ATTESTATION REPORT
OF THE
NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

APRIL 1, 2012 THROUGH MARCH 31, 2013

Issued on June 18, 2013

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NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

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BACKGROUND

The Nebraska Abstracters Board of Examiners (Board), created in 1965, consists of five members appointed by the Governor to carry out the purposes of and enforce the Abstracters Act. The Board includes three members who shall at all times be actively registered abstracters who have engaged in the business of abstracting for at least five years, one member who shall be a lawyer experienced in the area of real estate law, and one member who shall be a representative of the public.

Registered abstracters compile, or certify abstracts of title to real property and prepare written reports of titles to real property. The Abstracters Board of Examiners reviews licensees' practices under the Abstracters Act. The Board regulates the registration and certification of individual abstracters and abstracting companies in the State. The Board also supervises continuing education programs, investigates complaints, and conducts hearings. The Board's primary goal is to ensure Nebraska real estate buyers, or those making payments to be secured by property, are fully informed of that property's legal status. The Board's activities are funded by certification and examination fees. The Board employed one part-time person.

EXIT CONFERENCE

An exit conference was held May 30, 2013, with the Board to discuss the results of our examination. Those in attendance for the Nebraska Abstracters Board of Examiners were:

NAME	TITLE
Donald D. Kucera	Board Chairperson
Andrew K. Carothers	Vice Chairperson
Mardy M. McCullough	Director

SUMMARY OF COMMENTS

During our examination of the Nebraska Abstracters Board of Examiners (Board), 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. ***Board Consolidation:*** We noted several issues related to the effectiveness, efficiency, and/or performance of the Board and are recommending the Legislative Performance Audit Committee consider studying the feasibility of consolidating the Board with the Real Estate Commission or another State agency.

2. ***Lack of Segregation of Duties:*** The Board only has one employee. That employee is able to perform all accounting procedures related to receipting, expenditures, payroll, and fixed assets for the Board.

3. ***Unreasonable Expenditures:*** We noted several unreasonable expenses paid by the Board, including Board meals averaging $49 and $50; a $70 registration fee for a golf tournament; a $50 gift card; $145 for candy and pop; and a $225 phone system for the Director's home office.

4. ***Computer Expenditures and Agreement:*** The Board purchased two laptop computers for $1,848 each, one for the Director's use at the office and one for her home office. The two laptops also included excessive upgrades and consultant fees, which were incurred for unknown services performed. Additionally, the Board entered into an unreasonable contract with the Director for the purchase and personal use of the laptops.

5. ***Lack of Adequate Receipting Procedures:*** The Board did not perform deposits timely; we noted deposits held for up to 198 days before being deposited. There were duplicate receipts, missing receipts, improper fees charged, lack of documentation for fee rates, and a lack of reconciliation of deposits and follow up of insufficient funds checks.

6. ***Payroll Issues:*** The Director did not complete any timesheets during the period tested and her vacation leave balance was not properly adjusted at December 31.

7. ***Unnecessary Lodging Reimbursements:*** The Director and a Board member were reimbursed for lodging expenses incurred less than 60 miles from their headquarter city. Unreasonable lodging totaled $384.

8. ***Improper Recording of Fixed Assets:*** Two laptop computers purchased during the period were not recorded in the fixed asset system and were coded to the incorrect account code in the accounting system. One asset was improperly removed, one asset was improperly coded as a fixed asset, and no one reviewed any fixed asset reports to ensure the system was accurate.

SUMMARY OF COMMENTS
(Continued)

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 Abstracters Board of Examiners

Draft copies of this report were furnished to the Board 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. Board Consolidation

Neb. Rev. Stat. § 84-304(5) (Cum. Supp. 2012) states it is the duty of the Auditor of Public Accounts:

> *To report promptly to the Governor and the appropriate standing committee of the Legislature the fiscal condition shown by such examinations conducted by the auditor, including any irregularities or misconduct of officers or employees, any misappropriation or misuse of public funds or property, and any improper system or method of bookkeeping or condition of accounts. The report submitted to the committee shall be submitted electronically. In addition, if, in the normal course of conducting an audit in accordance with subdivision (3) of this section, the auditor discovers any potential problems related to the effectiveness, efficiency, or performance of state programs, he or she shall immediately report them electronically to the Legislative Performance Audit Committee which may investigate the issue further, report it electronically to the appropriate standing committee of the Legislature, or both; …*

The Nebraska Abstracters Board of Examiners (Board) is a board of five members appointed by the Governor. The Board employed one half-time employee to perform administrative duties including: maintaining records, administering exams, collecting registration fees, and issuing certificates.

We noted several issues, as further explained in the following comments, including a lack of segregation of duties, unreasonable expenditures, and improper accounting records. We are recommending the Legislative Performance Audit Committee consider the issues reported related to the effectiveness, efficiency, and/or performance of the Board and consider studying the feasibility of dissolving the separate agency and moving the Board under the Nebraska Real Estate Commission or another agency deemed reasonable for the operations of the Board.

> We recommend the Board work with the Legislative Performance Audit Committee to determine whether the Board would be better served by combining with another State agency for administrative purposes.

Board's Response: We understand your office's duty under Neb. Rev. Stat. § 84-304(5) to make said recommendation. The Abstracters Board of Examiners will give serious consideration to your recommendation moving the Board under the Nebraska Real Estate Commission or another State agency at our next meeting, and will initiate a preliminary dialogue with the Legislative Performance Audit Committee and the Nebraska Real Estate Commission to determine whether we would be better served by combining with another State agency.

2. Lack of Segregation of Duties

A good internal control plan and sound business practice require adequate segregation of duties or compensating controls so no one individual is in a position to both perpetrate and conceal errors and irregularities.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Lack of Segregation of Duties (Continued)

The Board only has one employee, the Director. During testing we noted the Director is the only individual set up in the accounting system to prepare, approve, and post documents for the Board. The Board does not have a back-up in case the Director has an extended leave of absence. The Board could contract with a different State agency or use the services of the Department of Administrative Services (DAS) to segregate duties and ensure business would be conducted in the instance of a leave of absence. The following was noted:

- **Receipts** – The Director was able to receive monies, create receipts, perform and approve deposits in the accounting system, and reconcile the activity. As no other individuals are involved in the receipting of monies, there is a great risk State funds could be misappropriated and remain undetected. The Board reviewed the general ledger report, but this is a summary of the daily deposits and would not contain detailed information for the receipts being deposited. It is unlikely the Board would be able to detect a deposit was incomplete or inaccurate by reviewing this report. The total amount deposited for sales and charges during the period tested was $22,180. See Comment Number 5 for issues regarding the Board's receipting of monies.

- **Expenditures** – The Director was able to receive purchased items, approve invoices for payment, and prepare, approve, and post expenditure documents to the accounting system. The Board reviewed the general ledger report from the system, however, the review occurred after the expenditures were paid and did not include a review of invoices or other supporting documentation to ensure all expenditures were proper and reasonable. There was $24,157 in expenditures, other than payroll, during the period tested. See Comment Numbers 3, 4, and 7 for issues regarding the Board's expenses.

- **Payroll** – The Director was the only individual able to change employee records, including pay rates and payroll deductions, enter hours worked, prepare and approve payroll for processing, and review the payroll register. The Board did not review the payroll register. The review of the general ledger report would mitigate the risk of error or abuse as the payroll expenditures for the Director should only have changed when a salary increase was approved by the Board or annual deduction rates changed. There was $25,652 in payroll expenditures during the period tested. See Comment Number 6 for issues regarding the Board's payroll procedures.

- **Fixed Assets** – The Director was able to perform all procedures related to fixed assets, including receiving the assets upon purchase, adding and removing assets from the accounting system, conducting the annual physical inventory, and reviewing reports. The Board did not review any fixed asset reports to ensure the accuracy of the items reported. See Comment Number 8 for issues regarding the recording of the Board's fixed assets.

When one individual is able to perform all phases of a transaction, there is a great risk for errors or fraud to occur and go undetected, resulting in loss or misuse of State funds. A similar finding was noted in the previous two reports.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Lack of Segregation of Duties (Concluded)

> We recommend the Board implement policies and procedures to ensure an adequate segregation of duties exists or compensating controls are established. We recommend the Board consider consolidating or contracting with another State agency or using the services of DAS to ensure another individual is involved in the processing and review of transactions of the Board.

Board's Response: The Nebraska Department of Administrative Services will be contacted to determine what internal controls can be implemented to address the lack of segregation of duties with respect to receipting, expenditures, payroll and fixed assets, and the Board will implement policies and procedures to ensure an adequate segregation of duties exists or compensating controls are established. The Board will also explore having DAS serve as a backup upon a leave of absence of the Director.

3. Unreasonable Expenditures

A good internal control plan and good business practice require expenditures paid by the Board be reasonable and necessary. Expenditures should relate directly to the essential operating costs of the Board.

During testing of expenditures we noted the Board frequently reimbursed the expenses personally paid by the Director instead of processing vendor payments through the State accounting system. Additionally, we noted several expenses that did not appear reasonable and/or necessary as follows:

- Two expense reimbursement documents tested included meals for Board members and the Director following Board meetings. One of the reimbursements included meals provided for one Board member's spouse and one Board member's driver. There was no provision of law which allowed a meal to be provided for an individual not on State business. The average cost of each meal provided was $49.

  Furthermore, we noted the Board's meals were excessive in relation to the U.S. General Services Administration (GSA) per diem rate for reasonableness. The GSA rate for a dinner in Lincoln, Nebraska was $23. We noted, on average, the meal for each individual was $50 and $49 at the July and December 2012 Board meetings, respectively. While the meals provided were allowable as an official function of the Board, the amounts spent on the meals appeared to be excessive. The meals included appetizers, a main course, beverages, and dessert. Including tax and tip, the meals totaled $302 and $340, respectively.

- The Director was reimbursed for a $70 registration fee to play in a golf tournament held in conjunction with the 2012 Nebraska Land Title Association annual convention. The golf tournament would not be considered a business function and, therefore, should not have been a reimbursable expense. Additionally, since the Director did not complete timesheets during the period tested (as noted in Comment Number 6) there was no way to determine if the golf tournament was played during State time.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Unreasonable Expenditures</u> (Concluded)

- The Director purchased and was reimbursed for $145 of candy and pop given as Christmas gifts for the Nebraska Real Estate Commission staff.

- The Director purchased and was reimbursed for a $50 Target gift card that she gave to a DAS employee as a retirement gift.

- The Board purchased a phone system for $225, which included a base and two additional handsets. The phone system was purchased for the Director to use in her home office. The Board also reimbursed the Director for a portion of her personal cell phone cost. Therefore, it does not appear reasonable the Director would need a phone system in her home if her cell phone was reimbursed for State use.

> Without policies and procedures to ensure all expenditures are paid through the State accounting system and are reasonable and necessary, there is an increased risk for loss or misuse of State funds. Furthermore, excessive or unreasonable expenditures could cause fees to be increased in order to ensure costs are covered. We recommend the Board ensure only expenses that are reasonable and essential to the operation of the Board are paid. Furthermore, we recommend the Board ensure gifts and recreational activities are not paid with State funds.

Board's Response: All reasonable and necessary payments shall be made through the State accounting system.

a. *<u>Meals:</u> Meal expense of a Board member shall be limited to $23.00 in accordance with the U.S. General Services Administration recommended per diem rate for reasonableness.*
b. *<u>Golf Fees During Conventions</u>: Future golf fees incurred by the Director at the NLTA annual convention will not be paid from public funds.*
c. *<u>Gifts for State Employees and Retirees</u>: It appears that the current Board was not aware that this practice was occurring. Public funds will not be used to purchase said gifts for services rendered, retirements, funerals, etc. . .*

4. <u>Computer Expenditures and Agreement</u>

A good internal control plan and sound business practice require expenditures paid by the Board to be reasonable and adequately documented. Expenditures should relate directly to the essential operating costs of the Board.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Computer Expenditures and Agreement</u> (Continued)

Unnecessary Computer Purchase and Upgrades
The Board purchased two new laptop computers for $1,848 each, in September 2012. According to the Director, one laptop was to be used by the Director in the office and one laptop was to be used in the Director's home office. The Director worked part-time from both the office and home. It does not appear necessary to have purchased two laptops for the Director's use, as laptops are easily transported to different locations.

Additionally, we noted the two laptop computers purchased included significant upgrades, including such items as 500-gigabyte hard drives and 8-gigabytes of RAM (Random Access Memory). According to the Director, the laptops purchased were selected based on the recommendations of a computer consultant hired to help in the selection and setup of the new laptop computers. There was no documented justification for the upgrades and it appears an adequate laptop could have been purchased for a lower cost that would have met the needs of the Board.

Computer Consultant Expenses
As noted above, the Board used the services of a consultant to select the computers purchased and used the services to assist in setting up and troubleshooting some issues encountered. We noted the consultant was a terminated State employee that previously worked for DAS Office of the Chief Information Officer. The consultant left employment with the State in January 2012, prior to the consulting services performed for the Board. The Director indicated she had worked with the consultant during his employment with the State and subsequently contacted him for his services with the laptops. During testing we noted the following issues:

- The invoices submitted by the consultant did not contain detail of the services provided. The invoices only included the dates, number of hours, and the hourly rate. It is unknown if the services provided were reasonable or necessary. It is also unknown why the computer upgrades, as noted above, were recommended to the Board.
- The Board did not pay the consultant directly using the State accounting system. Instead the Director wrote the consultant two separate personal checks for $600 and $200, which consisted of 16 hours at $50 per hour. The Director later requested a reimbursement of the expenses from the Board.
- The Internal Revenue Service (IRS) requires non-employees receiving payment for services of $600 or more to receive a 1099-MISC form for tax purposes. Because the payments to the consultant were not processed through the State accounting system, a 1099-MISC would not have been processed. Therefore, it would have been the Board's responsibility to ensure a 1099-MISC was completed; this was not done.

Unreasonable Computer Agreement
Neb. Rev. Stat. § 81-1120.27(1) (Reissue 2008) states:

> *The facilities of the state's telecommunications systems are provided for the conduct of state business. In addition, the state's…computers may be used by state employees and officials…for other essential personal business. Any such use for essential personal business shall be kept to a minimum and shall not interfere with the conduct of state business. A state employee or official shall be responsible for payment or reimbursement of charges, if any, that directly result from any such communication.*

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Computer Expenditures and Agreement</u> (Continued)

Neb. Rev. Stat. § 49-14,101.01(2) (Reissue 2010) states:

> *A public official or public employee shall not use or authorize the use of personnel, resources, property, or funds under his or her official care and control other than in accordance with prescribed constitutional, statutory, and regulatory procedures or use such items, other than compensation provided by law, for personal financial gain.*

The Board entered into an agreement with the Director on July 23, 2012, pertaining to the use of one of the laptop computers. The agreement stated the Board had purchased a laptop computer to be placed at the Director's home office in Lincoln, Nebraska and the laptop was considered an "off-premise" computer, that the Director was allowed and permitted to use for both Board and personal use. This agreement was not in accordance with § 81-1120.27 or § 49-14,101.01. State law does not allow State property to be used extensively for personal business. A similar agreement existed prior to this, dating back to January 2005.

Neb. Rev. Stat. § 81-161.04(1) (Reissue 2008) states:

> *Whenever any using agency has any personal property for which it no longer has any need or use, it shall notify the materiel division in writing setting forth a description of the property and the approximate length of time that the property has been in the possession of the using agency. The materiel division shall appraise the property and notify all other using agencies of the state that the materiel division has the property for sale and that the property can be bought at the appraised price. No property will be sold until first offered to using agencies as provided by this section unless the property is unusable. If the materiel division fails to receive an offer from any using agency, it may sell or dispose of the property by any method which is most advantageous to the State of Nebraska, including auction, sealed bid, private or public sale, or trade-in for other property, with priorities given to the other political subdivisions. All sales shall be made in the name of the State of Nebraska.*

The agreement further stated, "After three years (considered the life of a computer), [the Director] has the option to purchase the computer for $100, which is the market price for three year old computers when sold at the surplus auction." This is not in accordance with § 81-161.04. According to State law, DAS Materiel Division will appraise the property and notify other State agencies of the property for sale, property is not to be sold until first offered to other State agencies.

> We recommend the Board ensure their policies and procedures are in accordance with State law and that assets are properly disposed through Surplus Property in accordance with State statute. Furthermore, we recommend the Board ensure invoices are detailed as to the services provided and expenditures are reasonable and necessary for the operation of the Board. All payments to vendors should be processed through the State accounting system and the proper IRS forms completed for tax purposes.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Computer Expenditures and Agreement (Concluded)

Board's Response: All future equipment purchases will be handled in accordance with state statutes and rules and regulations, and the Board will vote to rescind the computer agreement with the Director so that the computers may be properly disposed through Surplus Property in accordance with State Statute. In addition, in the future when dealing with contractors and/or vendors, all invoices shall be detailed with respect to services or products provided, and all payments shall be processed through the State accounting system to ensure that the proper IRS forms are completed properly for tax purposes.

5. Lack of Adequate Receipting Procedures

Untimely Deposits and Inadequate Records

Neb. Rev. Stat. § 84-710 (Reissue 2008) requires 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.

Furthermore, a good internal control plan requires procedures to ensure all monies received are accounted for and are deposited timely in accordance with State statute.

During testing of receipts received and deposited by the Board we noted the following:

- Receipts were not deposited timely. According to the Director, deposits were made after ten checks had been received or at the end of the month, whichever was earlier. Payment for exams were also held and not deposited until the individual had taken the exam. However, according to § 84-710 the following receipts should have been deposited within three business days.

Receipt Date	Number of Receipts	Total	Date Deposited	Days Between Receipt and Deposit
5/15/2012	3	$ 500	11/29/2012	198 Calendar Days
4/3/2012	3	$ 1,350	9/12/2012	162 Calendar Days
4/2/2012	2	$ 450	4/26/2012	24 Calendar Days
4/3/2012	27	$ 10,350	4/26/2012	23 Calendar Days
4/20/2012	20	$ 4,700	4/26/2012	4 Business Days

- One deposit included $100 for five duplicate certificates of registration. The Board only charged $20 for each certificate; however, the fee for a duplicate certificate of registration was $50. The Board should have collected $250, for a loss of $150.

- Duplicate receipts were written for three checks totaling $500. The initial receipts were dated May 15, 2012. The duplicate receipts were dated November 29, 2012, and the checks were deposited at that time.

5. Lack of Adequate Receipting Procedures (Continued)

- Six receipts totaling $3,300 were dated March 29, 2012, but were deposited on March 28, 2012. It appears either the receipts were dated incorrectly or the receipts were written after the deposit was made.

- Nine checks deposited did not have a corresponding receipt on file. The checks totaled $1,550.

When deposits are not made timely and records are not complete and accurate, there is an increased risk of loss or misappropriation of State funds.

> We recommend the Board implement policies and procedures to ensure monies received are deposited upon receipt, in compliance with State statute; receipts are written for all monies received; and deposits are adequately documented to indicate what receipts are being deposited.

Lack of Support for Fees Charged

Neb. Rev. Stat. § 76-542 (Reissue 2009) states:

> *Any individual desiring to become a registered abstracter shall file an application for registration with the board …. Each such application shall be accompanied by (1) an application fee of not less than twenty-five dollars or more than one hundred dollars and (2) an examination fee of not less than twenty-five dollars or more than one hundred dollars. The board shall establish such fees based on the administrative costs of the board.*

A good internal control plan requires fees to be adequately supported and documented as approved by the Board.

We noted one fee tested exceeded the statutory limit and did not have documentation on file to support the amount charged. We also noted there was no documentation of the Board's approval of the increase for two fees charged.

- On December 13, 2011, the Board approved an additional fee of $65 for the cost of a background check for individuals applying to be a registered abstracter. The application fee to become a registered abstracter was previously set at $50 and increased to $115 with the addition of the background check. The total exceeded the statutory maximum of $100, as set in § 76-542. Furthermore, the Director was unable to provide documentation to support that the increased fee was based on the administrative costs of the Board.

- The fee for a Certificate of Registration was increased to $150 and the fee for a duplicate Certificate of Registration was increased to $50. However, there was no documentation the Board approved the fee increases.

When fees are not adequately supported and approved by the Board, there is an increased risk that the fees assessed are not proper. In addition, the Board is in noncompliance when fees are not in accordance with State statute.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Lack of Adequate Receipting Procedures (Continued)

> We recommend the Board evaluate the cost of the background check fee and adjust the fee charged to ensure the amount is in compliance with State statute and is based on the administrative costs of the Board. We also recommend the Board approve the current fees charged for the Certificate of Registration and the duplicate Certificate of Registration.

Lack of Deposit Reconciliations and Follow-up on Checks Returned as Insufficient Funds
A good internal control plan requires a reconciliation of deposit documents to the accounting system to ensure all deposits are accurately recorded. A good internal control plan also requires adequate procedures to ensure checks returned as insufficient funds (NSF) are followed up on in a timely manner and subsequent collection procedures are performed.

We noted there was no documented reconciliation of deposit documents to the General Ledger on the State accounting system to ensure all deposits were properly recorded. The Board deposited fees of $22,180 during the period tested.

We also noted there were three NSF checks recorded in the accounting system that had not been corrected. The checks totaled $520 and were dated June 2, 2003, October 23, 2008, and June 3, 2010. The State Treasurer charged the Board a fee of $20 for each NSF check. There was no documentation the checks had been subsequently collected or that the $20 fee had been charged to the individual that remitted the NSF checks. The Director indicated she had collected the $520, but was not aware of the $20 fees.

Without a documented reconciliation of the deposit documents to the accounting system and the proper resolution of NSF checks, there is an increased risk for loss or misuse of State funds.

> We recommend the Board implement policies and procedures to ensure a reconciliation of deposits to the accounting system is performed and documented. We further recommend the Board implement procedures to ensure NSF checks are properly collected and recorded in the accounting system in a timely manner.

Board's Response: In the future, receipts shall be required on all deposits, and deposits will be made in a timely manner in accordance with Neb. Rev. Stat. § 84.710. Deposit reconciliation will be discussed with DAS for the purpose of putting the proper internal controls in place, and reconciliation of the NSF checks to the general ledger account will also be implemented.

A formal review of the fees charged will be done, and it is understood that the maximum application fee is $100 by statute.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Payroll Issues

Lack of Timesheets

Title 273 NAC 10-002 states, "Each agency shall maintain a record for each employee of time worked and all absences from work." While the Board is not a classified agency and therefore is not required to follow Title 273 State of Nebraska Personnel Rules and Regulations, it would seem reasonable to expect similar policies and procedures to be in place. Furthermore, a good internal control plan requires employees that accrue vacation and sick leave to have adequate support that the employees "earned" the amounts recorded in the leave records. It is especially important to document time worked and leave used when employees will receive a payment for unused vacation and a portion of sick leave upon termination or retirement.

The Director did not complete any timesheets during the period tested. The Director worked half-time and worked from her home office frequently. We noted there was no vacation or sick leave used or compensatory leave earned and used recorded on the State accounting system.

Without records of time worked there is an increased risk for fraudulent or inaccurate compensation to employees. A similar finding was noted in the previous report.

> We recommend the Board implement policies and procedures to require employees to keep a daily record of time worked and leave used. We also recommend the Board ensure vacation, sick, and compensatory time earned and used is recorded in the State accounting system.

Improper Leave Balancing

Neb. Rev. Stat. § 81-1317.01 (Reissue 2008) states, in part:

> *[T]erms and conditions of employment which may otherwise be provided by law for employees not covered under the State Personnel System may be adjusted by the employer-representative as defined in section 81-1371 to address changes arising out of collective bargaining, but in no event shall the adjustment exceed the benefits derived from collective bargaining.*

Neb Rev. Stat. § 81-1371 (Cum. Supp. 2012) states, in part:

> *Employer-representative shall mean ... (d) for negotiations involving other state employees, the Governor; ... .*

In 2005, Governor Heineman signed a document extending benefits to non-classified employees in code and non-code agencies to include a maximum carryover of 35 days (280 hours) of vacation leave.

A good internal control plan includes procedures to ensure vacation balances exceeding 280 hours are adjusted to 280 hours at the end of each calendar year.

The Director's excess vacation balance on the State accounting system was not properly adjusted at December 31, 2012. The Director's vacation balance was 372 hours, or 92 hours over the allowable maximum carryover of 280 hours. As noted above, the Director did not maintain timesheets or record leave used, therefore, it was unknown if the balance was properly recorded in the accounting system.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. **Payroll Issues** (Concluded)

Without adequate lapsing of leave accounts, there is an increased risk for loss or misuse of State funds as the Director, upon termination from employment, would be paid out for the excessive vacation balance. A similar finding was noted in the previous report.

> We recommend the Board implement policies and procedures for the accurate lapsing and recording of leave accounts to ensure all balances in excess of the amounts allowed are proper as of December 31 each year.

Board's Response: The Board will investigate different options with respect to the Director keeping track of time worked and leave used. Reporting to the State accounting system will be required to ensure vacation, sick leave, and other compensatory time earned is reported accurately. The Director will be required to balance the amount of leave accounts to insure the information is accurate to date.

7. **Unnecessary Lodging Reimbursements**

According to the Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 4:

> *It is State Accounting policy that a person generally be more than 60 miles from his or her workplace in order to be eligible for lodging. We realize there may be reasons to pay for lodging for distances less than 60 miles … in those instances the reason must be clearly stated on the disbursement document.*

A good internal control plan requires policies and procedures to ensure reimbursements to employees or Board members are reasonable and necessary.

During testing of travel expenses we noted two of four reimbursement documents tested included lodging costs that were not reasonable; as the lodging was less than 60 miles from the headquarter city of the individual and there was no documented reason that overnight lodging was necessary. Furthermore, the State of Nebraska is exempt from sales, use, and lodging taxes, however, because the individuals personally paid for the lodging plus tax and were then reimbursed, taxes were paid unnecessarily.

Two nights of lodging for the Director and one night for a Board member were reimbursed for a hotel in La Vista, Nebraska, for the 2012 Nebraska Land Title Association annual convention. Both the Director and the Board member lived in Lincoln, Nebraska which was only 54 miles from the conference. The cost for each night of lodging was $128, a total of $384, including $57 of taxes.

Without adequate policies and procedures to ensure expenses are reasonable and necessary, there is an increased risk for lose or misuse of State funds. Furthermore, when the Board does not request a direct bill for lodging expenses, unnecessary taxes are paid.

7. Unnecessary Lodging Reimbursements (Concluded)

> We recommend the Board implement policies and procedures to ensure travel expenses are reasonable and necessary. Furthermore, lodging should be directly billed to the Board to ensure taxes are not incurred.

Board's Response: The Director and Board members shall be advised of travel limitations as well as lodging policies to ensure that reimbursement for said expenses are reasonable and necessary, and are in accordance with the Nebraska State Accounting Manual policies on travel expense.

8. Improper Recording of Fixed Assets

The Nebraska State Accounting Manual, AM-005, General Policies, Section 28, states, "The DAS Materiel Administrator has established $1,500 as the minimum for capitalization of articles or property."

According to the State Surplus Property, Fixed Asset Information, Section One, "Current guidance states that all assets being procured with a total cost of at least $1,500 must be established as assets within the fixed asset system of EnterpriseOne [State accounting system]."

A good internal control plan requires policies and procedures to ensure expenditures are properly coded to capital outlay account codes and that fixed asset reports are reviewed periodically to ensure the accuracy of the fixed asset information in the accounting system.

During testing of fixed assets we noted the following:

- Two laptop computers were purchased in September 2012, for $1,848 each. The purchases were recorded to a capital outlay account code but not added to the fixed asset listing.

  Furthermore, the computers were recorded to the improper capital outlay account code which determined the depreciable life of the asset. The capital outlay account code used had a depreciable life of ten years; however, the assets should have had a depreciable life of three years.

- We also noted one laptop previously on the fixed asset inventory listing was improperly removed from the State accounting system. The Board still had the laptop in use.

- The Director also purchased a phone system in July 2012 for $225 and improperly recorded the purchase to a capital outlay account code. Since the total cost was below the capitalization threshold of $1,500 it should have been recorded to an operating expense account code for non-capitalized equipment.

8. <u>Improper Recording of Fixed Assets</u> (Concluded)

- The Director did not review any fixed asset reports from the State accounting system. The reports should have been used to review additions, deletions, and improper accounting of fixed assets in the system. If the reports had been reviewed periodically, the errors noted above may have been identified and corrected.

When assets are improperly recorded or not recorded on the fixed asset system, and reports are not reviewed to identify the errors, there is a risk of loss or misuse of State property.

> We recommend the Board implement policies and procedures to ensure expenditures are properly recorded on the State accounting system, in accordance with DAS policies. We further recommend the Board implement policies and procedures to ensure fixed asset reports are periodically reviewed for accuracy.

Board's Response: Policies and procedures will be adopted which will align with the State policies and procedures with respect to expenditures, capital outlays and other fixed assets. An annual review of all fixed assets shall be completed and balanced with the State accounting system.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Abstracters Board of Examiners
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balance of the Nebraska Abstracters Board of Examiners (Board) for the period April 1, 2012, through March 31, 2013. The Board's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balance. 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 Balance 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 balance of the Nebraska Abstracters Board of Examiners for the period April 1, 2012 through March 31, 2013, 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 Balance 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 Balance 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 Balance 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, the Abstracters Board of Examiners, others within the Board, 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

June 5, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA ABSTRACTERS BOARD OF EXAMINERS

SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

For the Period April 1, 2012 Through March 31, 2013

		Abstracters Fund 26610
REVENUES:		
Sales and Charges	$	22,180
Miscellaneous		2,530
TOTAL REVENUES		24,710
EXPENDITURES:		
Personal Services		25,652
Operating		14,242
Travel		5,994
Capital Outlay		3,921
TOTAL EXPENDITURES		49,809
Deficiency of Revenues Over Expenditures		(25,099)
OTHER FINANCING SOURCES (USES):		
Sales of Assets		27
TOTAL OTHER FINANCING SOURCES (USES)		27
Net Change in Fund Balance		(25,072)
FUND BALANCE, April 1, 2012		111,643
FUND BALANCE, March 31, 2013	$	86,571
FUND BALANCE CONSISTS OF:		
General Cash	$	86,677
Insufficient Fund Items		520
Deposits with Vendors		122
Due to Vendor		(748)
TOTAL FUND BALANCE	$	86,571

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Period April 1, 2012 through March 31, 2013

1. Criteria

The accounting policies of the Nebraska Abstracters Board of Examiners (Board) 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 Balance 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 March 31, 2013, include only those payables posted in the general ledger before March 31, 2013, and not yet paid as of that date. The amount recorded as expenditures, as of March 31, 2013, **does not** include amounts for goods and services received before March 31, 2013, which had not been posted to the general ledger as of March 31, 2013.

The Board had no accounts receivable at March 31, 2013. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund type established by the State that is used by the Board 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 major revenue account classifications established by State Accounting and used by the Board are:

> **Sales & Charges –** Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

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

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

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

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 Board include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, insufficient fund items, and deposits with vendors. Cash accounts and deposits with vendors are 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.

Other Financing Sources – Proceeds of fixed asset dispositions.

2. Reporting Entity

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

The Nebraska Abstracters Board of Examiners is part of the primary government for the State of Nebraska.

NOTES TO THE SCHEDULE
(Continued)

3. 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.

4. 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 Board takes an annual inventory, recording in the State Accounting System all equipment that has a cost of $1,500 or more at the date of acquisition.

For the CAFR, the State requires the Board 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 years.

Capital asset activity of the Board for the period April 1, 2012 through March 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ -	$ 3,696	$ -	$ 3,696
Less accumulated depreciation for				
Equipment				716
Total capital assets, net of depreciation				$ 2,980

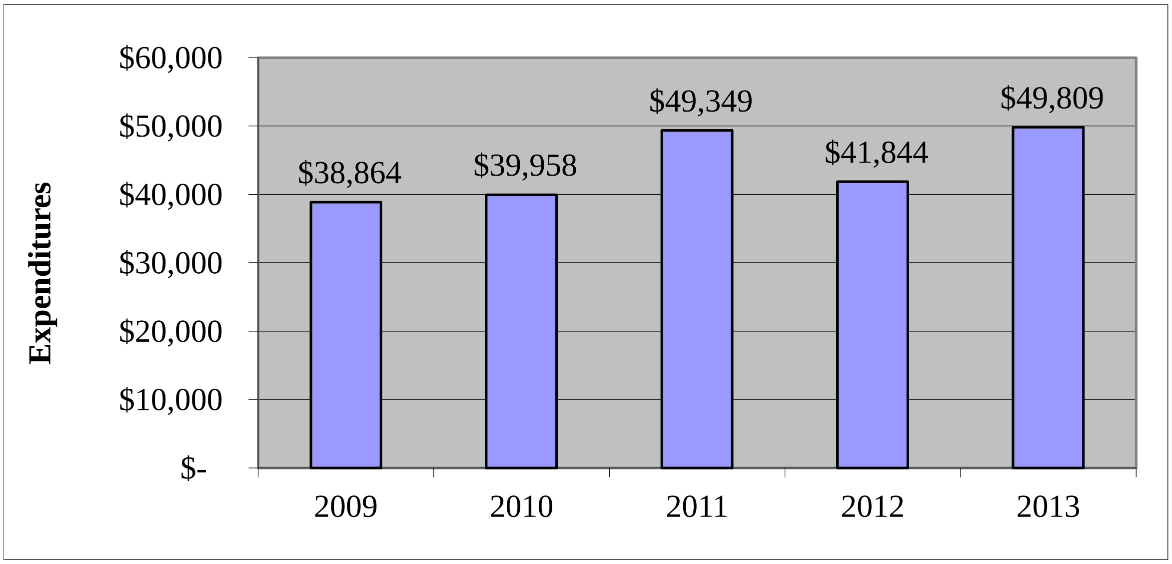
Note: The Board did not record the capital assets in the State accounting system, therefore, the equipment and depreciation reflected in the schedule above was calculated and adjusted during the examination.

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balance. 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 Balance, and, accordingly, we express no opinion on it.

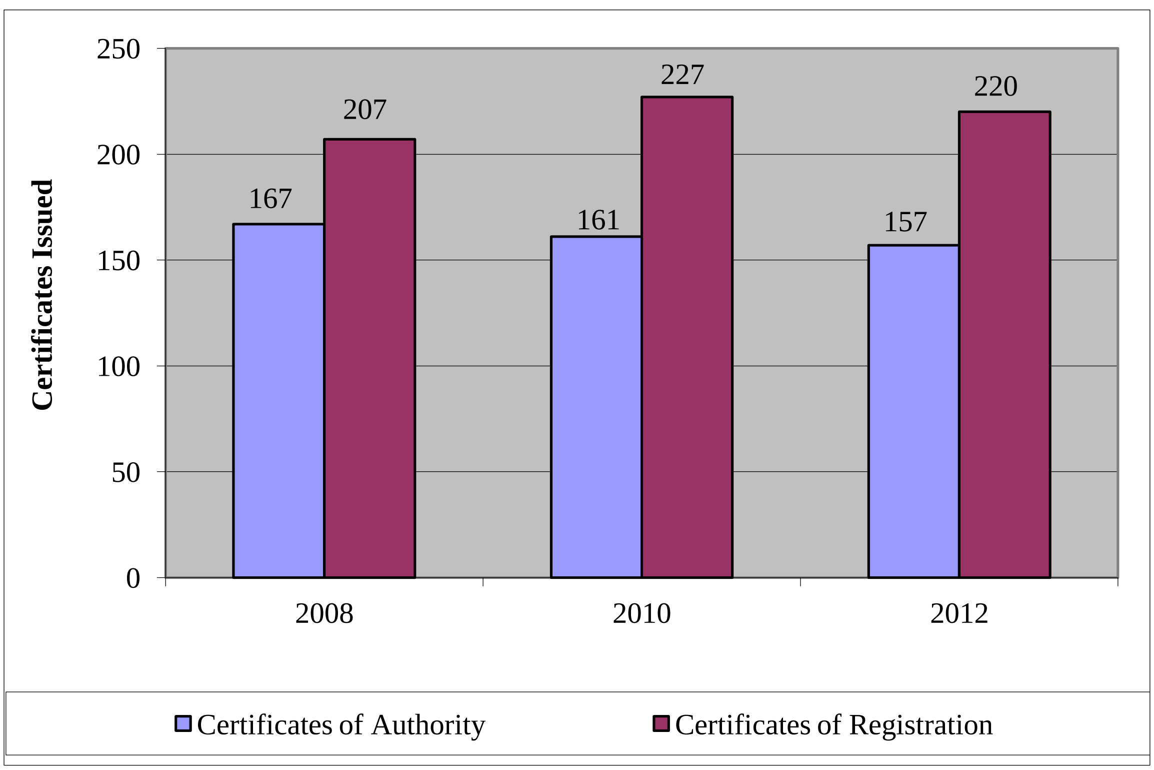
TOTAL EXPENDITURES BY YEAR

For the Years Ended March 31, 2009 Through 2013



NUMBER OF CERTIFICATES ISSUED

As of June 1, 2008, 2010, and 2012



Note: Certificates of Authority and Certificates of Registration are renewed every two years (even numbered years)