

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
BANKING AND FINANCE**

JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

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the Auditor of Public Accounts.**

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Issued on May 2, 2013

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The mission of the Nebraska Auditor of Public Accounts' office is to provide independent, accurate, and timely audits, reviews, or investigations of the financial operations of Nebraska State and local governments.

We will provide this information, as required by statute, to all policymakers and taxpayers through written reports and our Internet-based Budget and Audit databases.

We will maintain a professionally prepared staff, utilizing up-to-date technology, and following current Government Auditing Standards.

Audit Staff Working On This Examination

Pat Reding, CPA, CFE - Assistant Deputy Auditor

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Diane Holtorf, CPA - Auditor II

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NEBRASKA DEPARTMENT OF BANKING AND FINANCE

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NEBRASKA DEPARTMENT OF BANKING AND FINANCE

BACKGROUND

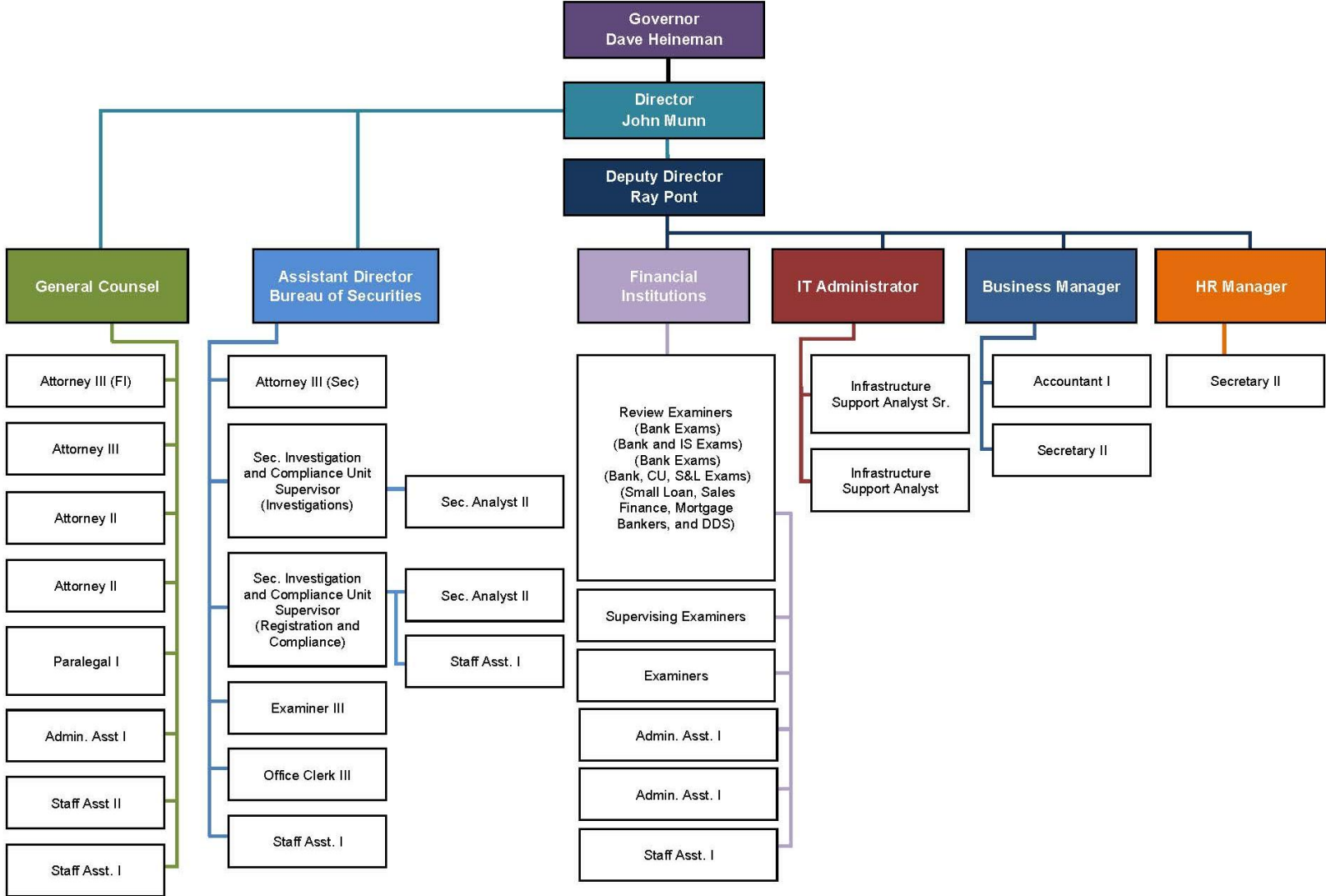
In 1895, the Legislature established the State Banking Board and, in 1976, the name was changed to the Department of Banking and Finance (Department). The director of the Department is appointed by the Governor. The Department is a regulatory agency which enforces statutes pertaining to the banking and 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 and licensing fees, and a fee based on depository 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 soundness 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 CHART



NEBRASKA DEPARTMENT OF BANKING AND FINANCE

EXIT CONFERENCE

An exit conference was held April 22, 2013, 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
Margo Sawyer	Business Manager
Jack E. Herstein	Assistant Director
Jill Hobbie	Human Resources Manager
Kelly Lammers	Review Examiner, IT Admin
Patricia A. Humlicek Herstein	General Counsel

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Banking and Finance (Department), we noted certain deficiencies and other operational matters that are presented here.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Expenditures Allocation:*** The Department did not have adequate documentation to support the allocation of expenditures and payroll costs between the Department's Cash Funds.
2. ***Internal Control Over Capital Assets:*** The Department did not have adequate segregation of duties over capital assets, as one person was able to handle all phases of the transactions.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Nebraska Department of Banking and Finance.

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

COMMENTS AND RECOMMENDATIONS

1. Expenditures Allocation

Neb. Rev. Stat. § 8-601 (Reissue 2012) requires the Financial Institution Cash Fund be used to pay the expenses relating to examinations. Neb. Rev. Stat. § 8-1120(6) (Reissue 2012) states the Securities Act Cash Fund shall be used to pay expenses relating to the administration and enforcement of the Securities Act of Nebraska. A good internal control plan requires adequate supporting documentation to ensure the allocation of expenses to funds and programs is correct.

We tested three of eight employees with payroll costs allocated between multiple funds and programs. The Department had established a standard percentage of time worked to allocate the employee's payroll costs to the respective programs worked on by the employee. However, the Department did not have adequate documentation to support the percentage allocations were correct. We noted 26 of the Department's 60 employees had payroll costs allocated between funds and programs. This same allocation was used for charging various other expenditures for the Department. For example, we tested one monthly rent payment that was allocated between various funds and divisions of the Department based on this employee salary coding spreadsheet. A similar finding was noted in the previous two reports.

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 employees' time would be charged for the entire year. This time study would need to be performed and documented periodically.

Department's Response: The Department committed in its response to your previous report, for the period July 1, 2006, to June 30, 2007, to document changes to payroll allocations between the Financial Institutions Cash Fund and the Securities Act Cash Fund every six months. Soon after, the Department began documenting such changes every four months in order to further improve the timeliness of allocations. The Department feels that projecting the results of a time study over a one-year period would not necessarily improve the accuracy of expense allocations, as the allocation for the individuals and expenses paid from both funds will be driven by issues and events that cannot be predicted a year into the future.

APA Response: The Department should document the basis for the allocations and maintain support to show the allocations are reasonable.

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Internal Control Over Capital Assets

A good internal control plan requires an adequate segregation of duties to ensure no one person is capable of handling all phases of a transaction from beginning to end.

The Department did not maintain an adequate segregation of duties over capital assets as one individual maintained, added, reviewed, and deleted capital assets. The same individual also performed the annual inventory and reviewed the accounting system reports. Furthermore, there was not a documented review of the Fixed Asset Additions and Retirements report.

The Department indicated the Accountant I position was vacant during part of the year, and this position is involved in the accounting process for capital assets.

Without adequate segregation of duties over capital assets, there is an increased risk of loss or misuse of the Department's assets.

We recommend the Department establish procedures to ensure an adequate segregation of duties exists for capital assets, including a documented review of accounting system reports.

Department's Response: The Department commits to ensuring adequate segregation of duties for capital assets, including documenting review of accounting system reports.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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 year ended December 31, 2012. 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, revenues, expenditures, and changes in fund balances of the Nebraska Department of Banking and Finance for the year ended December 31, 2012, 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 are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control

over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, others within the Department, and the appropriate Federal and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

April 22, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2012

	Financial Institution Assessment Cash Fund 21910	Securities Act Cash Fund 21920	Banking Cash Fund 21930	Common School Fund 61270	Permanent School Fund 63340	Totals (Memorandum Only)
REVENUES:						
Taxes	\$ 2,740,385	\$ -	\$ -	\$ -	\$ -	\$ 2,740,385
Sales & Charges	1,998,998	23,085,234	-	-	-	25,084,232
Miscellaneous	121,275	619,765	1,000,000	9,500	107,948	1,858,488
TOTAL REVENUES	4,860,658	23,704,999	1,000,000	9,500	107,948	29,683,105
EXPENDITURES:						
Personal Services	3,630,310	1,045,715	-	-	-	4,676,025
Operating	604,200	333,496	-	-	-	937,696
Travel	259,898	4,252	-	-	-	264,150
Capital Outlay	51,793	1,979	-	-	-	53,772
TOTAL EXPENDITURES	4,546,201	1,385,442	-	-	-	5,931,643
Excess of Revenues Over Expenditures	314,457	22,319,557	1,000,000	9,500	107,948	23,751,462
OTHER FINANCING SOURCES (USES):						
Sales of Assets	1,025	25	-	-	-	1,050
Deposit to Common Fund (Note 7)	-	-	-	(9,500)	(107,948)	(117,448)
Operating Transfers Out (Note 6)	-	(19,000,000)	-	-	-	(19,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	1,025	(18,999,975)	-	(9,500)	(107,948)	(19,116,398)
Net Change in Fund Balances	315,482	3,319,582	1,000,000	-	-	4,635,064
FUND BALANCES, January 1, 2012	4,235,437	9,946,811	-	-	-	14,182,248
FUND BALANCES, December 31, 2012	<u>\$ 4,550,919</u>	<u>\$ 13,266,393</u>	<u>\$1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,817,312</u>
FUND BALANCES CONSIST OF:						
General Cash	\$ 4,553,846	\$ 13,263,837	\$1,000,000	\$ -	\$ -	\$ 18,817,683
Petty Cash	50	-	-	-	-	50
Deposits with Vendors	28	2,556	-	-	-	2,584
Accounts Receivable Invoiced	825	-	-	-	-	825
Due From Other Government	37	-	-	-	-	37
Due to Vendors	(3,867)	-	-	-	-	(3,867)
TOTAL FUND BALANCES	\$ 4,550,919	\$ 13,266,393	\$1,000,000	\$ -	\$ -	\$ 18,817,312

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2012

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 Director of Administrative Services.

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) 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. § 81-1111(1) (Reissue 2008), 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 EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed 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 maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivable 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 payable recorded in the general ledger, as of December 31, 2012, include only those payables posted in the general ledger before December 31, 2012, and not yet paid as of that date. The amount recorded as expenditures, as of December 31, 2012, **does not** include amounts for goods and services received before December 31, 2012, which had not been posted to the general ledger as of December 31, 2012.

The Department had accounts receivable not included in the Schedule of \$91,031 from examination billings. State Accounting did not require the Department to record its 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.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (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 and 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 consist 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. The Banking Cash Fund 21930 includes \$1 million received as part of a multi-state settlement involving mortgage banking.

The major expenditure account classifications established by State Accounting and 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 that 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 the fund balance on the schedule. Cash accounts and deposits with vendors are also included in the fund balance and are reported as recorded in the general ledger.

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 the fund balance.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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, which 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.

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, recording in the State Accounting System all equipment that has a cost of \$500 or more at the date of acquisition.

NEBRASKA DEPARTMENT OF BANKING AND FINANCE

NOTES TO THE SCHEDULE

(Continued)

5. Capital Assets (Concluded)

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 more than one year 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 year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 549,330	\$ 53,772	\$ 12,102	\$ 591,000
Less accumulated depreciation* for:				
Equipment				<u>419,242</u>
Total capital assets, net of depreciation				<u>\$ 171,758</u>

**Note: The accumulated depreciation noted in the table above was calculated in the accounting system through June 30, 2012. Depreciation for July through December 2012 was not run in the accounting system until the beginning of calendar year 2013.*

6. Transfers

During calendar year 2012, the Legislature transferred \$19,000,000 per 2011 Neb. Laws LB 374, Section 265(1)(c) and (2)(c) from Securities Cash Fund 21920 to General Fund 10000.

7. Deposits to Common Funds

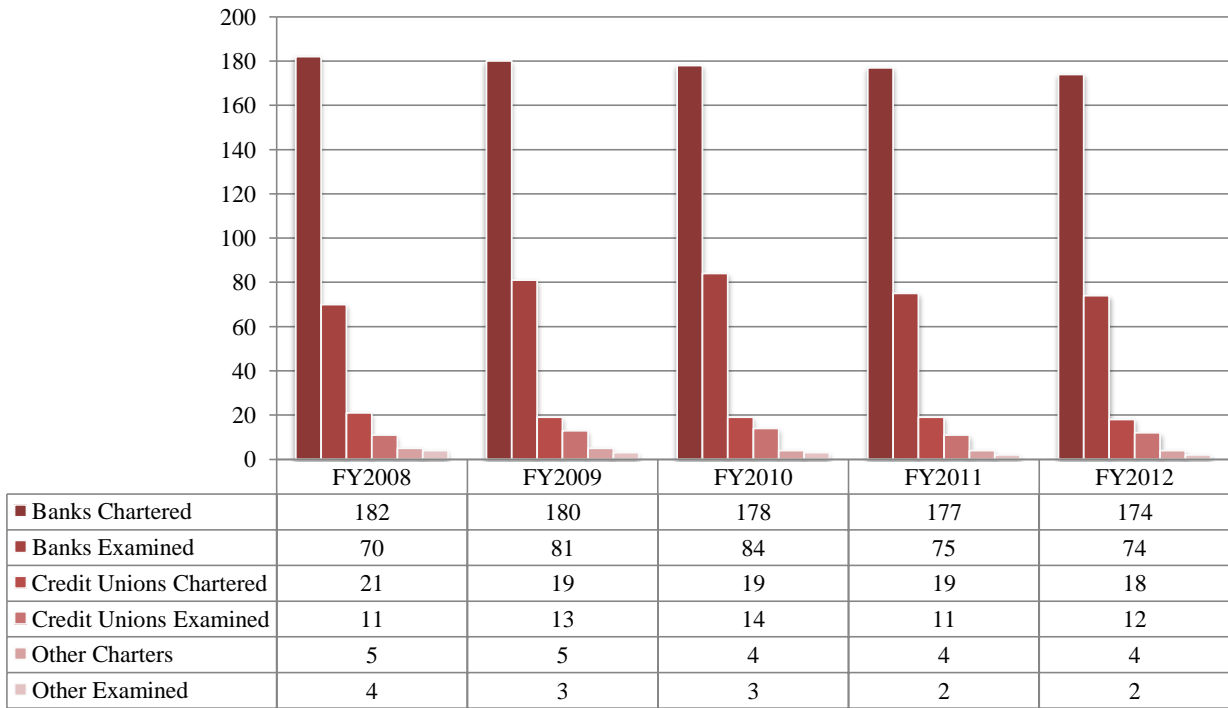
Deposits to common funds include the collection of fines and penalties. Per Neb. Rev. Stat. §§ 8-1,134, 8-1726, 8-1108.01 (Reissue 2012) and Neb. Rev. Stat. §§ 45-191.09, 45-921, 45-1017, 59-1725.01 (Reissue 2010) fines and penalties are to be deposited into the Permanent School Fund. Per Neb. Rev. Stat. § 45-351, 45-927 (Cum. Supp. 2012), § 45-751 (Reissue 2010), and Article VII, Section 5, of the Constitution of Nebraska, fines and penalties are to be deposited to the Common School Fund.

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary 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.

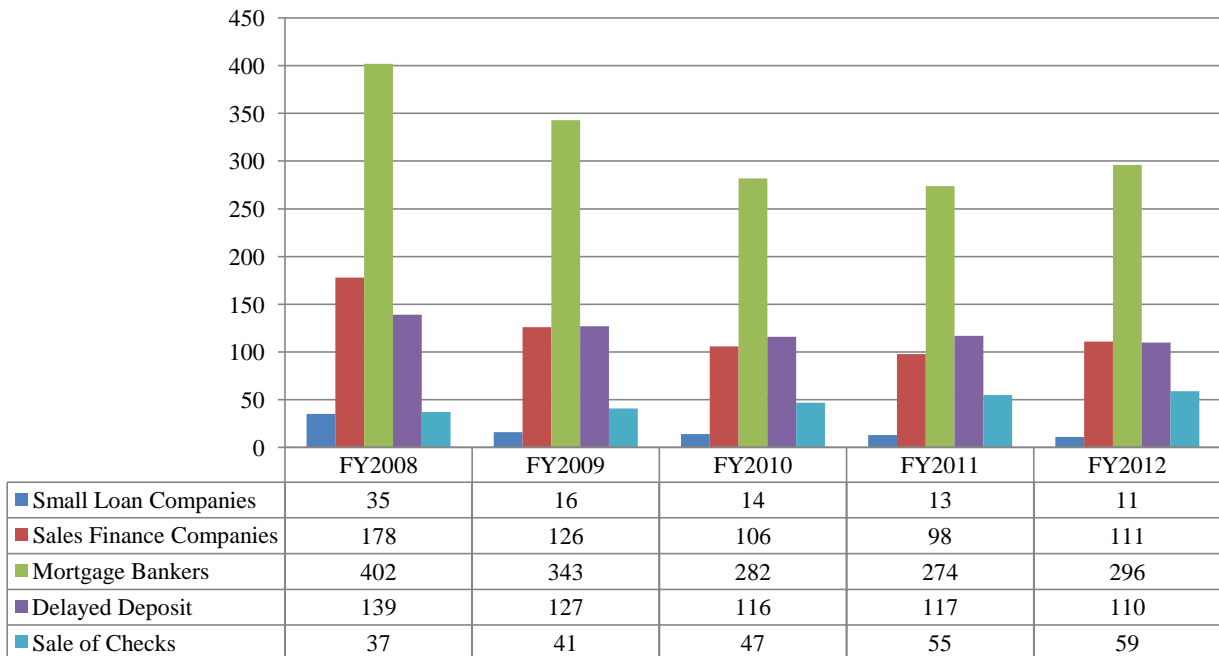
NEBRASKA DEPARTMENT OF BANKING AND FINANCE
Fiscal Years Ended June 30, 2008 through 2012

Financial Institutions - State Charters and Examinations



Banks and credit unions are examined on approximately an 18 month cycle. The Department has agreements with several Federal agencies to rotate the examinations. The Department may perform visitations of the banks and credit unions as needed.

Other Companies Licensed



Small Loan Companies and Delayed Deposit Services are examined on a regular basis. The Department has the authority to examine Sales Finance Companies and Mortgage Bankers; however, they are examined primarily on a complaint basis.