ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
BANKING AND FINANCE

JULY 1, 2006 THROUGH JUNE 30, 2007

Issued on April 1, 2008

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

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BACKGROUND

In 1895, the Legislature established the State Banking Board and, in 1976, the name was changed to the Department of Banking and Finance (Department). The director of the Department is appointed by the Governor. The Department is a regulatory agency which enforces statutes pertaining to the banking and financial industry to ensure compliance and to provide for public protection through ensuring sound financial institutions. The Department also includes the Nebraska Securities Bureau, which is responsible for the registration and regulation of securities sold in the State, as well as, the entities and persons engaged in their sale. The revenue to operate the Department is derived primarily from the registration of securities, financial institution examination fees, and a fee based on financial institution assets.

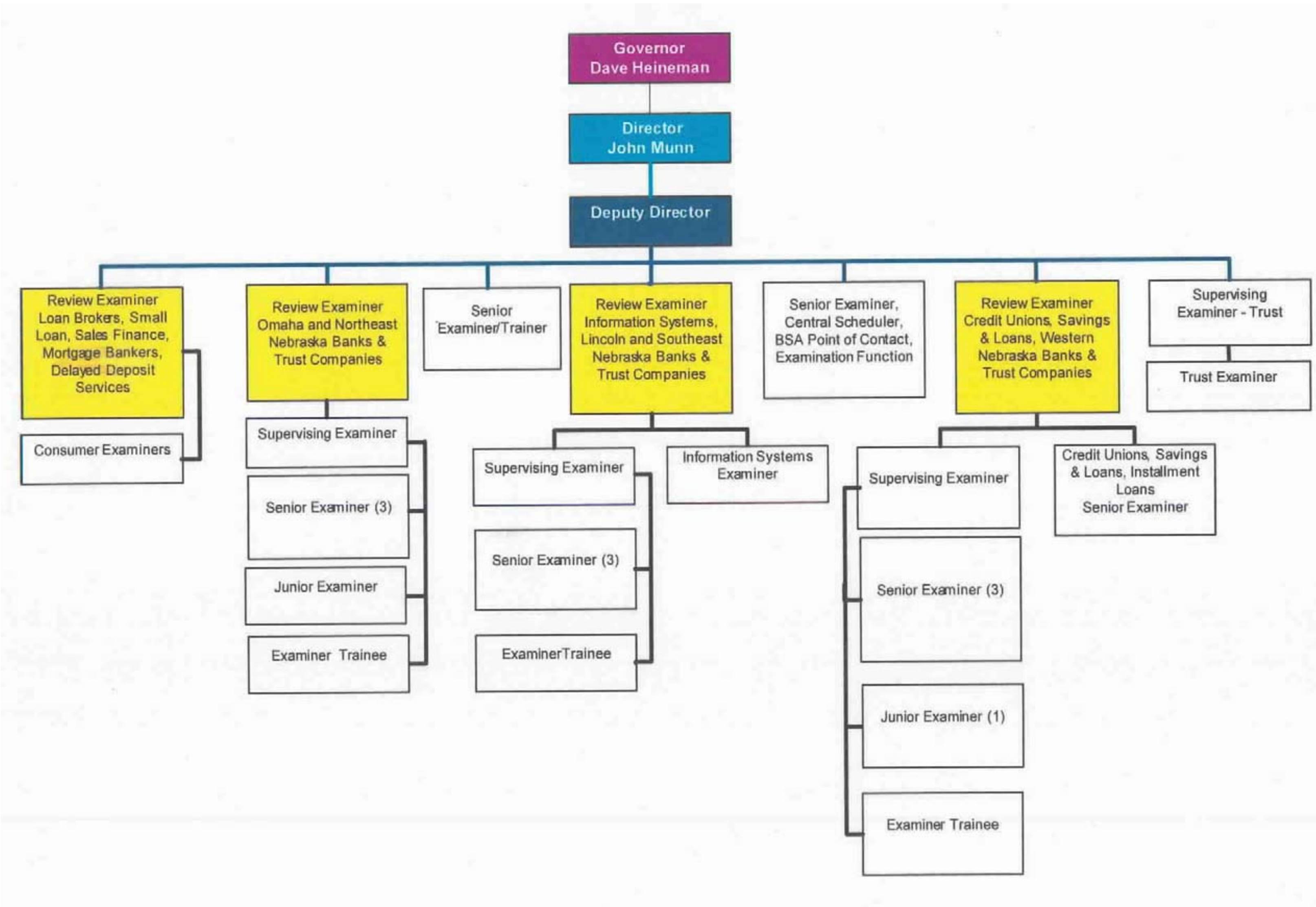
MISSION STATEMENT

Our mission is to protect and maintain the public confidence through the fair, efficient, and experienced supervision of the State-regulated financial services industries; to assist the public in their dealings with those entities; to assist those whom we regulate in a manner which allows them to remain competitive, yet maintain their surroundings in compliance with the law; to fulfill our statutory responsibilities with regard to all licensees and registrants; and to investigate violations of the laws and cooperate with other agencies in seeking a timely resolution of problems and questions.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

ORGANIZATIONAL CHARTS

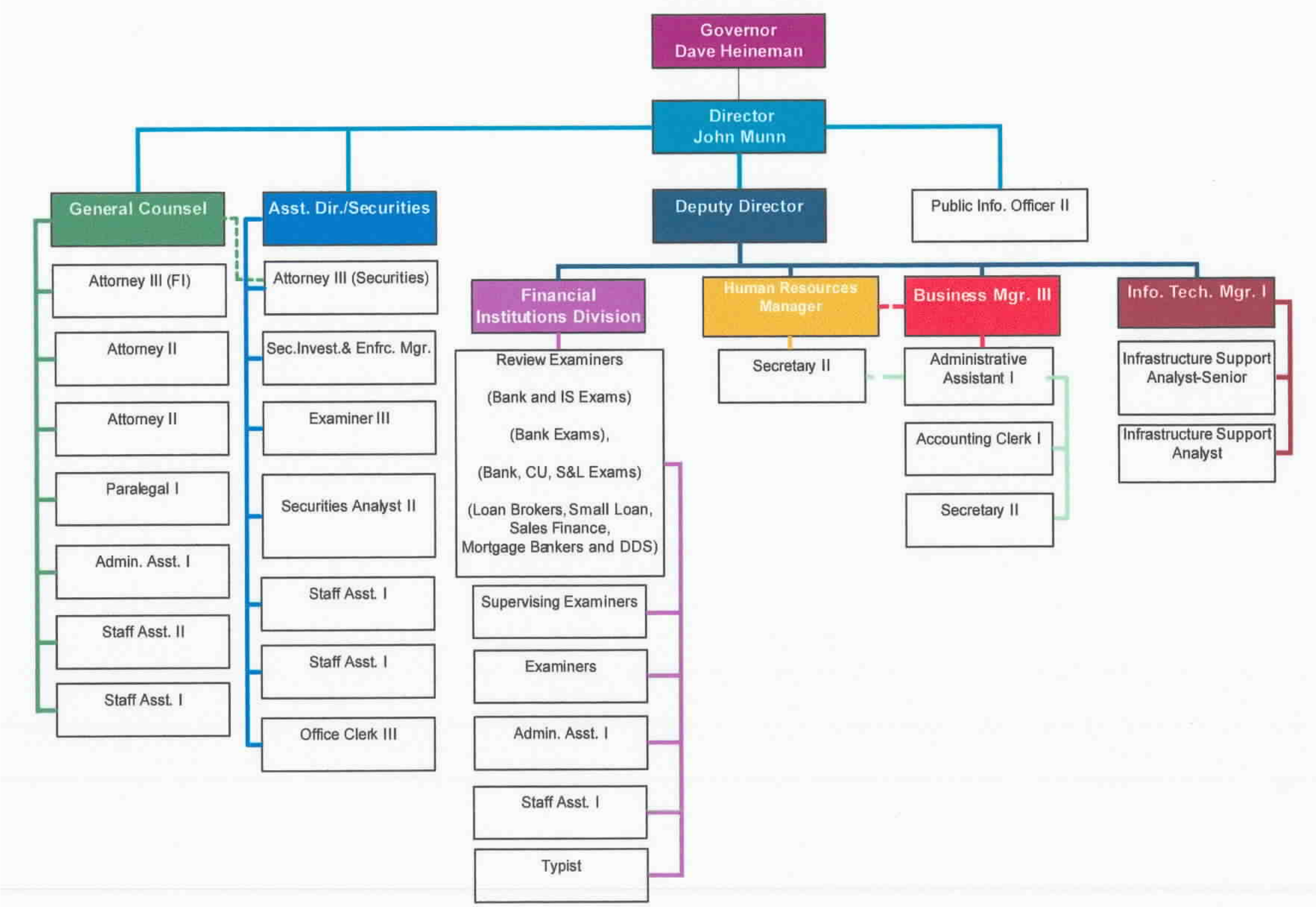
FINANCIAL INSTITUTIONS EXAMINATION STAFF



NEBRASKA DEPARTMENT OF BANKING AND FINANCE

ORGANIZATIONAL CHARTS

OFFICE STAFF



EXIT CONFERENCE

An exit conference was held February 29, 2008, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Banking and Finance were:

NAME	TITLE
John Munn	Director
Ray A. Pont	Deputy Director
Jack E. Herstein	Assistant Director
Eric Asboe	Business Manager

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Banking and Finance (Department), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Expenditure Allocation:*** The Department did not have adequate documentation to support the allocation of expenditures and payroll costs between the Department's Cash Funds.

2. ***Timesheets Not on File:*** The Department's exempt employees were not required to maintain documentation to support they worked 40 hours each week.

3. ***Travel:*** One travel document tested included a reimbursement in excess of General Services Administration (GSA) guidelines by $1,010.

4. ***Outstanding Vacation Balance on NIS:*** We noted one terminated employee had an outstanding vacation balance recorded on the Nebraska Information System (NIS), the State accounting system.

5. ***Fines and Penalties:*** There appears to be a conflict between the Department statutes and the Nebraska Constitution. If fines are deposited into the Permanent School Fund as provided by statute, the monies are not being distributed as required by the Nebraska Constitution. The Department deposited $315,500 during fiscal year 2007 into the Permanent School Fund for fines.

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 Department 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.

COMMENTS AND RECOMMENDATIONS

1. Expenditure Allocation

Neb. Rev. Stat. Section 8-601 R.S.Supp., 2006 states the Financial Institution Cash Fund shall be used to pay the expenses relating to examinations.

Neb. Rev. Stat. Section 8-1120(6) R.S.Supp., 2006 states the Securities Act Cash Fund shall be used to pay expenses relating to the administration and enforcement of the Securities Act of Nebraska.

Good internal control requires adequate supporting documentation to ensure expenditures allocated to programs and funds are correct.

We tested three of eight employees whose payroll costs were allocated between programs and funds. The Department had established a standard percentage of time worked to allocate an employee's payroll costs to the respective programs the employee worked on; however, the Department did not have adequate documentation to support the percentage allocations were accurate. We noted of the Department's 56 employees, a total of 26 had payroll costs allocated between programs and funds. This same allocation was used for allocating various other expenditures for the Department. This was also noted in the fiscal year ended June 30, 2005, report.

Without adequate supporting documentation there is an increased risk for errors, resulting in the misallocation of expenses between funds and programs, and noncompliance with State statutes.

> We recommend the Department develop documentation to ensure expenditure allocations are reasonable and accurate. Payroll costs can be a sound basis to allocate all expenditures. If the Department continues to use this basis, we recommend the Department conduct and document a time study for a period of time that would be representative of how the employee's time would be charged for the entire year. This time study would need to be performed and documented periodically.

Department's Response: The Department will continue to evaluate payroll allocations and document any changes every six months. The Department will consider additional procedures regarding timesheets and time studies.

2. Timesheets Not on File

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 … shall render not less than forty hours of labor each week …"

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Timesheets Not on File (Concluded)

Good internal control requires procedures to ensure time worked is documented to verify 40 hours of work each week.

Two of eight employees tested did not complete timesheets and one of eight employees tested did not have their timesheet signed by a supervisor.

There is an increased risk for noncompliance with statute if procedures are not in place to verify 40 hours worked each week.

> We recommend the Department implement procedures to ensure all employees are certifying they either worked or had leave for 40 hours each week. A "certification" document may be used to meet the above statutory requirement. That document, signed by the employee and employee's supervisor, would include leave used by the employee during the period and a statement such as: "I certify that the employee has worked or been on approved leave for at least 40 hours each week of this pay period."

Department's Response: Exempt Department employees do not track, earn or receive overtime compensation for extra hours worked. These employees are paid a salary for performing all job duties and not for actual hours worked. The Department has been in contact with the Department of Administrative Services to discuss this finding and implications regarding the Fair Labor Standards Act. Based on this contact, the Department will explore the use of a method for exempt employees to verify time worked. The Department will not implement the use of timesheets for such individuals except for billing purposes.

3. Travel

The General Services Administration (GSA) provides guidelines for lodging expenses while in specific locations. Good internal control requires procedures to ensure lodging costs are reasonable based on Federal guidelines per place of travel.

Good internal control also requires procedures to ensure proper documentation is maintained to support the selection of a hotel when exceeding the per diem and to ensure expenses are reasonable.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Travel</u> (Concluded)

We noted one of seven expense documents tested had reimbursement of lodging expenses not within the GSA guideline. The lodging costs were for two employees for five nights. The rate paid per room per night ranged between $400 and $210 for a total of $2,700. The GSA per diem rate was $169 per night for a total of $1,690. The Department exceeded the GSA guideline by $1,010. There was no documentation to support the selection of the hotel with rates in excess of GSA. The lodging was pre-paid through Travelocity.com per review of credit card statement one month in advance. The Department was unable to provide documentation to show that Travelocity was cheaper than going directly to the hotel.

Without adequate procedures in place to ensure reimbursed lodging is reasonable and proper, there is an increased risk of loss or misuse of State funds.

> We recommend the Department implement procedures to ensure lodging costs fall within Federal GSA guidelines or documentation is maintained to support the selection of a hotel when exceeding the per diem. We also recommend the Department implement procedures to ensure expenses are reasonable.

Department's Response: The Department will require documentation for lodging costs that fall outside the usual amounts charged for area lodging establishments. The Department considers the specific instance mentioned to be an isolated incident given the amount of expense vouchers tested and the location and available choices of lodging in this situation.

4. <u>Outstanding Vacation Balance on NIS</u>

Nebraska Administrative Code (NAC) Title 273 10-004.03 states, "Employees who leave state government employment for any reason shall be paid for any unused accumulated vacation leave earned, calculated on their base hourly rate." Good business practices require procedures to payout vacation balances to employees when they terminate and zero out the balance through the Nebraska Information System (NIS) in case of re-employment with the State.

One terminated employee tested still shows an outstanding vacation balance on NIS.

There is an increased risk of loss or misuse of State funds if procedures are not in place to ensure removal of vacation balances from NIS as this balance could possibly be paid out to the employee in the future.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Outstanding Vacation Balance on NIS (Concluded)

We recommend the Department implement procedures to ensure terminated employees unused vacation is paid out and removed from NIS by reviewing employee information on NIS after payout. We also recommend the Department review the two other terminations that occurred during the fiscal year to ensure their balances were appropriately paid out and removed from NIS.

Department's Response: The Department will implement this finding. The balance for the one employee tested will be removed by the end of March, 2008.

5. Fines and Penalties

Article VII, Section 5(1), of the Nebraska State Constitution requires "all fines, penalties, and license money arising under the general laws of the state" to "belong and be paid over to the counties respectively where the same may be levied or imposed." In addition, that same constitutional provision mandates, "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 . . ."

Conversely, Article VII, Section 7, of the Nebraska State Constitution sets out five categories of funds "declared to be perpetual funds for common school purposes" and limits appropriation from them to "annual interest or income only." Likewise, Article VII, Section 8, of the Nebraska State Constitution states, "All funds belonging to the state for common school purposes ... , the interest and income whereof only are to be used, shall be deemed trust funds."

Neb. Rev. Stat. Section 79-1035.01 R.R.S. 2003 designates the Permanent School Fund as "the fund described in Article VII, sections 7 and 8, of the Constitution of Nebraska" and directs the principal therein to "be held and invested in perpetuity by the state in trust for the support of its common schools." The statute also directs "annual interest and other income" of the Fund to be "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."

In apparent contravention of the requirement under Article VII, Section 5(1), of the Nebraska State Constitution that fines and penalties be paid to the counties in which they were levied for the support of the schools in those respective subdivisions, various State statutes direct the Department to deposit fines that it collects into the Permanent School Fund. Complying with these statutory directives, the Department deposited $315,500 to the Permanent School Fund in fiscal year 2007.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. **Fines and Penalties** (Continued)

In our prior examination of the Department for the fiscal year ending June 30, 2005, the Auditor of Public Accounts (APA) reported this discrepancy between the statutes governing the disposition of Department fines and the seemingly incompatible provisions of Article VII, Section 5(1), of the Nebraska State Constitution. At that time, the APA recommended the Department seek guidance from the Nebraska Attorney General as to the appropriate fund in which to deposit the fines that it collects. In addition, we recommended that the Department work with the Legislature to resolve the presumable conflict between current State statutes and the Nebraska State Constitution.

Responding to these concerns, LB 1028 was introduced on January 17, 2008. Among other things, this bill would require fines levied by the Department for any violation of the Securities Act of Nebraska (Neb. Rev Stat. Section 8-1101 et seq.) ultimately to be distributed "in accordance with Article VII, section 5, of the Constitution of Nebraska."

LB 1028 received a public hearing before the Banking, Commerce, and Insurance Committee on February 4, 2008; however, as of March 3, 2008, the Committee had yet to take any formal action on the bill - neither advancing it to General File for formal floor debate nor voting to indefinitely postpone it.

Even if it were to become law, LB 1028 would not remedy completely the apparent unconstitutionality of the statutes directing Department fines to be credited to the Permanent School Fund. Though addressing adequately such concerns relating to the Securities Act of Nebraska, the bill has no effect upon statutes pertaining to the disposition of Department fines arising from other types of violations.

During its regular examination of other State agencies, the APA has reported numerous instances in which those agencies' statutes appear to conflict with Article VII, Section 5(1), of the Nebraska State Constitution. In our opinion, such statutes are similarly constitutionally suspect with regard to the disposition of fines.

Although we make no recommendation to the Department regarding this issue, this comment is included because the APA is required to disclose, as part of our examination of an agency's financial schedule, what we believe to be noncompliance issues related to that particular entity.

As a matter of practice, both this report and any comments contained herein will be communicated to the Nebraska Attorney General and to the appropriate Legislative officials for their consideration.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. <u>Fines and Penalties</u> (Concluded)

Department's Response: Following the previous audit, the Department discussed this finding with the Governor's Policy Research Office (GPRO). GPRO indicated the question would be reviewed. In early 2008, the Legislature's Bill Drafter Office informed the Department that it had started the process of correcting statutory references regarding the deposit of fines as appropriate legislative proposals became available. During the 2008 legislative session two such proposals concerning the Department were introduced. The Department will continue to review the matter with GPRO.

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NEBRASKA DEPARTMENT OF BANKING AND FINANCE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Banking and Finance
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Banking and Finance (Department) for the fiscal year ended June 30, 2007. The Department'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 Department of Banking and Finance 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 March 21, 2008, on our consideration of the Nebraska Department of Banking and Finance's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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 management, others within the Department, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Don Dunlap CPA

March 21, 2008 Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2007

	Financial Institution Assessment Cash Fund 21910	Securities Act Cash Fund 21920	Banking Cash Fund 21930	First Investors Inc Settlement Fund 61910	Permanent School Fund 63340	**Totals (Memorandum Only)**
REVENUES:						
Taxes	$ 2,150,788	$ -	$ -	$ -	$ -	$ 2,150,788
Sales & Charges	1,514,791	17,904,947	-	-	-	19,419,738
Miscellaneous	197,944	538,996	35,271	-	315,500	1,087,711
TOTAL REVENUES	3,863,523	18,443,943	35,271	-	315,500	22,658,237
EXPENDITURES:						
Personal Services	3,255,296	840,320	-	-	-	4,095,616
Operating	640,576	225,654	15,302	-	-	881,532
Travel	225,908	4,908	1,195	-	-	232,011
Capital Outlay	60,348	10,042	-	-	-	70,390
TOTAL EXPENDITURES	4,182,128	1,080,924	16,497	-	-	5,279,549
Excess (Deficiency) of Revenues Over (Under) Expenditures	(318,605)	17,363,019	18,774	-	315,500	17,378,688
OTHER FINANCING SOURCES (USES):						
Sales of Assets	206	-	-	-	-	206
Deposit to/from Common Fund (Note 7)	-	-	-	-	(315,500)	(315,500)
Operating Transfers Out (Note 6)	-	(16,000,000)	-	-	-	(16,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	206	(16,000,000)	-	-	(315,500)	(16,315,294)
Net Change in Fund Balances	(318,399)	1,363,019	18,774	-	-	1,063,394
FUND BALANCES, JULY 1, 2006	3,018,521	7,073,292	165	500,000	-	10,591,978
FUND BALANCES, JUNE 30, 2007	$ 2,700,122	$ 8,436,311	$ 18,939	$ 500,000	$ -	$ 11,655,372
FUND BALANCES CONSIST OF:						
General Cash	$ 2,702,069	$ 8,373,994	$ 18,939	$ 500,000	$ -	$ 11,595,002
NSF Items	-	809	-	-	-	809
Deposits with Vendors	28	2,556	-	-	-	2,584
Accounts Receivable Invoiced	-	58,952	-	-	-	58,952
Due From Other Government	(25)	-	-	-	-	(25)
Due to Vendors	(1,950)	-	-	-	-	(1,950)
TOTAL FUND BALANCES	$ 2,700,122	$ 8,436,311	$ 18,939	$ 500,000	$ -	$ 11,655,372

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2007

1. Criteria

The accounting policies of the Nebraska Department of Banking and Finance (Department) 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 Department had accounts receivable not included in the Schedule of $249,990 from examination billings. DAS did not require the Department to record their receivables on the general ledger and these amounts are not reflected in revenues or fund balances on the Schedule. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

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

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

NOTES TO THE SCHEDULE
(Continued)

1. <u>Criteria</u> (Continued)

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 account classifications established by State Accounting used by the Department are:

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consists of Asset Assessments.

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 and reimbursement from non-government sources.

The major expenditure account classifications established by State Accounting used by the Department are:

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

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.

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

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.

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

2. Reporting Entity

The Nebraska Department of Banking and Finance is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department included in the general ledger.

The Nebraska Department of Banking and Finance 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.

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory and accounts for all equipment that has a cost of $500 or more at the date of acquisition in the State Accounting System.

For the CAFR, the State requires the Department to value 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 $5,000 or more at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

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

Capital asset activity of the Department recorded in the State Accounting System for the fiscal year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 384,334	$ 78,483	$ 1,235	$ 461,582
Less accumulated depreciation for:				
Equipment				358,235
Total capital assets, net of depreciation				$ 103,347

6. Transfers

During the fiscal year ended June 30, 2007, the Legislature transferred $16,000,000 per 2005 Neb. Laws LB 425, Section 275(2)(e) from the Securities Cash Fund 21920 to the General Fund 10000.

NOTES TO THE SCHEDULE
(Continued)

7. Deposits to/from Common Funds

Deposits to common funds include the collection of fines and penalties per Neb. Rev. Stat. Sections 8-1,134, 8-1726 R.R.S. 1997; Neb. Rev. Stat. Section 8-1108.01 R.S.Supp., 2006; Neb. Rev. Stat. Sections 45-191.09, 45-351, 45-716, 45-921, 45-927, 45-1017, 59-1725.01 R.R.S. 2004; and Article VII, Section 5, of the Nebraska Constitution.

8. 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 Department. 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 Department's balances; however, State Accounting believes it will not have a material impact on the Department's operations.

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NEBRASKA DEPARTMENT OF BANKING AND FINANCE

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*

Department of Banking and Finance
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Banking and Finance as of and for the year ended June 30, 2007, and have issued our report thereon dated March 21, 2008. 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 Department of Banking and Finance'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 Department of Banking and Finance's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Banking and Finance'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 Department of Banking and Finance'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 Department of Banking and Finance's financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska Department of Banking and Finance'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 Department of Banking and Finance'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.

<u>Compliance and Other Matters</u>
As part of obtaining reasonable assurance about whether the Nebraska Department of Banking and Finance's financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Department of Banking and Finance in the Comments Section of this report as Comment Number 1 (Expenditure Allocation), Comment Number 2 (Timesheets Not on File), Comment Number 3 (Travel), Comment Number 4 (Outstanding Vacation Balance on NIS), and Comment Number 5 (Fines and Penalties).

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

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

Don Dunlap CPA

March 21, 2008 Assistant Deputy Auditor

STATISTICAL SECTION

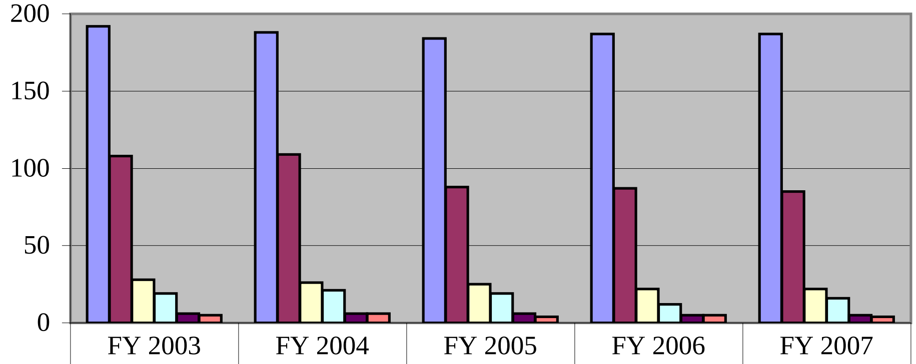
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

STATISTICAL INFORMATION

Fiscal Years Ended June 30, 2003 Through 2007

Financial Institutions - State Charters Licensed and Examined

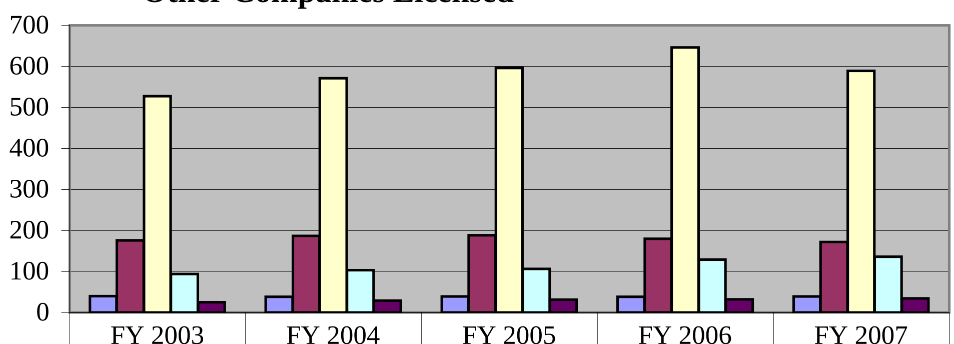


	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Banks Licensed	192	188	184	187	187
Banks Examined (1)	108	109	88	87	85
Credit Unions Licensed	28	26	25	22	22
Credit Unions Examined (2)	19	21	19	12	16
Other Licensed	6	6	6	5	5
Other Examined	5	6	4	5	4

1) Banks and credit unions are examined on approximately an 18 month cycle. The Department has agreements with several Federal agencies to rotate the examinations.

2) The Department may perform visitations of the credit unions as needed.

Other Companies Licensed



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Small Loan Companies	40	38	39	38	39
Sales Finance Companies	176	187	188	180	172
Mortgage Bankers	527	571	596	646	589
Delayed Deposit	94	103	106	129	136
Sale of Checks	25	29	31	32	34

1) Small loan companies and Delayed Deposit Services are examined on a regular basis. The Department has the authority to examine Sales Finance Companies, Mortgage Bankers, and Sale of Checks; however, they are examined primarily on a complaint basis.