

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

JULY 1, 2000 THROUGH JUNE 30, 2001

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 created during the 1957 legislative session. Members of the Board include the Director of the Department of Motor Vehicles, who serves as chairperson, and nine members appointed by the Governor, with the consent of the Legislature. The nine members, who serve three-year terms, include three new motor vehicle dealers, one from each congressional district; two licensed used motor vehicle dealers, from different congressional districts; one trailer dealer or combination motor vehicle or trailer dealer; a factory representative; a licensed motorcycle dealer; and a member representing the public.

The Board has the responsibility of protecting the public interest in connection with the activities of the manufacture, distribution, and sale of motor automobiles, 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 per month to approve and deny license applications and to take action on complaints. The Board also conducts hearings for new motor vehicle franchise applications and for the termination of any franchise. These powers were granted to the Board in order to prevent fraud and other abuses upon the citizens of the State.

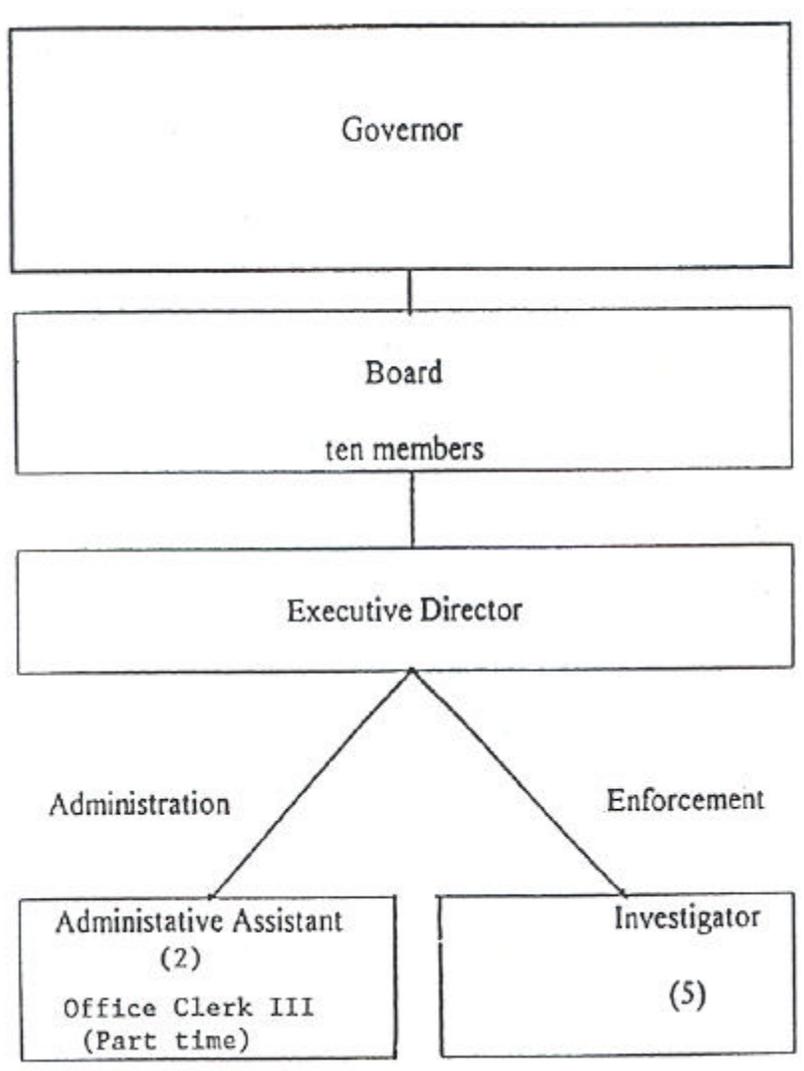
At June 30, 2001, the office and field staff consisted of an Executive Director, two Administrative Assistants, and five Field Investigators who investigate complaints and inspect dealerships for compliance with the law.

MISSION STATEMENT

The mission of the Motor Vehicle Industry Licensing Board is the regulation, investigation, and education 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



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. **Fund Balance:** The fund balance of the Board has increased every fiscal year since as early as fiscal year ending June 30, 1998. The June 30, 2001 fund balance of the Board was \$811,383. This balance was approximately 1.6 times the total fiscal year 2001 expenditures.
2. **Certificate of Title Fees:** The Board receives \$0.10 from the Department of Motor Vehicles for every certificate of title issued. During fiscal year ending June 30, 2001, the Board received a total of \$55,669. The Board did not have adequate procedures to ensure all money due the Board was collected.
3. **Travel Expenses:** Several issues related to travel expenses were noted. The Board paid \$810 for lodging in Omaha for two individuals who lived in Omaha and Bellevue. The Board also reimbursed an individual \$70 for one meal. Also, travel expenses were not submitted monthly as required by Statute.
4. **Interagency Service Agreements:** The Board paid for contractual services provided by the Department of Administrative Services – Information Management Services (DAS – IMS). The work order did not stipulate the total dollar amount of the agreement or the rate charged.
5. **Depositing of Receipts:** Thirteen of 20 receipts tested were not deposited within three or seven days as required by Statute. The deposits ranged from one to ten days late, and the 13 late receipts tested totaled \$800.

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 declined to respond.

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. Fund Balance

When fees are charged for services, good fiscal policy requires the Board to evaluate the appropriateness of the fees charged in relation to the costs incurred by the Board.

During our review, we noted the Board's fund balance at June 30, 2001 was \$811,383. This balance was approximately 1.6 times the total fiscal year 2001 expenditures and is sufficient to pay approximately 19 months of Board expenditures. Therefore, the Board has a fund balance greater than their level of expenditures can justify. We also noted the fund balance has increased each year since as early as fiscal year 1998 through fiscal year 2001. The fund balances at June 30, 1998, 1999, and 2000 were \$617,484, \$642,449, and \$739,453 respectively. The Board did not reduce license fees in fiscal year 2000 or fiscal year 2001. A similar comment was noted in our prior report.

We recommend the Board annually review all licensing fees and make adjustments to the fees, as necessary, to reduce the fund balance to an acceptable level.

2. Certificate of Title Fees

Neb. Rev. Stat. Section 60-115(2) R.R.S. 1998 requires, "The remaining ten cents of the fee charged for the certificate of title shall be 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 relating to odometer and motor vehicle fraud."

During our testing, we noted the Board did not have adequate procedures to ensure fees received from the Department of Motor Vehicles (DMV) were adequate. There was no documentation from DMV to support the number of titles issued. The Board received \$0.10 for every certificate of title issued, for a total of \$55,669 in the fiscal year.

The risk that all money owed to the Board is not collected increases without reviewing documentation regarding motor vehicle titles issued.

We recommend the Board implement procedures to ensure all monies due the Board are received. This would include reviewing documentation for motor vehicle titles issued to ensure all fees are being collected.

3. Travel Expenses

The Nebraska Accounting Systems (NAS) Manual, CONC-005, Travel Expense Policies, Lodging, provides that lodging may be reimbursed when an employee is away from home overnight. According to the NAS Manual, the Internal Revenue Service states, "The absence

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

3. Travel Expenses (Concluded)

must be of such duration that you cannot reasonably leave and return to that location before and after each day's work." Sound accounting practice requires expense reimbursements be reasonable and necessary for the agency. Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 requires any State officer, employee, or member of any commission, council, committee, or board of the State to present a request for payment or reimbursement each month.

During our testing of Expense Reimbursement Documents, we noted the following:

- 1) Lodging in Omaha was reimbursed for one individual living in Omaha and one individual living in Bellevue. Lodging was for a total of three nights per individual. The total cost of the lodging for the two individuals was \$810.
- 2) Reimbursement of \$70 for one meal in Chicago, Illinois for an individual was not reasonable. We further noted the individual's share of the meal should have been \$65. The IRS Meal Allowance for a day in Chicago was \$46.
- 3) Travel expenses were not submitted monthly as required by State Statute. One Expense Reimbursement Document included expenses from August 31, 2000 through October 28, 2000.

An increased risk of loss or misuse of State funds exists when expenses are not reasonable and necessary. The Board is not in compliance with State Statute when expenses are not submitted monthly.

We recommend the Board implement procedures to ensure only expenses that are reasonable and necessary be reimbursed. We further recommend the Board implement procedures to ensure Expense Reimbursement Documents are submitted each month as required by State Statute.

4. Interagency Service Agreements

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Good internal control also includes the proper use of work orders and agreements to support payments made by the Board. Work orders and agreements should include terms of the agreement, such as the total dollar amount, length of the agreement, and rate charged. The Board contracted with the Department of Administrative Services – Information Management Services (DAS – IMS) for a new software program for licensing, to include printing and record keeping.

During our audit, we noted a work order for computer services did not stipulate the total dollar amount of the agreement. Additionally, the rate charged and paid by the Board was not stated in the work order.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

4. Contractual Services (Concluded)

The risk of the loss or misuse of State funds greatly increases without adequate contract procedures.

We recommend the Board implement procedures to ensure all work orders and agreements contain specific terms, including the total dollar amount of the agreement and the rate charged.

5. Depositing of Receipts

Neb. Rev. Stat. Section 84-710 R.R.S. 1999 states “It shall be unlawful for any executive department, state institution, board, or officer . . . to receive . . . any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.”

During our audit, we noted 13 out of 20 receipts tested were not deposited within three or seven days. The receipts ranged from one to ten days late and totaled \$800. The total of the 13 deposits was \$191,130.

The Board was not in compliance with State Statute, and the risk of the loss of State funds increases when deposits are not made timely.

We recommend the Board implement procedures to ensure money received is deposited within the time frame required by State Statute.

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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

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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, 2001, 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 auditing standards generally accepted in the United States of America 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, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 26, 2001, on our consideration of the Nebraska Motor Vehicle Industry Licensing Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedules are presented for purposes of additional analysis and are 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.

July 26, 2001

Pat Reding, CPA
Manager

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2001

	<u>Account Groups</u>			Totals (Memorandum Only)
	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
<u>Assets and Other Debits</u>				
Cash in State Treasury	\$ 811,309	\$ -	\$ -	\$ 811,309
Interest Receivable	3,853	-	-	3,853
Deposit with Vendors	742	-	-	742
Property, Plant, and Equipment (Note 4)	-	37,581	-	37,581
Amount to be Provided for Debt Service	-	-	59,078	59,078
	<u>-</u>	<u>-</u>	<u>59,078</u>	<u>59,078</u>
Total Assets and Other Debits	<u>\$ 815,904</u>	<u>\$ 37,581</u>	<u>\$ 59,078</u>	<u>\$ 912,563</u>
 <u>Liabilities, Fund Balances, and Other Credits</u>				
Liabilities:				
Accounts Payable	\$ 2,702	\$ -	\$ -	\$ 2,702
Accrued Payroll	350	-	-	350
Due to Other Agencies	1,469	-	-	1,469
Accrued Compensated Absences (Note 5)	-	-	59,078	59,078
Total Liabilities	<u>4,521</u>	<u>-</u>	<u>59,078</u>	<u>63,599</u>
Fund Balances and Other Credits:				
Investment in General Fixed Assets	-	37,581	-	37,581
Fund Balances:				
Reserved for Postage	742	-	-	742
Unreserved, Undesignated	<u>810,641</u>	<u>-</u>	<u>-</u>	<u>810,641</u>
Total Fund Balances and Other Credits	<u>811,383</u>	<u>37,581</u>	<u>-</u>	<u>848,964</u>
Total Liabilities, Fund Balances, and Other Credits	<u>\$ 815,904</u>	<u>\$ 37,581</u>	<u>\$ 59,078</u>	<u>\$ 912,563</u>

See Notes to General Purpose Financial Statements.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUND TYPE
AND FIDUCIARY FUND TYPE**
For the Fiscal Year Ended June 30, 2001

	<u>Governmental</u> <u>Fund Type</u>	<u>Fiduciary</u> <u>Fund Type</u>	Totals (Memorandum
	Special <u>Revenue</u>	Non-expendable <u>Trust</u>	<u>Only)</u>
REVENUES:			
Sales and Charges:			
Dealer Licenses	\$ 258,450	\$ -	\$ 258,450
Salesperson Licenses	89,620	-	89,620
Manufacturer Licenses	61,800	-	61,800
Motor Vehicle Title Fees	55,669	-	55,669
Other Sales and Charges	55,855	-	55,855
Miscellaneous:			
Investment Interest	49,584	-	49,584
Other Miscellaneous	25	16,500	16,525
TOTAL REVENUES	<u>571,003</u>	<u>16,500</u>	<u>587,503</u>
EXPENDITURES:			
Current:			
Regulation of Business and Professions			
Personal Services	372,344	-	372,344
Operating	77,358	-	77,358
Travel	44,172	-	44,172
Capital Outlay	5,263	-	5,263
TOTAL EXPENDITURES	<u>499,137</u>	<u>-</u>	<u>499,137</u>
Excess of Revenues Over (Under) Expenditures	<u>71,866</u>	<u>16,500</u>	<u>88,366</u>
OTHER FINANCING SOURCES (USES):			
Sales of Assets	64	-	64
Deposits to Trust Fund (Note 8)	-	(16,500)	(16,500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>64</u>	<u>(16,500)</u>	<u>(16,436)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	71,930	-	71,930
FUND BALANCE, JULY 1, 2000	739,453	-	739,453
FUND BALANCE, JUNE 30, 2001	<u>\$ 811,383</u>	<u>\$ -</u>	<u>\$ 811,383</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, 2001

	CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Sales and Charges:			
Dealer Licenses		\$ 258,000	
Salesperson Licenses		89,130	
Manufacturer Licenses		62,100	
Motor Vehicle Title Fees		55,669	
Other Sales and Charges		55,535	
Miscellaneous:			
Investment Interest		49,011	
Other Miscellaneous		25	
TOTAL REVENUES		569,470	
EXPENDITURES:			
Personal Services	\$ 396,409	371,994	\$ 24,415
Operating	106,101	77,111	28,990
Travel	53,000	46,520	6,480
Capital Outlay	30,167	5,263	24,904
TOTAL EXPENDITURES	\$ 585,677	500,888	\$ 84,789
Excess of Revenues Over (Under) Expenditures		68,582	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		64	
TOTAL OTHER FINANCING SOURCES (USES)		64	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses		68,646	
FUND BALANCES, JULY 1, 2000		740,635	
FUND BALANCES, JUNE 30, 2001		\$ 809,281	

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, 2001

1. Summary of Significant Accounting Policies

- A. Basis of Presentation.** The accompanying general purpose financial statements of the Nebraska Motor Vehicle Industry Licensing Board (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 all funds 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 as required by GAAP. These generic fund types differ from the Board's

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

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

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 a Nonexpendable Trust fund as follows:

Nonexpendable Trust Funds. Reflect the transactions, assets, liabilities, and fund equity of trusts in which principal must be maintained intact and 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 are generally 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. 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, 2001, the trust fund had no assets or liabilities.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

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

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 nonexpendable trust fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

E. Cash. Cash 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 2001. Amounts are allocated monthly, based on average balances of all invested funds.

F. Fixed Assets. General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures 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.

Fixed assets do not include infrastructure such as highways, bridges, and lighting systems, as these assets are immovable and of value only to the government. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life 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. Receivables. Receivables are stated net of estimated allowance for uncollectible amounts, which are determined based upon past collection experience and current economic conditions. Receivables in the governmental fund types are primarily amounts due from the interest received from the Short Term Investment Pool.

H. Compensated Employee Absences. All permanent employees working for the Board earn sick and annual leave. Temporary and intermittent employees and Board and Commission 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 for employees under the Nebraska Classified System Personnel Rules and Regulations. In general, there is no maximum limit on the accumulation of sick days for employees under a labor contract. 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. Generally, employees under labor contracts can be paid a maximum of 50 days. It is the Board's policy to liquidate unpaid annual leave, vested sick leave, and compensatory leave from future sources rather than from currently available expendable resources. Accordingly, the governmental fund recognizes annual, sick, and compensatory leave when it is paid.

A long-term liability for the vested portion of compensated absences in the governmental fund as of June 30, 2001, has been recorded in the General Long-Term Debt Account Group as follows:

Annual Leave	\$	26,472
Sick Leave		<u>32,606</u>
	\$	<u>59,078</u>

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

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

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

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 the business of selling or exchanging new, used, or new and used motor vehicles and trailers.

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

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

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.

Other. These licenses include supplemental dealer, motorcycle dealer, distributor, distributor representative, finance company, wrecker and salvage, auction dealer, manufacturer branch, trailer dealer, and special permits.

Miscellaneous. Revenues from sources not covered by other major categories, such as investment interest.

J. **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.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

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

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.

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

L. 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.

M. Totals - Memorandum Only. The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information 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. There are no annual budgets prepared for Trust Funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, 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 appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations 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 vote of the Legislature.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

2. **Budgetary Process (Continued)**

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

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 on 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 fund type are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except 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.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

2. **Budgetary Process (Concluded)**

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 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 expenditures columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2001, 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

Revenues are not budgeted. Therefore, there are no budgeted amounts 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, 2001 follows:

	BUDGETARY FUND EQUITIES	FINANCIAL STATEMENT FUND EQUITIES PRIMARY GOVERNMENT Special Revenue
PERSPECTIVE DIFFERENCES:		
Classifications of budgetary fund equities into Financial Statement fund structure:		
Cash	\$ 809,281	\$ 809,281
Budgetary fund equities classified into Financial Statement fund structure	\$ 809,281	
BASIS DIFFERENCES:		
Record net accrued receivables, liabilities, and inventories		(668)
Other		2,770
Financial Statement Fund Equities, June 30, 2001		\$ 811,383

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

3. Operating Transfers - Due To/Due From Other Funds

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/due from other funds 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, 2000	Additions	Retirements	Balance June 30, 2001
Equipment	\$ 33,874	\$ 3,707	\$ -	\$ 37,581

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, 2000	Increase	Decrease	Balance June 30, 2001
Compensated Absences	\$ 55,557	\$ 3,521	\$ -	\$ 59,078

For Compensated Absences the Increase represents the Net Change in this account balance.

6. State Employees Retirement Plan (Plan)

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 by Legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

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

Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not 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 Board matches the employee's contribution at a rate of 156% of the employee's contribution.

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, 2001, employees contributed \$13,078 and the Board contributed \$20,401.

7. **Contingencies and Commitments**

Risk Management. The Board is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. 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 generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

- A. 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. State Agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued)

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

- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or 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 judgment against the Board would have to be processed through the State Claims Board and be approved by the Legislature.

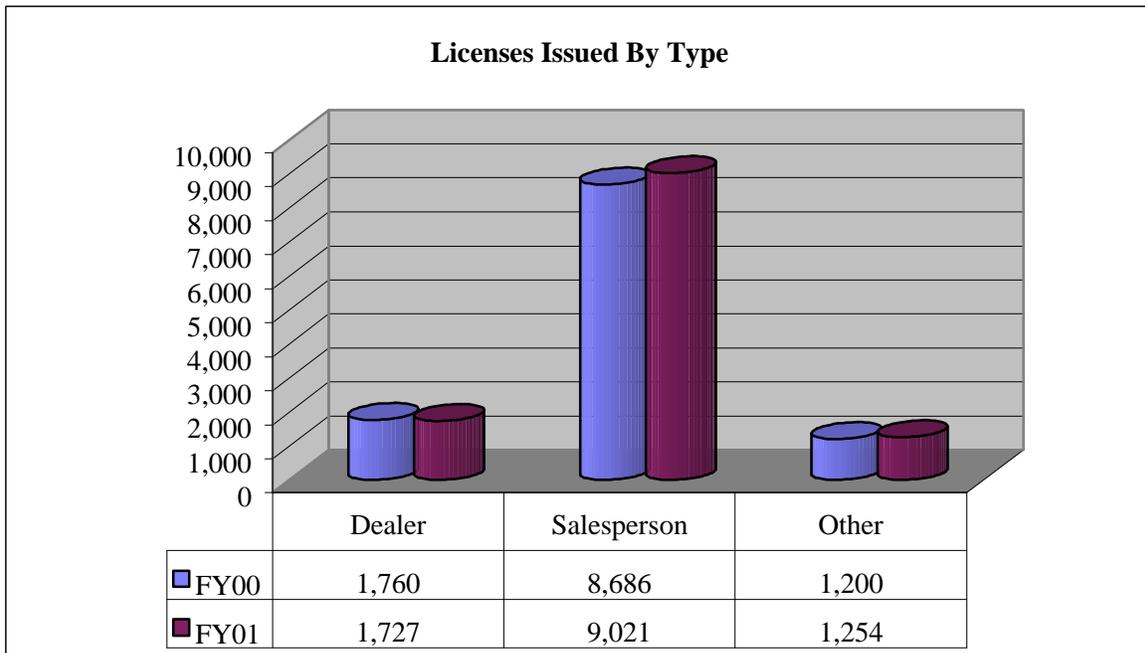
8. **Fund 6334 – Trust Fund**

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.

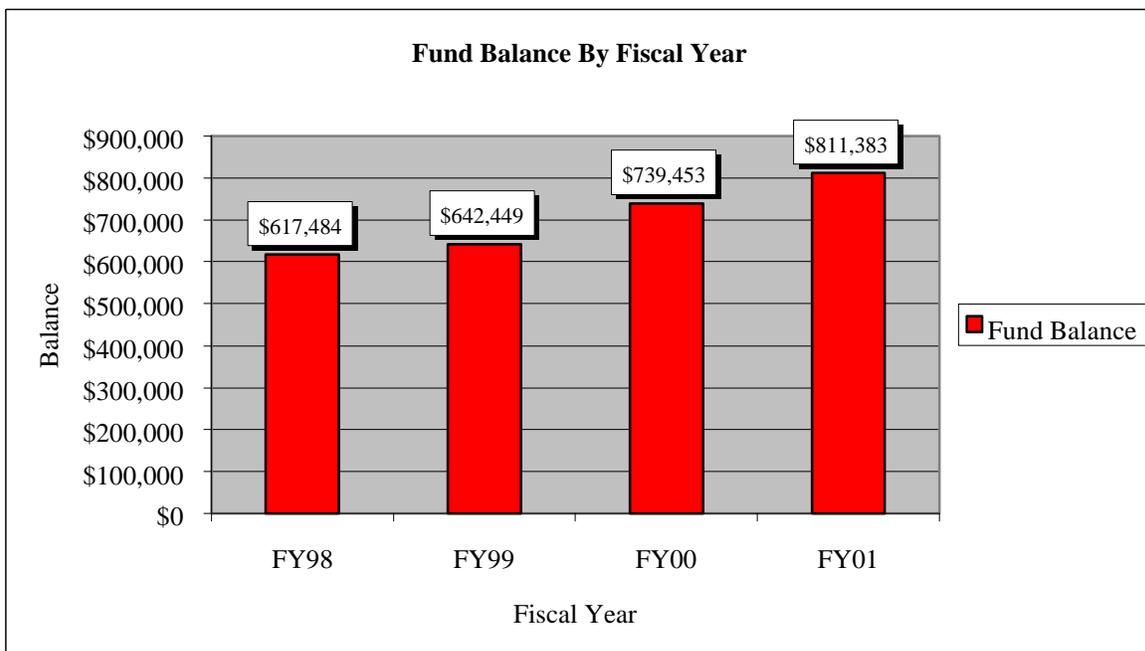
Neb. Rev. Stat. Section 60-1415(2), R.R.S. 1998 requires all administrative fines collected by the Board to be credited to the Permanent School Fund. Fines collected are presented in the non-expendable trust fund as Receipts – Miscellaneous – Other and Other Financing Uses – Deposits to Trust Fund.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

**SCHEDULES OF LICENSES ISSUED BY TYPE AND
FUND BALANCE BY FISCAL YEAR**



Note: Other includes the following licenses: Supplemental Dealer, Motorcycle Dealer, Manufacturer, Distributor, Distributor Representative, Finance Company, Wrecker and Salvage, Auction Dealer, Manufacturer Branch, and Trailer Dealer.



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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**

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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, 2001, and have issued our report thereon dated July 26, 2001. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Motor Vehicle Industry Licensing Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, contracts, and grants, 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. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. 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 3 (Travel Expenses) and Comment Number 5 (Depositing of Receipts).

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Motor Vehicle Industry Licensing Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Comments Section of the report as Comment Number 2 (Certificate of Title Fees).

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Motor Vehicle Industry Licensing Board in the Comments Section of the report as Comment Number 3 (Travel Expenses), and Comment Number 4 (Interagency Service Agreements).

This report is intended solely for the information and use of the Board, 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.

July 26, 2001

Pat Reding, CPA
Manager