

**AUDIT REPORT
OF THE
NEBRASKA MOTOR VEHICLE
INDUSTRY LICENSING BOARD**

JULY 1, 1998 THROUGH JUNE 30, 1999

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

BACKGROUND

The Nebraska Motor Vehicle Industry Licensing Board is a self-supporting Board that was created during the 1957 legislative session. Members of the Board include the director of the Department of Motor Vehicles, who serves as chairman, and nine members appointed by the Governor, with the consent of the Legislature. The nine members, who serve three-year terms on a staggered basis, include three new car dealers, two used car dealers, one trailer dealer, one manufacturer's representative, one motorcycle dealer, and one member-at-large who represents the general public.

The Board has the responsibility of protecting the public interest in connection with the activities of the manufacture, distribution and sale of motor vehicles, motorcycles, trailers, and mobile homes. The Board exercises its responsibilities through the issuance, denial, supervision, or revocation of the following licenses: motor vehicle dealers – new and used, salespersons, manufacturers, factory branches; factory representatives; distributors; distributors' representatives; motorcycle dealers; motor vehicle auction dealers; wreckers and salvage dealers; finance companies; and supplemental motor vehicle dealers. The Board also controls the distribution of dealer license plates by means of a statutory formula.

The Board generally meets once a month to approve or deny any license applications and to act on any complaints filed before it. The Board also conducts hearings for new motor vehicle franchise applications and for the termination of any franchise. Their powers were granted to the Board in order to prevent fraud and other abuses upon the citizens of the State.

At June 30, 1999, the office and field staff consisted of an executive director, two administrative assistants, and five field investigators, who investigate complaints and inspect dealerships for compliance with the law. SOS temporary pool employees were used during October 1998 through February 99.

MISSION STATEMENT

The mission of the Motor Vehicle Industry Licensing Board, is the regulation, investigation, and educational matters involving the selling of motor vehicles in the State. Protection of the general public interest is the main priority.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

ORGANIZATIONAL CHART

Honorable Mike Johanns, Governor

BOARD MEMBERS

Edward D. Wimes, Chairperson
Director, Department of Motor Vehicles

Stephan J. Burke - North Platte, Nebraska

R. James Campbell – Lincoln, Nebraska

William C. Cannon – Scottsbluff, Nebraska

Charles T. Grimsley – Omaha, Nebraska

Jerry Haggadone – York, Nebraska

Gary Lambert – McCook, Nebraska

Kevin Langel – Norfolk, Nebraska

Mardy McCullough – Grant, Nebraska

Paula L. Wolfson-Kessler – Omaha, Nebraska

OFFICE STAFF

William Jackson – Executive Directory

Joan Zachek – Administrative Assistant

Kylie Smith – Administrative Assistant

FIELD STAFF

Arvin Brandt – Investigator

Donald Carlson – Investigator

Corinne Fiel – Investigator

Steven Finke – Investigator

Joe Lenstrom – Investigator

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

SUMMARY OF COMMENTS

During our audit of the Nebraska Motor Vehicle Industry Licensing Board, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. Travel Reimbursements
2. Cost of Service

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Board to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The board responded to all comments. 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 audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

1. Travel Reimbursements

Nebraska Accounting System (NAS) Policy Concept #5 states, "Appropriate documentation consists of receipts or a detailed itemization listing the date, amount, and restaurant for each meal; breakfast, lunch, and supper. A combination of receipts and detailed itemizations is permitted. If this information cannot be provided, the excess of the allowable amount must be coded to account code 4718 and a Nebraska Employee Information System (NEIS) income adjustment authorization form will need to be completed for the employee and sent to Department of Administrative Services (DAS) Accounting along with the expense reimbursement document." The Internal Revenue Services (IRS) standard meal allowance for the San Francisco, California area is \$42 per day.

Good internal control requires appropriate documentation for travel reimbursements.

During our audit, we noted an employee received meal reimbursements totaling \$96.13 for one day for meals claimed while in attendance at a conference in San Francisco, California. Included in this amount were reimbursements for \$11.71 for breakfast, \$7.00 for lunch, and \$77.42 for dinner. The documentation included receipts for the breakfast and the dinner. There was no receipt for the \$7.00 lunch. A similar situation was noted in a prior audit.

We recommend the Board implement procedures to ensure meals claimed in excess of the IRS standard meal allowance that are not properly supported by receipts and/or a detailed itemization as required by NAS be coded to account code 4718. We also recommend the Board implement procedures to ensure claims for meal reimbursements are reasonable as we believe meal reimbursements of approximately \$100 for one day are unreasonable.

We further recommend the NEIS income adjustment be processed for the excess meal reimbursements as required by the NAS.

BOARD'S RESPONSE: WHILE THE AUDITORS WERE IN THE OFFICE THIS MATTER WAS BROUGHT TO MY ATTENTION AND THE AUDITORS WERE KIND ENOUGH TO EXPLAIN AND EDUCATE ME ON THIS MATTER. I AM CONFIDENT THAT SUCH OVERSIGHTS WILL NOT HAPPEN AGAIN NOR BE AN ISSUE IN THE FUTURE.

2. Cost of Services

Good fiscal policy requires the Board to develop a system which can accumulate information to determine the cost of providing services. This would involve segregating expenditures related to specific activities as well as developing a method to appropriately allocate common expenditures such as personnel and accounting to all activities.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

2. Cost of Services (Concluded)

During our audit, we noted the accounting system as presently utilized was not capable of determining the cost of providing services for specific revenues generated. This condition was noted in the two previous audits. During calendar year 1999, the Board did approve and implement a ten-dollar fee reduction for the dealer license. However, the fund balance is still 1.4 times the 1999 fiscal year expenditures.

We strongly recommend the Board develop a system of accumulating the costs of providing the services on the Nebraska Accounting System (NAS). We further recommend the Board continue to review the fee schedule and the fund balance to determine if changes are needed.

BOARD'S RESPONSE: THE BOARD DISCUSSED THIS PARTICULAR ITEM AT LENGTH. THE BOARD DETERMINED THAT THE REQUIREMENT THAT THE BOARD DEVELOP A SYSTEM OF DETERMINING THE COST OF SERVICES WOULD BE TOO MUCH OF A BURDEN FOR THE MEMBERS OF THE STAFF NOR WOULD IT BE COST EFFECTIVE. AT THE BOARD MEETING A MOTION WAS MADE BY MR. CANNON AND SECONDED BY MS. MCCULLOUGH THAT THE COST WOULD BE PROHIBITIVE TO DO A "COST OF SERVICES" STUDY. ALL BOARD MEMBERS PRESENT VOTED "AYE". MOTION CARRIED. WE WILL, HOWEVER, CONTINUE TO REVIEW THE FEE SCHEDULE AND THE FUND BALANCE AND MAKE CHANGES AS NECESSARY.

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the Nebraska Motor Vehicle Industry Licensing Board as of and for the fiscal year ended June 30, 1999, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the general purpose financial statements present only the Nebraska Motor Vehicle Industry Licensing Board and are not intended to present fairly the financial position and results of operations of the State of Nebraska, in conformity with generally accepted accounting principles.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Nebraska Motor Vehicle Industry Licensing Board as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The Year 2000 Issues supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Nebraska Motor Vehicle Industry Licensing Board is or will become year 2000 compliant, that Nebraska Motor Vehicle Industry Licensing Board's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Nebraska Motor Vehicle Industry Licensing Board does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 1999, on our consideration of Nebraska Motor Vehicle Industry Licensing Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts.

The accompanying schedule is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

August 5, 1999



Manager

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
BALANCE SHEET
SPECIAL REVENUE FUND TYPE AND ACCOUNT GROUPS
June 30, 1999

	Governmental Fund Types	Account Groups		Totals (Memorandum Only)
	Special Revenue	General Fixed Assets	General Long-Term Debt	
Assets and Other Debits				
Cash in State Treasury	\$ 649,056	\$ -	\$ -	\$ 649,056
Interest Receivable	3,220	-	-	3,220
Deposit with Vendors	742	-	-	742
Property, Plant, and Equipment (Note 4)	-	40,482	-	40,482
Amount to be Provided for Debt Service (Note 5)	-	-	53,542	53,542
Total Assets and Other Debits	\$ 653,018	\$ 40,482	\$ 53,542	\$ 747,042
Liabilities, Fund Balances and Other Credits				
Liabilities:				
Accrued Payroll	\$ 100	\$ -	\$ -	\$ 100
Accounts Payable	3,465	-	-	3,465
Due to Other Agencies	7,004	-	-	7,004
Accrued Compensated Absences (Note 5)	-	-	53,542	53,542
Total Liabilities	10,569	-	53,542	64,111
Fund Balances and Other Credits:				
Investment in General Fixed Assets (Note 4)	\$ -	\$ 40,482	\$ -	\$ 40,482
Fund Balances:				
Reserved for Postage	742	-	-	742
Unreserved, Undesignated	641,707	-	-	641,707
Total Fund Balances and Other Credits	642,449	40,482	-	682,931
Total Liabilities, Fund Balances and Other Credits	\$ 653,018	\$ 40,482	\$ 53,542	\$ 747,042

See Notes to General Purpose Financial Statements.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES, ALL GOVERNMENTAL FUND TYPE
AND FIDUCIARY FUND TYPES**

For the Fiscal Year Ended June 30, 1999

	Governmental Fund Types	Fiduciary Fund Type	Totals (Memorandum Only)
	Special Revenue	Nonexpendable Trust	
REVENUES:			
Sales and Charges:			
Dealers Licenses	\$ 253,640	\$ -	\$ 253,640
Salesperson Licenses	79,020	-	79,020
Motor Vehicle Title Fees	56,947	-	56,947
Manufacturer Licenses	44,120	-	44,120
Other	49,145	-	49,145
Miscellaneous:			
Investment Interest	38,840	-	38,840
Other	50	5,000	5,050
TOTAL REVENUES	<u>521,762</u>	<u>5,000</u>	<u>526,762</u>
EXPENDITURES:			
Personal Services	331,470	-	331,470
Operating	64,511	-	64,511
Travel	49,822	-	49,822
Capital Outlay	27,020	-	27,020
TOTAL EXPENDITURES	<u>472,823</u>	<u>-</u>	<u>472,823</u>
Excess of Revenues Over (Under) Expenditures	<u>48,939</u>	<u>5,000</u>	<u>53,939</u>
OTHER FINANCING SOURCES (USES):			
Sales of Assets	112	-	112
Operating Transfers Out (Note 8)	(24,086)	-	(24,086)
Deposits to Trust Fund (Note 9)	-	(5,000)	(5,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(23,974)</u>	<u>(5,000)</u>	<u>(28,974)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>24,965</u>	<u>-</u>	<u>24,965</u>
FUND BALANCE, JULY 1, 1998	<u>617,484</u>	<u>-</u>	<u>617,484</u>
FUND BALANCE, JUNE 30, 1999	<u>\$ 642,449</u>	<u>\$ -</u>	<u>\$ 642,449</u>

See Notes to General Purpose Financial Statements.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES**
BUDGET AND ACTUAL (BUDGETARY BASIS) - Cash Fund
For the Fiscal Year Ended June 30, 1999

	FUND		
		ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET		
REVENUES:			
Sales and Charges:			
Dealers Licenses	\$ -	\$ 253,190	\$ -
Salespersons Licenses		78,720	
Motor Vehicle Title Fees		56,947	
Manufacturer Licenses		44,120	
Other		49,145	
Miscellaneous:			
Investment Interest		38,502	
Other		50	
TOTAL REVENUES		520,674	
EXPENDITURES:			
Personal Services	354,364	331,370	(22,994)
Operating	82,553	61,426	(21,127)
Travel	58,671	49,757	(8,914)
Capital Outlay	43,638	26,651	(16,987)
TOTAL EXPENDITURES	\$ 539,226	469,204	\$ (70,022)
Excess of Revenues Over (Under) Expenditures		51,470	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		112	
Operating Transfers Out (Note 8)		(28,845)	
TOTAL OTHER FINANCING SOURCES (USES)		(28,733)	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses		22,737	
FUND BALANCES, JULY 1, 1998		626,311	
FUND BALANCES, JUNE 30, 1999		\$ 649,048	

See Notes to General Purpose Financial Statements.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 1999

1. Summary of Significant Accounting Policies

- A. Basis of Presentation.** The accompanying general purpose financial statements of the Nebraska Motor Vehicle Industry Licensing Board (the Board) have been prepared in conformance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The general purpose financial statements have been prepared primarily from accounts maintained by the State Accounting Administrator of the Department of Administrative Services.

- B. Reporting Entity.** The Board 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 financial statements include the fund of the Board. The Board has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Board, or the significance of their relationship with the Board are such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board.

As required by generally accepted accounting principles, these financial statements present the Nebraska Motor Vehicle Industry Licensing Board. No component units were identified. The Nebraska Motor Vehicle Industry Licensing Board is part of the primary government for the State of Nebraska's reporting entity.

- C. Fund Structure.** The Board's accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available to it. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions, or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. In the combined financial statements, however, funds that have similar characteristics have been combined into generic fund types

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

as required by GAAP. These generic fund types differ from the Board's budgetary funds which are described later in Note 2. A brief description of these fund types and account groups as used in the Board and the categories into which they are grouped follows:

Governmental Funds. Transactions related to resources received and used for those services traditionally provided by a state government. Governmental funds include:

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Fiduciary Funds. Transactions related to assets held by the Board in a trust or agency capacity. The Board's fiduciary fund includes Nonexpendable Trust fund as follows:

Nonexpendable Trust Funds. Reflect the transactions, assets, liabilities, and fund equity of trusts whose principal must be maintained intact and whose income is used to fund the activity.

Account Groups. The Account Groups are maintained to account for general long-term debt and fixed assets not accounted for in other funds of the Board.

General Fixed Assets Account Group. Used to account for general fixed assets of the Board.

General Long-Term Debt Account Group. Used to account for long-term obligations of the Board including compensated absences.

D. Basis of Accounting. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

All nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. As of June 30, 1999, the trust fund had no assets or liabilities.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Generally, the Board considers a one-year availability period for revenue recognition.

Expenditures are recorded when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include compensated absences which are recognized when paid.

The accrual basis of accounting is utilized by the nonexpendable trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

E. Cash. "Cash" as reported on the balance sheet is under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is maintained by the Treasurer in an investment pool. The State Investment Officer invests the deposited cash in short-term securities and other investments. All interest revenue is allocated to the State General Fund except allocations required by law to be made to other funds. All the funds of the Board were designated for investment during fiscal year 1999. Amounts are allocated on a monthly basis based on average balances of all invested funds.

F. Fixed Assets. General fixed assets are not capitalized in the funds used to acquire them. Instead, capital acquisition is reflected as an expenditure in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Generally, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the General Fixed Assets Account Group are not depreciated.

- G. Compensated Employee Absences.** All permanent employees working for the Board earn sick and annual leave. Temporary and intermittent employees and Board members are not eligible for paid leave.

Board employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year.

Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, at which time the State is liable for 25 percent of the employee's accumulated sick leave. It is the Board's policy to liquidate unpaid annual leave, vested sick leave, and compensatory leave from future sources rather than currently available expendable resources. Accordingly, governmental funds recognize annual and sick leave when it is paid.

A long-term liability for the vested portion of compensated absences in the governmental fund as of June 30, 1999, has been recorded in the General Long-Term Debt Account Group as follows:

Annual Leave	\$	26,502
Sick Leave		<u>27,040</u>
	\$	<u>53,542</u>

- H. Revenues.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Board are:

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

Motor Vehicle Dealer Licenses. This license permits the licensee to engage in business of selling or exchanging new, used, or new and used motor vehicles and trailers.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Motor Vehicle Salesperson Licenses. This license permits the licensee to sell, purchase, or exchange or to negotiate for the sale, purchase, or exchange of motor vehicles, motorcycles, or trailers.

Motor Vehicle Title Fees. Ten cents of each motor vehicle title fee is remitted to the State Treasurer for credit to the Nebraska Motor Vehicle Industry Licensing Fund for the purpose of conducting preliminary investigations of motor vehicle licensing violations related to odometer motor vehicle fraud.

Manufacturer Licenses. This license permits the licensee to engage in the business of distributing, manufacturing, or assembling new motor vehicles, trailers, or motorcycles.

Other. These licenses include factory representative, distributor, finance company, wrecker and salvage, and special permits.

Miscellaneous. Revenues from sources not covered by other major categories.

I. Expenditures. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Board are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

Operating. Expenditures directly related to a program's primary service activities.

Travel. All travel expenditures 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 fixed assets. Fixed assets are resources of a long-term character owned or held by the government.

J. Fund Balance Reservations. Reservations of fund balance are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balance are also established for assets which are not current in nature, such as postage.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Concluded)**

K. Interfund Transactions. Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Totals - Memorandum Only. The Total "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 since interfund balances and transactions have not been eliminated.

2. **Budgetary Process**

The Board's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Board must submit its budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, subprograms, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriation bill to the Governor for signature. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency/program, the Legislature may provide funding from one to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the Department of Administrative Services Accounting Division.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

2. **Budgetary Process** (Continued)

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

The budgetary fund types used by the Board differ from the fund types presented in the financial statements. The budgetary funds, which are listed below, are generally segregated by revenue sources.

Cash Funds. To account for the financing of goods or services provided by a State agency to individuals or entities outside State government on a cost-reimbursement basis. The Cash Fund is used to record all revenues from licenses issued and for the expenditures of the operations of the Board.

Trust Funds. To account for assets held in a trustee capacity. No appropriation control is established for this fund type. Expenditures are made in accordance with the terms of the trust. The Trust Fund is a common fund used for administrative fines assessed and collected.

The accompanying financial statements were prepared by classifying budgetary fund data into the fund format required by GAAP. The cash basis of accounting is used for all budgetary fund types.

All State budgetary expenditures for the cash are made pursuant to the appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may allocate the appropriations between major object of expenditure accounts except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

The Board utilizes encumbrance accounting to account for purchase orders, contracts, and other expenditure commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system and as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Board's current procedure is to include in the budget columns, Total Expenditure line, of the Statement of Revenues, Expenditures and

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

2. **Budgetary Process (Concluded)**

Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Board's intention to honor the encumbrances at the end of a biennium. The expenditure columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 1999, there were no budgetary funds in which expenditures exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

Revenues are not budgeted and therefore no budgeted amounts are shown on the Budget and Actual Statement.

There are no annual budgets prepared for Trust Funds and as a result, no budgetary comparisons are presented.

A reconciliation of the budgetary versus the financial statements funds as of June 30, 1999, follows:

	BUDGETARY FUND EQUITIES	FINANCIAL STATEMENT FUND EQUITIES
		PRIMARY GOVERNMENT
		Special
	Total	Revenue
PERSPECTIVE DIFFERENCES:		
Classifications of budgetary fund equities into Financial		
Statement fund structure:		
Cash	\$ 649,048	\$ 649,048
Budgetary fund equities classified into Financial Statement		
Fund structure	\$ 649,048	
BASIS DIFFERENCES:		
Record net accrued receivables,		
Liabilities		(7,349)
Other		750
Financial Statement Fund equities, June 30, 1999		\$ 642,449

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

3. Operating Transfers - Due To Other Agencies

As indicated in Note 1, the Board only represents part of the primary government for the State of Nebraska. As such, amounts reflected as operating transfers and due to other agencies will not balance within the financial statements.

4. Fixed Assets

The general fixed assets of the Board are those fixed assets used in performance of general governmental functions.

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 1998	Additions	Retirements	Adjustments	Balance June 30, 1999
Equipment	\$ 47,184	\$ 11,820	\$ (6,717)	\$ (11,805)	\$ 40,482

The Board implemented a new fixed asset policy (in August 1998) wherein fixed assets costing less than \$300 will be excluded from the fixed asset listing. In accordance with the implementation of the fixed asset policy, the Board purged fixed assets with a total cost of \$11,805 from its listing.

5. General Long-Term Debt

The following is a summary of changes in the general long-term debt account group during the fiscal year:

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Compensated Absences	\$ 51,209	\$ 2,333	\$ -	\$ 53,542

The additions in compensated absences represent a net increase.

6. State Employees' Retirement

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended through Legislative action. In the defined

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

6. **State Employees' Retirement (Concluded)**

contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service and voluntary participation is permitted for all full-time or part-time employees upon reaching age twenty and twelve months of service with a five-year period, except any individual appointed by the Governor may elect not to become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 1999, Board's employees contributed \$10,434 and the Board contributed \$16,277.

7. **Contingencies and Commitments**

Risk Management. The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and health care insurance. The Board, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State has chosen not to purchase insurance except for:

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Employee dishonesty which is bonded for the first \$1 million annually with a \$10,000 retention per incident.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

7. **Contingencies and Commitments (Concluded)**

4. Real and personal property on a blanket basis excluding the perils of Flood and Earthquake for net loss in excess of \$100,000 per loss occurrence, with a limit of \$250,000,000 per loss occurrence. Newly acquired properties are only covered up to \$1,000,000 for 30 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Workers compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Motor Vehicle Industry Licensing Board's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Board, if any, could not be determined at this time. However, it is the Board's opinion that final settlement of those matters should not have an adverse effect on the Board's ability to administer current programs. Any judgement against the Board would have to be processed through the State Claims Board and be approved by the Legislature.

8. **Operating Transfers Out-Fund 2401**

State Statute Section 33-150, R.R.S. 1998, required five percent of the fees collected by the Board to be credited to the State General Fund. The Operating Transfers Out shown on the Combined Statement of Revenue, Expenditures, and Changes in Fund Balance under Special Revenue reflect these fees.

9. **Fund 6334 –Trust Fund**

Fund 6334 – the Permanent School Fund is a Non-Expendable Trust Fund. This fund is a common fund which is shared with several other State agencies in the Nebraska Accounting System. All amounts contributed to this fund by participating State agencies are reflected in fund balances of the fund's custodial agency – the Nebraska Board of Educational Lands and Funds.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

9. Fund 6334 – Trust Fund (Concluded)

State Statute Section 60-1415, R.R.S. 1998, requires all administrative fines collected by the Board to be credited to the Permanent School Fund. Fines collected are presented in the non-expendable trust fund as Receipts – Miscellaneous – Other and Other Financing Uses – Deposits to Trust Fund.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
Schedule of Performance Measures

	Fiscal Year				
	FY 99	FY 98	FY 96	FY 96	FY 95
New Applications Inspected	152	279	255	309	278
Complaints Investigated	154	231	281	455	324

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Issues. Many computer-based financial, information and operational systems may not be able to properly interpret and apply some dates before and following December 31, 1999 (commonly referred to as the Year 2000 problem or the Y2K problem). If not corrected, malfunction of these systems could adversely impact information processing and system operations.

Statewide systems

The State recognized this problem prior to 1995 and has been working on a resolution of the issue since that time. A formal plan was developed and has been revised and expanded, as additional information has become available. Two Statewide systems have been identified as critical to the Nebraska Motor Vehicle Industry Licensing Board. They are the accounting system (commonly referred to as NAS) and the payroll system (commonly referred to as NEIS). These systems have been evaluated, repaired and tested for the ability to process transactions in the year 2000 and beyond.

It is important to note the completion of these stages is NOT a guarantee that system and equipment will be year 2000 compliant.

STATE OF NEBRASKA
Auditor of Public Accounts



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**NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the general purpose financial statements of the Nebraska Motor Vehicle Industry Licensing Board as of and for the year ended June 30, 1999, and have issued our report thereon dated August 5, 1999. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Motor Vehicle Industry Licensing Board and an explanatory paragraph was added disclaiming an opinion on Required Supplementary Information - Year 2000 Issues. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Motor Vehicle Industry Licensing Board's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement 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. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Motor Vehicle Industry Licensing Board in the Comments Section of this report as Comment Number 1 (Travel Reimbursements).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Motor Vehicle Industry Licensing Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Motor Vehicle Industry Licensing Board in the Comments Section of this report as Comment Number 1 (Travel Reimbursements).

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

August 5, 1999

A handwritten signature in black ink that reads "Don Dunlap CPA". The signature is written in a cursive style.

Manager