007 Neb. Laws LB 422, beginning August 28, 2007, the Secretary of State is changed from the Chairperson of the Nebraska Brand Committee to a nonvoting, ex officio member of the Brand Committee.

The current Chairperson of the Committee declined to sign a management representation letter.

The Chairperson's refusal to furnish written representations constitutes a limitation on the scope of this attestation engagement sufficient to preclude an unqualified opinion. As indicated by State Statutes the Committee is responsible for the employees and expenditures of the Brand Committee.

> We recommend the Chairperson and members of the Committee, reassess and acknowledge their management role and responsibility for financial and operating matters of the Committee.

STATE OF NEBRASKA
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NEBRASKA BRAND COMMITTEE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Brand Committee
Alliance, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Brand Committee (Committee) for the fiscal year ended June 30, 2006. The Committee'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.

Except as noted in the following paragraph, 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.

We were unable to obtain a management representation letter from the Nebraska Secretary of State, who serves as the Nebraska Brand Committee Chairperson (Chairperson). The Chairperson declined to make the representations required by attestation standards.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the management representation letter from the Chairperson, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Brand Committee 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 April 25, 2007, on our consideration of the Nebraska Brand Committee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts 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 Committee 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

April 25, 2007 Assistant Deputy Auditor

NEBRASKA BRAND COMMITTEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2006

	Brand Inspection and Theft Program Cash Fund 23910	Estray Trust and Agency Fund	**Totals (Memorandum Only)**
REVENUES:			
Sales & Charges:			
Inspections	$ 2,994,574	$ -	$ 2,994,574
Brand Recordings	459,440	-	459,440
Sale of Estray Cattle	-	27,431	27,431
Other Sales and Charges	9,743	-	9,743
Miscellaneous:			
Beef Council Contract	20,136	-	20,136
Investment Interest	31,907	60	31,967
TOTAL REVENUES	3,515,800	27,491	3,543,291
EXPENDITURES:			
Personal Services	2,974,805	-	2,974,805
Operating	156,018	6,092	162,110
Travel	413,311	-	413,311
Capital Outlay	7,808	-	7,808
Permanent School Fund Payments	-	9,921	9,921
Resolved Estray Payments	-	17,284	17,284
TOTAL EXPENDITURES	3,551,942	33,297	3,585,239
Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,142)	(5,806)	(41,948)
OTHER FINANCING SOURCES (USES):			
Sales of Assets	19,494	-	19,494
Operating Transfers Out	(930)	-	(930)
TOTAL OTHER FINANCING SOURCES (USES)	18,564	-	18,564
Net Change in Fund Balances	(17,578)	(5,806)	(23,384)
FUND BALANCES, JULY 1, 2005	669,716	38,912	708,628
FUND BALANCES, JUNE 30, 2006	$ 652,138	$ 33,106	$ 685,244
FUND BALANCES CONSIST OF:			
General Cash	$ 651,402	$ -	$ 651,402
Bank Account	-	33,106	33,106
Deposits with Vendors	638	-	638
Accounts Receivable Invoiced	120	-	120
Due to Fund	(22)	-	(22)
TOTAL FUND BALANCES	$ 652,138	$ 33,106	$ 685,244

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 Brand Committee (Committee) 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 balances for the Committee's Cash Fund was obtained directly from 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 Committee also maintains a separate, independently established checking account for its Estray Trust and Agency Fund; activity of which is not recorded on NIS as transactions occur. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Committee's Estray Trust and Agency Fund was obtained from bank statements and other financial records maintained by the Committee.

NIS also records other liabilities in an account titled Due to Fund. The assets in this fund 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 Committee had accounts receivable not included in the Schedule of $172,285 from inspection fees, Nebraska Beef Council check-off reimbursements, and brand renewals. DAS did not require the Committee 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.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Continued)

The fund type established by NIS that is used by the Committee is:

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

The Committee also maintains a separate, independently established checking account for its Estray Trust and Agency Fund which is not recorded on NIS as transactions occur. This is a custodial fund for the receipt and disbursement of estray livestock proceeds.

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

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees. Inspection fees are collected for the performance of brand inspections; and Brand Recording fees are collected for recording brands.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income. Beef Council Contract fees are collected as a result of an agreement with the Nebraska Beef Council. The Committee receives a collection fee for collecting the Nebraska Beef Council's beef checkoff assessments.

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

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

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.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, bank accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are included in fund balance and are reported as recorded on NIS. Although not recorded on NIS as transactions occur, bank accounts are also included in fund balance.

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 Committee's funds at June 30, 2006, included Due to Fund. The activity of this account is 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 Brand Committee is a State agency established under and governed by the laws of the State of Nebraska. As such, the Committee is exempt from State and Federal income taxes. The schedule includes all funds of the Committee.

The Nebraska Brand Committee 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. 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 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.

NOTES TO THE SCHEDULE
(Continued)

5. 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 Committee 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. Substantially all initial building costs, land and land improvements are capitalized. Building improvements and renovations are all capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. 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.

Buildings and Equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	480 month
Equipment	36 to 120 months

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Land	$ 5,001	$ -	$ -	$ 5,001
Buildings	85,531	-	-	85,531
Equipment	191,115	10,517	47,516	154,116
Total	$ 281,647	$ 10,517	$ 47,516	244,648
Less accumulated depreciation for:				
Buildings				74,839
Equipment				85,241
Total				160,080
Total capital assets, net of depreciation				$ 84,568

NOTES TO THE SCHEDULE
(Continued)

6. Reconciliation of Bank Records to the Nebraska Information System

Through their bank reconciliation procedures, DAS State Accounting Division (State Accounting) has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Committee. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Committee's balances; however, State Accounting believes it will not have a material impact on the Committee's operations.

7. Bank Deposits

As noted in footnote number 1, the Committee maintains a separate, independently established checking account for its Estray Trust and Agency Fund. Funds are in an interest-bearing checking account. Any deposits in excess of the amount insured by the Federal Deposit Insurance Corporation are required by Neb. Rev. Stat. Section 77-2395 R.R.S. 2001 to be fully secured.

The June 30, 2006, carrying amount of total bank deposits was $33,106. The bank balance was $49,790. All funds were entirely covered by federal depository insurance.

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NEBRASKA BRAND COMMITTEE

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*

Nebraska Brand Committee
Alliance, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Brand Committee for the fiscal year ended June 30, 2006, and have issued our report thereon dated April 25, 2006. Our opinion on the schedule of revenues, expenditures, and changes in fund balances of the Nebraska Brand Committee was qualified because we were unable to obtain a management representation letter from the Nebraska Secretary of State who serves as the Nebraska Brand Committee Chairperson (Chairperson). Except for not obtaining a representation letter from the Chairperson, 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 Brand Committee'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 Brand Committee'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 10 (Management Representation Letter).

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 Brand Committee'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 and contracts, 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 noted certain additional items that we reported to management of the Nebraska Brand Committee in the Comments Section of this report as Comment Number 1 (Labor Rendered), Comment Number 2 (Estray Fund Authority), Comment Number 3 (Estray Fund Deposits Not Fully Secured), Comment 4 (Local Inspections Deposit Procedures), Comment Number 5 (Vehicle Utilization), Comment Number 6 (Termination Pay), Comment Number 7 (Estray Administrative and Investigative Costs), Comment Number 8 (Encumbrances), and Comment Number 9 (CAFR Accounts Receivable).

This report is intended solely for the information and use of the Committee 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

April 25, 2007 | 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 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 BRAND COMMITTEE
SCHEDULE OF STATISTICAL DATA

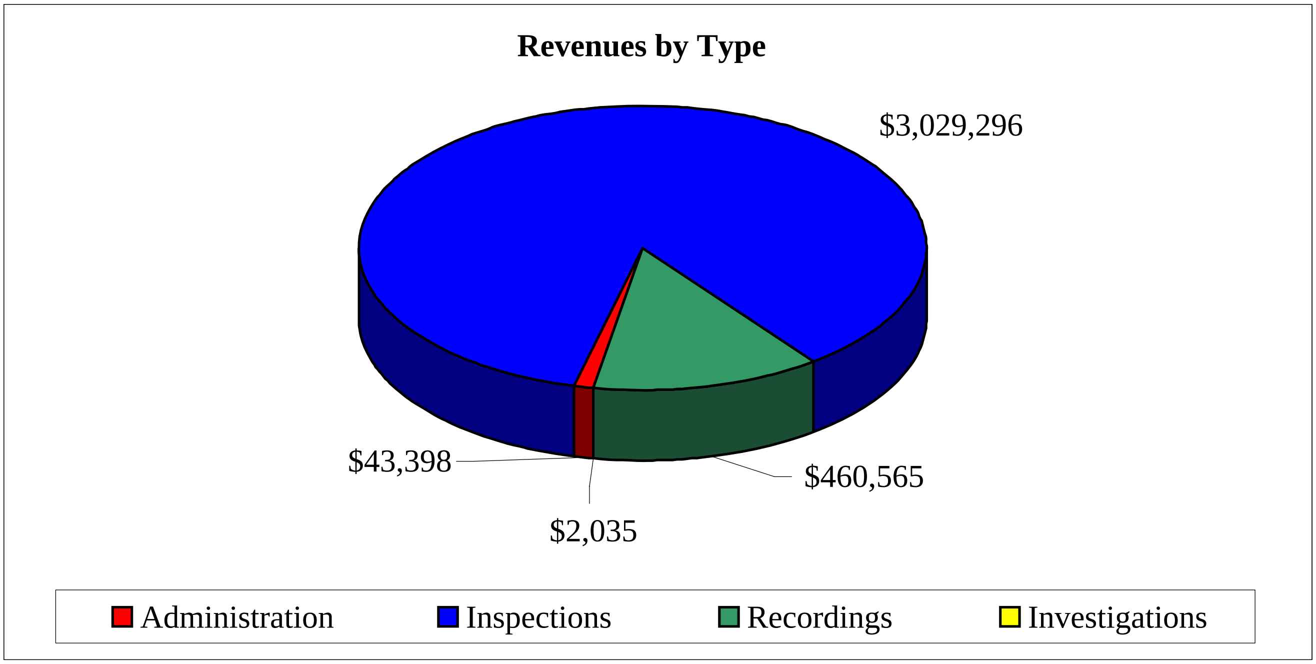
Description	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
Committee Expenditures:					
Administration (4)	$ 241,841	$ 246,425	$ 278,352	$ 255,713	$ 268,394
Inspections	2,775,341	2,953,112	2,805,455	2,827,639	2,957,257
Recordings	87,545	101,650	84,979	87,839	107,241
Investigations	218,389	232,422	254,963	221,702	219,050
Total	$ 3,323,116	$ 3,533,609	$ 3,423,749	$ 3,392,893	$ 3,551,942
Inspections:					
Total Cattle Inspected	4,052,307	4,171,455	3,755,187	3,827,245	3,758,738
Inspection Fee Per Head	$ 0.55	$0.55 / $0.60	$0.60 / $0.65	$ 0.65	$ 0.65
No. of Cattle Held for Proof of Ownership	27,336	21,978	20,726	20,846	34,220
Recovered Strays	2,036	1,763	1,817	1,592	1,557
New Estray Cases	35	39	65	42	38
No. of Cattle Reported Missing	829	527	960	603	700
Value of Total Cattle Inspected (5)	$ 2,398,965,744	$ 2,682,245,565	$ 4,273,402,806	$ 2,778,579,870	$ 2,819,053,500
Value of Cattle Recovered (6)	$ 1,205,667	$ 1,141,681	$ 2,068,039	$ 1,156,312	$ 1,167,809
Total Costs per Inspection (1)	$ 0.68	$ 0.71	$ 0.75	$ 0.74	$ 0.79
Recordings:					
New Brands	1,766	795	872	950	1,266
Brand Transfers	779	742	807	739	741
Renewed Brands	8,622	8,047	8,455	7,220	8,113
Total Brands on Record	34,075	33,963	33,648	33,454	33,671
Total Costs per Brand on Record (2)	$ 2.57	$ 2.99	$ 2.53	$ 2.63	$ 3.18
Theft and Associated Investigations:					
Livestock Investigations (7)	25	54	23	102	21
Estray Investigations	96	63	58	29	66
Truck Checks	12	5	8	27	13
Total Investigations and Truck Checks	133	122	89	158	100
Court Cases	24	22	24	16	9
Warnings for Violations	137	112	133	86	93
Total Costs per Investigation/Truck Check (3)	$ 1,642.02	$ 1,905.10	$ 2,864.75	$ 1,403.18	$ 2,190.50

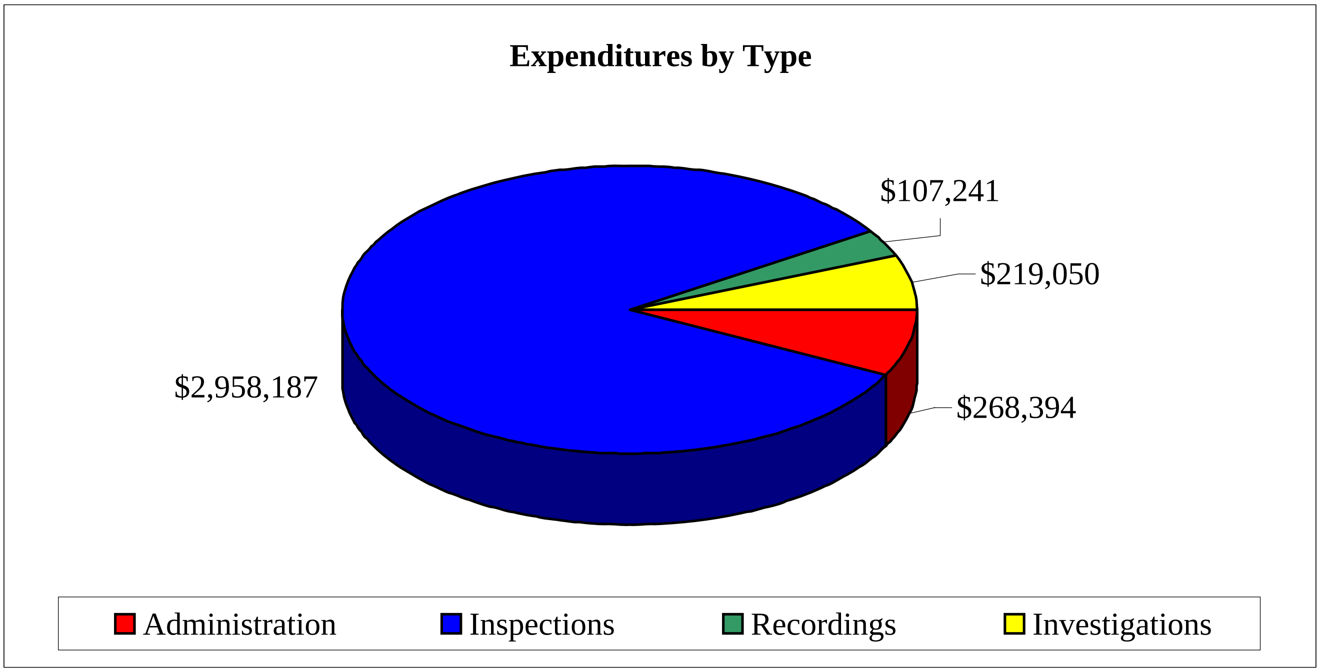
(1) Total Costs per Inspection was calculated as Total Inspections expenditures divided by Total Cattle Inspected
(2) Total Costs per Brand on Record was calculated as Total Recordings expenditures divided by Total Brands on Record
(3) Total Costs per Investigation/Truck Check was calculated as Total Investigations expenditures divided by Total Investigations and Truck Checks
(4) Administration Expenditures were not included in the cost calculations made in (1), (2), and (3). If Administration Expenditures had been allocated to Inspections, Recordings, and Investigations, the cost calculations made in (1), (2), and (3) would be slightly higher
(5) Value of Total Cattle Inspected was calculated as Total Cattle Inspected multiplied by average market price per head as determined by the Committee. The average market price per head was $592 for FY02; $643 for FY03; $1,138 for FY 04; $726 for FY05; $750 for FY 06.
(6) Value of Cattle Recovered is the total estimated market value of strays recovered as reported by Brand Inspectors on a monthly basis
(7) In FY05 Region IV Investigator included all warnings in the livestock investigation category

NEBRASKA BRAND COMMITTEE

SCHEDULES OF REVENUES AND EXPENDITURES BY TYPE

For the Fiscal Year Ended June 30, 2006



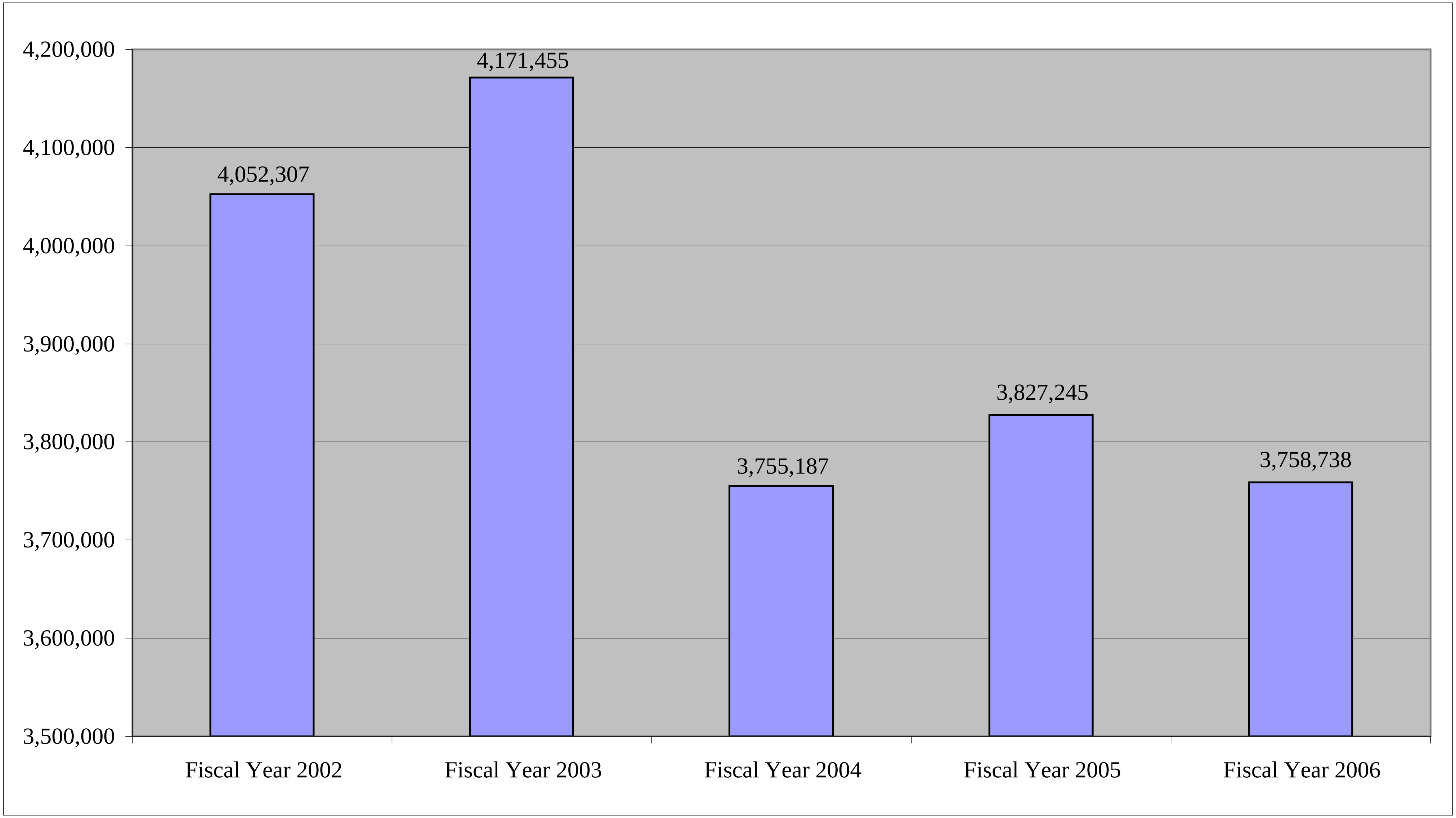


Revenues and expenditures from the sale of estray livestock are not included in the above graphs. Estray revenues and expenditures were $27,431 and $33,297, respectively for the fiscal year ended June 30, 2006. Also not included in the above graphs is investment interest earned on estray livestock sale proceeds which totaled $60 for the fiscal year ended June 30, 2006.

NEBRASKA BRAND COMMITTEE

CATTLE INSPECTED BY FISCAL YEAR

Fiscal Years Ended June 30, 2002 Through 2006



NEBRASKA BRAND COMMITTEE
BRANDS ON RECORD BY FISCAL YEAR
Fiscal Years Ended June 30, 2002 Through 2006