

**ATTESTATION REPORT
OF THE
NEBRASKA RAILWAY COUNCIL
JULY 1, 2006 THROUGH JUNE 30, 2007**

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Issued on November 29, 2007

NEBRASKA RAILWAY COUNCIL

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Comments Section	
Exit Conference	2
Summary of Comments	3
Comments and Recommendations	4
Financial Section	
Independent Accountant's Report	5 - 6
Schedule of Revenues, Expenditures, and Changes in Fund Balances	7
Notes to the Schedule	8 - 10
Government Auditing Standards Section	
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 <i>Government Auditing Standards</i>	11 - 12
Statistical Section	13
Schedule of Fund Balance	14

NEBRASKA RAILWAY COUNCIL

BACKGROUND

The Nebraska Railway Council administers programs and funds for the acquisition, rehabilitation, and operation of light-density rail lines pursuant to State law and the Federal Rail Revitalization Act. All planning functions for participation in the federal act must be performed by a State agency designated by the governor. Although the Council is an independent body, the Department of Roads provides planning functions and staff support.

Eight Council members are appointed to four-year terms by the Governor and approved by the Legislature. The Department of Roads Director serves as an ex-officio member. Council members consist of:

- a light-density rail shipper;
- a railroad management employee;
- a Public Service Commissioner;
- a railroad maintenance-of-way employee;
- a Department of Economic Development representative;
- a Department of Agriculture representative;
- and two members of the public; one with private or public finance experience and one with marketing experience.

MISSION STATEMENT

To promote adequate and efficient rail service on light-density rail lines and rail service oriented enterprises related to light-density rail line operators.

NEBRASKA RAILWAY COUNCIL

EXIT CONFERENCE

An exit conference was held October 29, 2007, with the Council to discuss the results of our examination. Those in attendance for the Nebraska Railway Council were:

NAME	TITLE
John L. Craig	Director
Steve Maraman	Finance Administrator
Marilyn Hayes	Budget and Finance Manager
Cyndy Roth	Accounting Manager

NEBRASKA RAILWAY COUNCIL

SUMMARY OF COMMENTS

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

1. ***Expenses Paid from Incorrect Fund and Appropriations Exceeded:*** Council member per diem payments were paid from the Roads Operations Cash Fund and not from the Council's General Fund appropriation. Also, total expenses exceeded General Fund appropriations by \$225.
2. ***Annual Report:*** No annual report was submitted for the calendar year ended December 2006.

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 RAILWAY COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Expenses Paid from Incorrect Fund and Appropriations Exceeded

Neb. Rev. Stat. Section 74-1413(5) R.S.Supp., 2006 states, “Members of the council who are not employed by the State of Nebraska may receive a per diem of sixty dollars, not to exceed six thousand dollars in any one year and all members of the council shall be reimbursed for their actual and necessary expenses as provided in sections 81-1174 to 81-8177. Such amounts shall be paid by the Department of Roads but not from the Roads Operations Cash Fund.”

Council member per diem payments of \$480 and travel expenses of \$423 were paid from the Roads Operations Cash Fund and not from the Council’s General Fund appropriation. Also, total expenses of \$3,538 exceeded total General Fund appropriations of Program 113 (Branch Rail Revitalization) of \$3,313 by \$225.

When expenses of the Council are paid from the Roads Operations Cash Fund the Council is not in compliance with statute. When expenses exceed appropriations the Council is not in compliance with spending limitations established by the State Legislature.

We recommend the Council work with the Department of Roads staff to ensure all Council member expenses are paid from the General Fund in accordance with statute. Additionally, expenses should not exceed appropriations.

Council’s Response: The Department of Roads has corrected this error in its internal accounting system and the State Accounting System will be corrected in December.

2. Annual Report

Neb. Rev. Stat. Section 74-1415.01(9) R.R.S. 1996 requires the Council to submit an annual report to the Legislature detailing investments and purchases and shall include a statement for each project.

The Council did not submit a report for the calendar year ended December 2006. The Council last submitted a report for the calendar year ended December 2005. This was also noted in our prior two reports. There were no loans to Railroads outstanding at June 30, 2006, or June 30, 2007. The Council was not in compliance with statute.

We recommend the Council submit an annual report in accordance with statute.

Council’s Response: The annual report for the calendar year ending December 2006 was submitted to the Clerk of the Legislature on November 27, 2007.



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NEBRASKA RAILWAY COUNCIL

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Railway Council
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Railway Council (Council) for the fiscal year ended June 30, 2007. 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.

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.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Railway Council for the fiscal year ended June 30, 2007, 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 November 27, 2007, on our consideration of the Nebraska Railway Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations 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 management, the Nebraska Railway Council, others within 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

November 27, 2007

NEBRASKA RAILWAY COUNCIL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2007

	General Fund 10000	Light-Density Rail Line Assist Revolving Fund 59010	Totals (Memorandum Only)
REVENUES:			
Appropriations	\$ 3,538	\$ -	\$ 3,538
Miscellaneous	-	147,744	147,744
TOTAL REVENUES	<u>3,538</u>	<u>147,744</u>	<u>151,282</u>
EXPENDITURES:			
Personal Services	480	-	480
Operating	440	-	440
Travel	2,618	-	2,618
TOTAL EXPENDITURES	<u>3,538</u>	<u>-</u>	<u>3,538</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>147,744</u>	<u>147,744</u>
FUND BALANCES, JULY 1, 2006	<u>-</u>	<u>3,142,831</u>	<u>3,142,831</u>
FUND BALANCES, JUNE 30, 2007	<u>\$ -</u>	<u>\$ 3,290,575</u>	<u>\$ 3,290,575</u>
FUND BALANCES CONSIST OF:			
General Cash	<u>\$ -</u>	<u>\$ 3,290,575</u>	<u>\$ 3,290,575</u>
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 3,290,575</u>	<u>\$ 3,290,575</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA RAILWAY COUNCIL

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2007

1. Criteria

The accounting policies of the Nebraska Railway Council (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., 2006, 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.”

In accordance with Neb. Rev. Stat. Section 81-1111(1) R.R.S. 1999, The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes the Nebraska Information System (NIS) to maintain the general ledger and all detail accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information kept on NIS. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. 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 expenditures and related accounts payables recorded in the general ledger as of June 30, 2007, include only those payables posted in the general ledger before June 30, 2007, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2007, **does not** include amounts for goods and services received before June 30, 2007, which had not been posted to the general ledger as of June 30, 2007.

The Council had no accounts receivable at June 30, 2007. Liabilities for accrued payroll are not recorded in the general ledger.

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

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

50000 – Revolving Funds – account for the operation of state agencies which provide goods and services to other departments or agencies within state government.

NEBRASKA RAILWAY COUNCIL

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

The major revenue account classifications established by State Accounting 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.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure account classifications established by State Accounting 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.

Other significant accounting classifications and procedures established by State Accounting and used by the Council include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts. Cash accounts are also included in fund balance and are reported as recorded in the general ledger. The Council had no loans receivable at June 30, 2007.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures resulting in a decrease to fund balance.

2. Reporting Entity

The Nebraska Railway 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 included in the general ledger.

The Nebraska Railway Council is part of the primary government for the State of Nebraska.

NEBRASKA RAILWAY COUNCIL

NOTES TO THE SCHEDULE

(Continued)

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.

5. Financial Schedule Adjustment

Council member per diem payments of \$480 and travel expenses of \$423 were paid from the Roads Operations Cash Fund and should have been paid from General Fund appropriations. The financial schedule was adjusted to show these expenses in the General Fund. See Comment Number 1 for additional information.

6. Reconciliation of Bank Records to the State's General Ledger

Through their bank reconciliation procedures, 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 Council. 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 Council's balances; however, State Accounting believes it will not have a material impact on the Council's operations.



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NEBRASKA RAILWAY 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**

Nebraska Railway Council
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Railway Council as of and for the year ended June 30, 2007, and have issued our report thereon dated November 27, 2007. 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 Railway Council's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Railway Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Railway Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska Railway Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services such that there is more than a remote likelihood that a misstatement of the Nebraska Railway Council's financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska Railway Council's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedule will not be prevented or detected by the Nebraska Railway Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Railway Council's financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 audit, 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 Railway Council in the Comments Section of this report as Comment Number 1 (Expenses Paid from Incorrect Fund and Appropriations Exceeded) and Comment Number 2 (Annual Report).

Nebraska Railway Council's written response to the findings identified in our audit are described in the Comments Section of the report. We did not examine Nebraska Railway Council's response and accordingly, we express no opinion on it. Where no response is indicated, the Council declined to respond.

This report is intended solely for the information and use of management, Nebraska Railway Council, others within 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

November 27, 2007

NEBRASKA RAILWAY 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 RAILWAY COUNCIL
SCHEDULE OF FUND BALANCE**

Fund Balance at June 30

