

**ATTESTATION REPORT
OF THE
NEBRASKA STATE HISTORICAL SOCIETY
JULY 1, 2006 THROUGH JUNE 30, 2007**

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Issued on October 15, 2007

NEBRASKA STATE HISTORICAL SOCIETY

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NEBRASKA STATE HISTORICAL SOCIETY

BACKGROUND

The Nebraska State Historical Society (Society) was founded in 1878 to encourage historical research and inquiry, spread historical information, especially within the State of Nebraska, and to embrace alike aboriginal and modern history. In 1883, the Society was designated a State institution and began receiving financial support from the Legislature. Historical activities, though constantly expanding and evolving over the decades, have continued uninterrupted.

The Society is a designated repository for public records, documents, and historical information. The responsibilities of the Society include administration of the Museum of Nebraska History and seven historic sites; providing a research library and the State archives; and administers the State's historic preservation, archeology, hall of fame, and historical marker programs.

The Society museum in Lincoln was first located in the University of Nebraska Library in 1893, then the State Capitol in 1934. Two key dates mark the Society's increased capacity to carry out its mission. In 1953, the Society moved to a newly constructed building and in 1983, the Museum of Nebraska History opened in its separate, expanded quarters apart from Society headquarters. LB 1236, enacted by the Legislature on July 17, 1994, changed the status of the Society from a State institution to a State agency.

The Society administers the following State Historic Sites:

- Fort Robinson Museum, Crawford
- Senator George W. Norris State Historic Site, McCook
- Neligh Mill State Historic Site, Neligh
- Thomas P. Kennard House, Nebraska Statehood Memorial, Lincoln
- John G. Neihardt State Historic Site, Bancroft
- Willa Cather State Historic Site, Red Cloud
- Chimney Rock National Historic Site, Bayard

The Gerald R. Ford Conservation Center, built on the site of the former President's birth in Omaha, was established in 1996 to conserve the historical, cultural, and educational collections of the State of Nebraska and surrounding areas through preservation activities and conservation treatment of historic objects, books, manuscripts, and photographs.

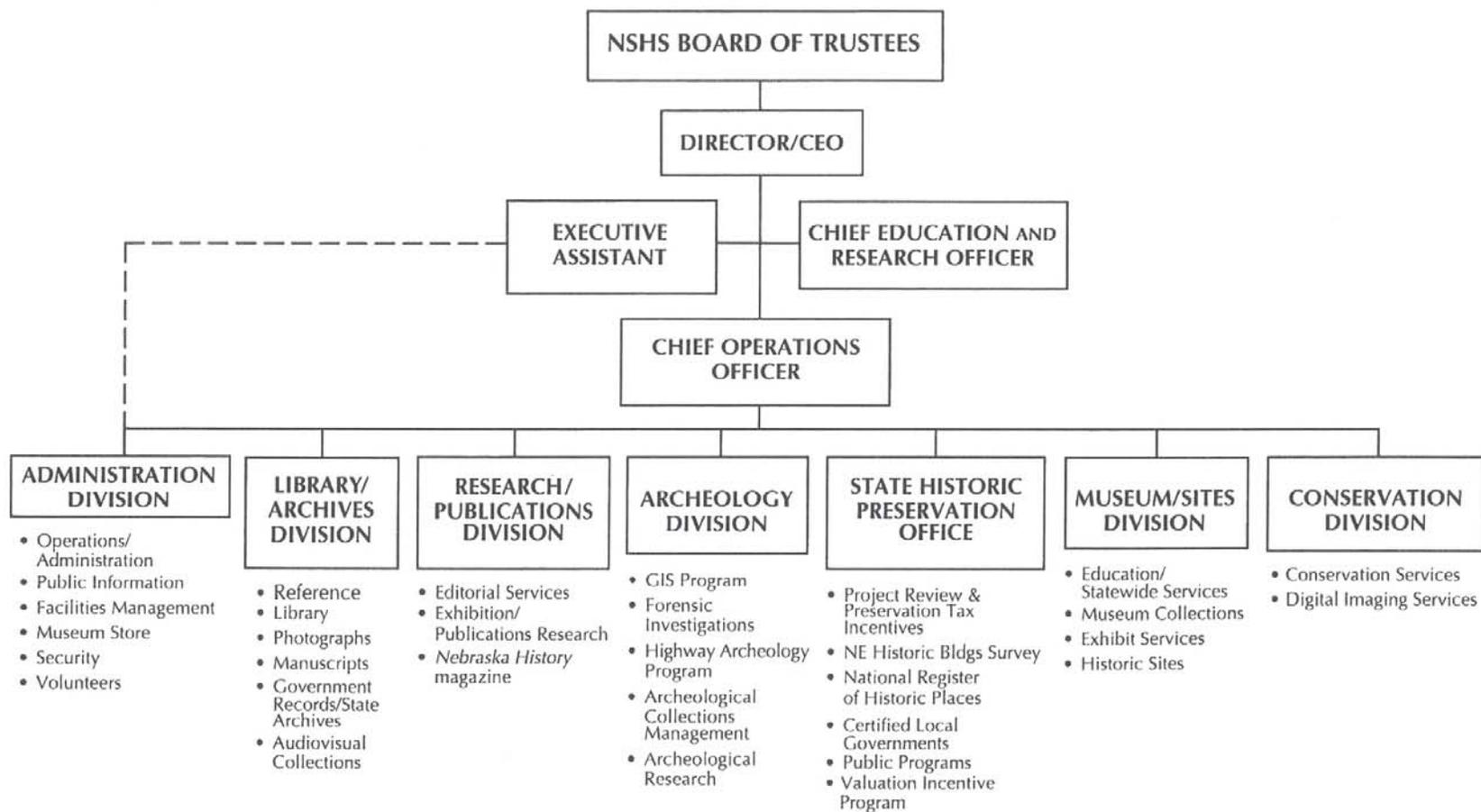
The Society has approximately 2,400 members. The Board of Trustees, which provides direction, consists of 15 members. Twelve members are elected by the Historical Society membership and three members, one from each congressional district, are appointed by the Governor.

MISSION STATEMENT

The Nebraska State Historical Society collects, preserves, and opens to all, the histories we share.

NEBRASKA STATE HISTORICAL SOCIETY

ORGANIZATIONAL CHART



NEBRASKA STATE HISTORICAL SOCIETY

EXIT CONFERENCES

Exit conferences were held with the Society to discuss the results of our examination. Those in attendance for the Nebraska State Historical Society were:

NAME	TITLE
Peter Bleed	Board President
Michael Smith	Director/CEO
Michelle Furby	Accountant
Joan Clare	HR Administrative Assistant
Linda Wagaman	Accounting Clerk

NEBRASKA STATE HISTORICAL SOCIETY

SUMMARY OF COMMENTS

During our examination of the Nebraska State Historical Society, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Nebraska State Historical Society's Separate Bank Accounts Cash Fund Investigation:*** It has been alleged there was fraud related to the Society's Separate Bank Accounts Cash Fund. It is estimated \$72,913 is unaccounted for and may have been taken from the Separate Bank Accounts Cash Fund of the Society.
2. ***Control Environment:*** The control environment was not conducive to fair and complete financial reporting.
3. ***State Statutes and Policies Applicable to the Separate Bank Accounts Cash Fund:*** Nebraska Attorney General Opinion No. 07016, dated September 24, 2007, noted the Separate Bank Accounts Cash Fund are State funds and subject to accounting practices and budget requirements applicable to all State agencies.
4. ***Segregation of Duties Over the Separate Bank Accounts Cash Fund:*** There was a general lack of segregation of duties within the Separate Bank Accounts Cash Fund which included issuing of blank checks, lack of review and approvals of disbursements, payments from copied receipts, an employee having full control over receipts, and individuals in a position to sign checks for their own reimbursement.
5. ***Expenditures and Coding:*** There were multiple issues related to expenditure documents tested including; unreasonable expenses, coding errors, lack of approval, and invoices not paid timely. Unreasonable expenses ranged from \$97 to \$5,438. Coding errors related to the split of costs between multiple funding sources.
6. ***Lobbyist Contract:*** The Society paid a lobbyist \$15,200 from the Separate Bank Accounts Cash Fund and did not monitor the contractual agreement.
7. ***Nebraska Club:*** The Society paid \$1,050 for two memberships to the Nebraska Club from the Separate Bank Accounts Cash Fund; however, there was no documentation to support the purpose of the memberships.
8. ***Separate Bank Accounts Cash Fund:*** The Society did not have adequate depository insurance coverage for all bank accounts, deposits were not made to the main bank account, and not all of the bank accounts were recorded on the accounting system. The bank balances not recorded on the accounting system at June 30, 2007, totaled \$81,344.
9. ***NIS Security:*** Three employees were able to prepare and approve their own batches on NIS. We also noted multiple employees who had access to the capital assets, accounts payable, and general ledger functions on NIS and did not need this access as part of their job responsibilities.

NEBRASKA STATE HISTORICAL SOCIETY

SUMMARY OF COMMENTS

(Continued)

10. **General Ledger Review:** There was no documented review of the general ledger to ensure expenditures were posted properly and ensure no unauthorized transactions occurred. During approval of batches, no one reviewed the coding to ensure it was accurate. The individuals responsible for approval were not familiar with NIS and the account codes used by the Society.
11. **Sales Receipts:** Receipts were not properly deposited into the Separate Bank Accounts Cash Fund and deposits were not made timely. The amount not properly deposited into the Separate Bank Accounts Cash Fund ranged from \$21 to \$1,750. Receipts for services performed at the Gerald R. Ford Conservation Center, totaling \$93,640, were improperly deposited into the Separate Bank Accounts Cash Fund.
12. **Travel:** There was lack of compliance with Internal Revenue Service (IRS) regulations, State policies, and Society policies related to meals and lodging expenses. Expense reimbursement documents were not submitted monthly and were not completed accurately.
13. **Agency Owned and Permanently Assigned Vehicles:** The Society was not utilizing their permanently assigned and Society owned vehicles according to DAS requirements. The Society leased 3 vehicles from DAS and owned 11 vehicles. There was not an adequate review of mileage logs to determine mileage was reasonable and mileage logs were not submitted monthly. Of the 11 Society owned vehicles, 6 were not listed as assets on NIS.
14. **Petty Cash Funds:** The Society did not monitor petty cash funds at historic sites, which resulted in multiple petty cash funds being either over or under the authorized balance. Documentation was not on file for the establishment of a \$500 Charged Admissions Fund at Chimney Rock.
15. **Federal Grants:** There were several issues noted regarding the Society's Federal financial status reports, including, amounts reported as expenditures did not agree to NIS, amounts reported as nonfederal match did not agree to support, and the timeliness of submission.
16. **Federal Grant Revenues:** A drawdown request of \$45,366 for the Historical Preservation Grant was submitted and received twice. In addition, the Society requested reimbursement of \$40,452 in excess of expenditures for a project.
17. **Internal Control Over Revenues:** The Society did not prepare an initial listing of monies received when the mail was opened to ensure it was properly deposited into NIS. One person was responsible for endorsing checks and preparing the deposit document and no other individual compared the actual monies received to the amount deposited.

NEBRASKA STATE HISTORICAL SOCIETY

SUMMARY OF COMMENTS

(Continued)

18. ***Payroll Issues:*** There were several issues noted regarding the Society's payroll, including lack of adequate timesheets to record actual hours worked, noncompliance with A-87 and Federal grant agreement match, payroll deductions, and the review of payroll.
19. ***Internal Control Over Capital Assets:*** Several issues were noted regarding the Society's capital assets including a lack of segregation of duties, no independent review of capital asset reports, no monitoring of assets under the Society's capitalization policy, and assets were not properly tagged "Property of the State of Nebraska."
20. ***Store Inventories:*** An annual physical inventory was not performed at all museum store locations and no operating statements were prepared.
21. ***Sales Tax:*** All of the sales tax collected by the Society was being paid out of the Society's Separate Bank Accounts Cash Fund. The Society was not depositing any sales tax collected into a separate liability account to ensure the proper amount was reported. We also noted sales tax was not collected on use fees the Society charged.
22. ***Society Memberships:*** The Society had no procedures to ensure the amount received from the Nebraska State Historical Society Foundation (Foundation) for Society memberships was correct. The Society received \$64,057 from the Foundation during fiscal year 2007.
23. ***Historical Society Fees:*** The Society did not document how admission fees were established for five of the historic sites (Neligh Mill, George W. Norris House, Thomas Kennard House, Fort Robinson, and Chimney Rock) operated by the Society.
24. ***Timely Collection of Revenues:*** There was no documentation on file to support two revenue documents. The Society did not have a signed agreement on file and received money from the Nebraska Game and Parks Commission for tours covering three fiscal years.
25. ***Insurance Proceeds:*** Insurance proceeds of \$57,656, for a State owned building were deposited into the Society's Separate Bank Accounts Cash Fund instead of being deposited with the State Treasurer and recorded on NIS. An expense reimbursement for \$183 related to the repairs was paid out of NIS funds.
26. ***Children's Museum Lease:*** The lease of office space at the Lincoln Children's Museum was not approved by the Director of DAS as required. The United States Department of Interior noted artifacts stored in the basement were at high risk for serious water damage. Additionally, the Society paid \$13,185 for a space study from Federal funds; however, this was not one of the funding requirements noted in the cooperative agreement.
27. ***Purchase Card Transactions:*** Two purchase card transactions tested did not have adequate documentation on file to support the purchase.

NEBRASKA STATE HISTORICAL SOCIETY

SUMMARY OF COMMENTS

(Continued)

28. ***Assets Incorrectly Recorded/Disposed:*** One addition to the Society's capital asset listing could not be traced to supporting documentation and the acquisition date was incorrect. The cost of an asset was not correctly split between funds. Two assets were not disposed of correctly and the Society had many computer related items sitting in a room and had not yet surplused the items.
29. ***Outstanding Checks:*** The Society did not have procedures in place to follow up on outstanding checks issued from the Separate Bank Accounts Cash Fund.
30. ***Land Inventory:*** Multiple parcels of land and a building did not have proper value noted on the asset listing. The value recorded for each piece of land and the building was \$1.
31. ***Due to/from Fund:*** There was \$50,000 in the Due from Other Funds and Due to Fund accounts at June 30, 2007, and the Society was not able to determine why there was a balance.
32. ***Negative Records:*** An expenditure document was created twice for a vendor and the duplication was not noticed until four months after the second document was created. The Society did not have adequate documentation to support the reversal of two expenditures.

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

Draft copies of this report were furnished to the Society to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Society declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

1. Nebraska State Historical Society's Separate Bank Accounts Cash Fund Investigation

The State of Nebraska has a centralized accounting system and all transactions are processed and recorded in the Nebraska Information System (NIS). State statutes 84-710 and 84-711 require all fees, proceeds from the sale of public property, or any money belonging to the State to be remitted to the State Treasurer. However, the provisions related to sections 84-710 and 84-711 do not apply to money received as proceeds of any fair, exposition, or exhibition held by any State board or society or of membership contributions to or receipts from miscellaneous sales by the Nebraska State Historical Society (Society). The Society utilizes what they refer to as the "private fund" to record all museum store operations and Society memberships. The "private fund" is reported as the Separate Bank Accounts Cash Fund in the accompanying financial schedule. Transactions related to the Separate Bank Accounts Cash Fund are recorded into QuickBooks which is an accounting software program for financial management and bookkeeping. Since the Separate Bank Accounts Cash Fund is not recorded on NIS, the Fund was included in a separate financial schedule.

The Auditor of Public Accounts (APA) was requested by the Society to examine the Nebraska State Historical Society Separate Bank Accounts Cash Fund related to purchases, returns, and expenditures made with specific vendors by the Society's Deputy Director. The Separate Bank Accounts Cash Fund had not been examined by the APA in the past but was audited by a private CPA. We began our evaluation on May 9, 2007, at the Nebraska State Historical Society. Per the City Investigator, the Attorney General, and Neb. Rev. Stat. Section 29-110 R.S.Supp., 2006 criminal investigations can go back three years from the date of filing. Our evaluation of the Separate Bank Accounts Cash Fund was for the period July 2004 through April 2007, which included the following procedures and summaries:

- The APA evaluated all invoices for the Society's Separate Bank Accounts Cash Fund checks clearing the bank for the period July 2004 to April 2007 to obtain the actual handwritten checks by the Deputy Director. Checks are normally computer generated from QuickBooks for the Society's Cornhusker Bank account. The APA also determined which checks were issued from a copy of an invoice/receipt versus an original receipt. The Deputy Director had full control over the Separate Bank Accounts Cash Fund including signing checks, approving payments, and bank account oversight.
- The APA obtained information from various vendors regarding specific items which were purchased and returned during the three-year period being examined. The assigned City Investigator inquired with each vendor whether the items purchased were returned. The APA received detailed return information from the investigator for each of the vendors involved and used the information to compare what was purchased and returned to each vendor.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska State Historical Society’s Separate Bank Accounts Cash Fund Investigation
(Continued)

- The APA then discussed and obtained documentation from the Director of the Society and their staff, for non-returned items as to whether they were actually located and/or used by the Society. A majority of the items were never used by the Society; however, there were items the Society believed they used or had used at some point.

A total of \$97,029 was purchased during the three-year period from the various vendors noted; however, the Society believes they had or had only used \$17,995 worth of items purchased. Of the remaining \$79,034 unaccounted for at the Society, \$46,908 worth of items were returned to various vendors for a refund of cash or vendor issued check and \$32,126 was not returned and possibly kept for personal use by the Deputy Director. Once allegations were made, the Deputy Director turned over \$6,121 of related vendor returns, in the form of cash and checks, to the Society. It appeared \$72,913 of the Society’s Separate Bank Accounts Cash Fund were unaccounted for and were alleged to have been taken by the Deputy Director. A detailed analysis of the vendor purchases and related return information is summarized on the following chart:

Vendor	Total Vendor Payments per QuickBooks	Amount of Items likely to be in use at Society	Amount of Items Returned to Vendor	Amount of Items Society Does not Have "Possible Stolen Items"	Cash/ Checks Returned to Historical Society after allegations were made	Total Calculated Refund and Amount of Possible Theft
Best Buy	\$43,506	\$12,479	\$17,154	\$13,873	(\$4,152)	\$26,875
Menards, Inc.	\$24,684	\$3,439	\$16,217	\$5,028	(\$935)	\$20,310
The Home Depot	\$21,767	\$388	\$12,593	\$8,786	(\$1,034)	\$20,345
Nebraska Furniture Mart	\$2,946	\$477	\$944	\$1,525		\$2,469
Office Max	\$1,308	\$1,212		\$96		\$96
Alltel Communications	\$908			\$908		\$908
Leach Camper Sales of Lincoln, Inc.	\$1,090			\$1,090		\$1,090
Cross Dillon Tire	\$820			\$820		\$820
Total	\$97,029	\$17,995	\$46,908	\$32,126	(\$6,121)	\$72,913

(1)

- (1) This column includes \$14,367 of items which the Society believed they were using and \$3,628 of items the Society was unsure about but had similar items in use.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska State Historical Society's Separate Bank Accounts Cash Fund Investigation
(Concluded)

The Deputy Director was arrested in September 2007 and charged with felony theft by deception over \$1,500. Arraignment is scheduled for October 24, 2007, in Lancaster County District Court.

Good internal control requires an adequate segregation of duties or compensating controls be designed and implemented to ensure no one individual is in the position to both perpetrate and conceal errors or irregularities. Good internal controls would include proper approval of all payments, adequate supporting documentation including actual receipts/invoices and the procedure of not issuing blank checks.

When there is a lack of internal controls over the Separate Bank Accounts Cash Fund, there is an increased risk for the loss or misuse of State Funds.

We recommend the Society implement procedures to ensure adequate controls are in place over the Separate Bank Accounts Cash Fund and ensure adequate supporting documentation is maintained for all expenditures. We also recommend the Society continue to work with the proper authorities to ensure resolution of the case.

Society's Response: The Society Board has approved and implemented policies to provide internal controls over what have been referred to as Private Funds (known in this report as the "Separate Bank Accounts Cash Fund").

2. Control Environment

An internal control environment conducive to fair and complete financial reporting includes an adequate segregation of duties to ensure no one individual can process an accounting transaction from beginning to end, and effective monitoring and review of processes related to policies, procedures, and accounting functions of the Society.

The control environment was not conducive to fair and complete financial reporting as follows:

- The Deputy Director had control over most of the business transactions and the Board of Trustees was not involved in the overall operations of the Society. The Deputy Director's business decisions were not reviewed by the Director or approved by the Board of Trustees.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Control Environment (Concluded)

- The Society did not have adequate controls in place to ensure no one individual was in the position to both perpetrate and conceal errors or irregularities. There were three individuals authorized to prepare and post their own batches on NIS. There were not adequate policies, procedures, and controls in place to ensure a proper segregation of duties exists. See Comment Number 4 (Segregation of Duties Over the Separate Bank Accounts Cash Fund), Comment Number 9 (NIS Security), Comment Number 17 (Internal Control Over Revenues), and Comment Number 19 (Internal Control Over Capital Assets) for further information.
- There was no documented review of the general ledger to ensure expenditures were posted properly and there were no unauthorized transactions. During approval of batches, no individual reviewed the coding to ensure it was accurate. See Comment Number 10 (General Ledger Review) for further information.

Without a control environment conducive to fair and complete financial reporting, there is a significant risk for fraud or mistakes to occur and remain undetected.

We recommend the Society implement procedures to ensure no one individual is in the position to both perpetrate and conceal errors or irregularities.

Society's Response: The Society takes these comments with the gravest concern and is already moving to improve procedures, train staff and make appropriate changes to policies and procedures. The Society Board of Trustees is in fact involved in the overall operations of the Society and its Budget and Finance Committee reviews both biennial budget requests to the Legislature and annual operating budgets. Numerous business decisions, such as a use and reproduction fee increase that went into effect August 1, 2007, are presented to the Society Board of Trustees for its review, acceptance, and approval.

3. State Statutes and Policies Applicable to the Separate Bank Accounts Cash Fund

During our examination of the Society, we noted the Society maintained separate bank accounts in the name of Nebraska State Historical Society for membership contributions received and sales from the Society's museum stores. The stores were located on State property and were operated by State employees. This bank account activity was not recorded on the State Accounting System and was not reflected in the Society's budget. The Separate Bank Accounts Cash Fund was used by the Society for many different purposes including support for the Society museum stores, buying supplies, buying equipment, board member lunches, etc.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

3. State Statutes and Policies Applicable to the Separate Bank Accounts Cash Fund

(Continued)

We examined some of the activity in the Separate Bank Accounts Cash Fund and noted payments for lobbying services and alcohol, which are not allowable per State statutes and policies. The Separate Bank Accounts Cash Fund has been audited by a private CPA in the past – but not by the APA. There were \$572,248 in disbursements from the Separate Bank Accounts Cash Fund and a balance of \$120,416 at June 30, 2007. The Separate Bank Accounts Cash Fund was maintained by State employees, the authorized signature for the bank account was a State employee and the financial records for the Separate Bank Accounts Cash Fund were maintained through QuickBooks software on a State computer.

It was our understanding the Society established the Separate Bank Accounts Cash Fund based on the language in Statute 84-710.

Neb. Rev. Stat. Section 84-710 R.R.S. 1999 states, “It shall be unlawful for any executive department, state institution, board or officer acting under or by virtue of any statute or authority of the state, including the State Racing Commission, to receive any fees, proceeds from the sale of any public property, or 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 ... The provisions of this section and section 84-711 shall not apply to money received as proceeds of any fair, exposition, or exhibition held by any state board or society or of membership contributions to or receipts from miscellaneous sales by the Nebraska State Historical Society.”

Neb. Rev. Stat. Section 84-711 R.R.S. 1999 states, “The failure or refusal of an employee or officer of an executive department, state institution, or board to pay over the public money, or any part thereof, belonging to the state or to account to or to make settlement with the State Treasurer upon demand shall be prima facie evidence of embezzlement, and such person shall be punished, as provided by law, for the embezzlement of public funds.”

Based on the above information, the APA feels the Separate Bank Accounts Cash Fund is State money. The Society along with the APA requested an opinion from the Attorney General to determine if the Separate Bank Accounts Cash Fund is money belonging to the State and is subject to all other State statutes and policies in regards to its use, reporting, and record keeping.

Nebraska Attorney General Opinion No. 07016, dated September 24, 2007, states “... the receipts derived from miscellaneous sales and membership contributions constitute monies belonging to the State and are subject to accounting practices and budget requirements applicable to all agencies of the State.”

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

3. State Statutes and Policies Applicable to the Separate Bank Accounts Cash Fund

(Concluded)

We recommend the Society ensure the Separate Bank Accounts Cash Fund is used and reported in accordance with State statutes and policies. The Society should work with the Department of Administrative Services to ensure the Fund is reported in accordance with State accounting practices and budget requirements.

Society's Response: When the Society became a state agency in 1994 legislation authorized it to maintain separate bank accounts. The Society continued to expend monies from those accounts as it had prior to becoming a state agency. Because the Attorney General has issued an opinion that the monies are State funds, the Society will review all policies and procedures that affect these private funds.

4. Segregation of Duties Over the Separate Bank Accounts Cash Fund

Good internal control also requires an adequate segregation of duties or compensating controls be designed to ensure no one individual is in the position to both perpetrate and conceal errors or irregularities. Good internal control requires expenditures to be approved by the Board and requires dual signatures on all checks written from a business account to ensure the expenditure is appropriate. In addition, good internal control requires the issuing of blank checks to be prohibited and requires all invoices and receipts to be original documents to prevent an individual from using the document more than once. Further, good internal control requires procedures to periodically review the QuickBooks general ledger to ensure expenditures were posted and coded properly and there were no unauthorized transactions.

The Society utilized separate bank accounts, which were used for the museum store and Society membership purposes. There was a general lack of segregation of duties over the separate bank accounts as follows:

- The Society did not require dual signatures on checks written from the Separate Bank Accounts Cash Fund. In addition, the Board did not approve any expenditure paid from these funds.
- The Deputy Director was given full control of these funds including signing checks and approving invoices and none of the daily transactions were approved by the Director.
- The Society issued blank checks from QuickBooks for the Deputy Director to use at a later point in time. The Separate Bank Accounts Cash Fund was accounted for using QuickBooks and checks were to be printed by the system; however, these checks were printed and intentionally left blank.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Segregation of Duties Over the Separate Bank Accounts Cash Fund (Concluded)

- Individuals were able to sign checks for their own expense reimbursement payments. Three of eight checks tested during review of travel accounts were signed by the individual being paid.
- There were no controls in place regarding receipts to ensure no one individual was in a position to both perpetrate and conceal errors or irregularities. One employee was able to endorse checks when received, issue receipts, and complete the bank reconciliations. In addition, there was no initial record of cash receipts and checks were not endorsed upon initial receipt.
- There was no review of the QuickBooks general ledger to ensure expenditures were posted properly and no unauthorized transactions occurred. No one reviewed the coding within QuickBooks to ensure it was accurate.
- Six of twenty-seven checks tested did not have adequate documentation on file. Photocopies of receipts were submitted for four checks which ranged from \$661 to \$4,121. The Deputy Director did not provide original receipts for most purchases made from the Separate Bank Accounts Cash Fund. Two checks for \$2,450 and \$12,000 were paid without documentation to support the payments. The Society stated original documentation was required for all expenditures made.

Without procedures to ensure an adequate segregation of duties exists, there is an increased risk for loss or misuse of State funds.

We recommend the Society:

- Implement procedures to ensure no one individual is in the position to both perpetrate and conceal errors or irregularities.
- Implement procedures to ensure all expenditures are reviewed by the Board and all checks written from the Separate Bank Accounts Cash Fund are signed by two individuals.
- Prohibit the issuance of blank checks and require original invoices or receipts to make payments.
- Review the general ledger and document their review to ensure transactions are appropriate and coded correctly.

Society's Response: The Society Board approved the Society Private Funds Policy on June 11, 1998, stipulating dual signatures for checks written over the amount of \$10,000. The Society Board has approved expenditures from these accounts such as the lobbyist contract with payment made from funds received from the Society Foundation.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Expenditures and Coding

Unreasonable Expenses

Neb. Rev. Stat. Section 81-2403 R.R.S. 1999 (1) requires payment to vendors within 45 calendar days after (a) receipt of goods or services, or (b) the date of receipt of the bill, whichever is later, unless there is a written agreement to the contrary.

Nebraska State Accounting Manual, AM-005, Travel Expense Polices, Section 6 prohibits reimbursement for alcoholic beverages.

IRS Publication 463 considers employees to be traveling away from home if duties require the employee to be away from the general area of their tax home (regular place of business) substantially longer than an ordinary day's work.

Good internal control requires procedures to ensure proper documentation is maintained to support expenditures and to ensure expenses are a reasonable and necessary use of State funds. Good internal control and sound accounting practice also require the use of proper coding for fund, program, and major account to ensure accounting records are accurate and the financial schedule is properly reflected.

During our examination of the Society's expenditure documents, we noted two invoices were not paid within 45 days.

Expenditures were not reasonable and necessary for Society function for 12 of 54 documents tested. For one of the twelve documents noted adequate supporting documentation was not on file and a second document included Federal expenditures, which were not allowable per the grant agreement. The following documents were not reasonable and necessary for Society function:

- A vehicle permanently assigned from DAS-TSB was damaged on May 27, 2005, and a vehicle accident report was filled out on June 30; however, the form was never turned into the Office of Risk Management and the vehicle was not fixed. The truck was insured with the Office of Risk Management with a \$250 deductible. The same vehicle was damaged again on July 22, 2006, and the Society decided to have both repairs fixed. However, since it had been over a year since the first accident and the report was not filed timely; insurance would not pay for the repairs of the first accident. The Society had to pay \$1,762 for the repairs and \$250 for the deductible for the second accident.
- The Society purchased six computers for \$5,190 on May 2, 2007, to use up end of year money in the State General Fund and the Society's cash fund. The APA confirmed with the Society's IT Infrastructure Support Analyst the purchased computers had not been used as of September 4, 2007, and were not tagged property of the State of Nebraska.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Expenditures and Coding (Continued)

Unreasonable Expenses (Continued)

- An invoice for \$47,648 was received from Unadilla Lumber for roofing materials, \$3,800 was paid from the State General Fund and \$43,848 was paid for with the Separate Bank Accounts Cash Fund. The related insurance proceeds for the roof replacement were deposited into the Separate Bank Accounts Cash Fund. There was no documentation to support the amount paid from the State General Fund. The expenditures related to the roof replacement should have been paid from the funds in which the related proceeds were deposited.
- Two payments to vendors included purchases for alcohol. One payment was to Wine Merchants for a legislative reception in the amount of \$763, of which \$526 was for alcohol. The other payment was to Upstream Brewing Co. for \$653, of which \$97 was for alcohol. In addition, twelve individuals who ate dinner at Upstream Brewing Co. were not considered “away from home,” and dinner should not have been paid for these individuals.
- There were three payments made to vendors where documentation was not on file to support why the purchases were made. The payments ranged from \$735 to \$5,438.
- One payment made to Hy-Vee Food Stores in the amount of \$661 was for food provided for a staff retreat. There did not appear to be a business purpose for the retreat.
- One payment to an insurance company for automobile insurance in the amount of \$2,059 did not appear reasonable. The Society paid for a vehicle in 2003 through the Separate Bank Accounts Cash Fund because an intern did not have a valid United States driver’s license. The Society owned multiple vehicles purchased through the State accounting system and also had vehicles leased through DAS-TSB. This vehicle was not on the NIS capital asset listing.
- Payment for lodging relating to a Board meeting was not reasonable because four Board members stayed the night before the meeting and were not considered “away from home” based on the mileage between their home and the hotel location. The mileage ranged from 25 to 100 miles one way. The Board meeting started at 9:30 AM and these Board members could have driven to the meeting in the morning. The Society paid \$353 for these four members to stay the night before the meeting.

When invoices are not paid within 45 calendar days after receipt of the good or service, or receipt of bill, the Society is not in compliance with State statute. Without procedures to ensure expenditures are reasonable and adequate documentation is maintained to support all expenditures, there is an increased risk of possible loss or misuse of State funds.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Expenditures and Coding** (Continued)

Unreasonable Expenses (Concluded)

We recommend the Society ensure compliance with State statute by paying vendors no later than 45 days after the invoice or service has been received, whichever is later. We also recommend the Society implement procedures to ensure expenditures are reasonable and adequate supporting documentation is maintained for all transactions.

Society's Response: The Society is reviewing procedures to ensure vendors are paid within 45 days after invoice is received and all supporting documentation is available.

During the fiscal year in question, the primary accounting position for the Society was vacant for five months. Once the position was filled, a learning period was inherent.

The Society does purchase IT equipment as funds permit to ensure it has replacements for outdated equipment and computers for use by interns, work study students and other temporary staff. With only one IT staff member serving nearly 100 employees, there can be a lag time between equipment acquisition and upgrade delivery to staff.

Coding of Expenditures

Per the Historic Preservation Grant Agreement with the Department of Interior, the grant was made on the basis of 60 percent Federal share and 40 percent non-Federal share.

Good internal control and sound accounting practice also require the use of proper coding for fund, program, and major account, to ensure accounting records are accurate and the financial schedule is properly reflected.

We noted 23 of 93 documents tested were not coded correctly:

- Two documents were paid completely with State funds; however, the payment should have been split 60 percent Federal Funds and 40 percent State Funds. Amounts paid with State funds only were \$672 and \$5,444.
- Four documents were paid completely with Federal Funds and not matched with 40% State Funds. The document totals ranged from \$376 to \$45,366, respectively.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Expenditures and Coding (Continued)

Coding of Expenditures (Continued)

- One document for \$9,363, for the printing of Nebraska History Magazines, was split 50/50 between NIS Funds and the Separate Bank Accounts Cash Fund; however, the allocation of NIS Funds was not reasonable. Society membership dues were deposited in the Separate Bank Accounts Cash Fund. Within the 3,880 magazines printed, approximately 2,340 (60%) went to Society members and a majority of the remaining magazines are sold at the museum stores.
- One document for \$2,595 was paid from the Archeology Program; however, the items were not being used by the Archeology division.
- One document for \$3,800 was paid from the Skeletal Remains Program; however, the payment was for roofing materials not related to the program.
- One document for \$5,311 was charged to the Archeology Program; however, the payment should have been split between Archeology and Historic Preservation. The payment was for a space study at the Lincoln Children's Museum and the space was shared by the Archeology and Historic Preservation staff.
- One individual's expense reimbursement, in the amount of \$114, was paid out of the Society's Separate Bank Accounts Cash Fund; however, the payment should have been split 60% Federal funds and 40% State funds.
- Two expense documents related to the Historic Preservation Board Meeting were paid either 100% from the Federal Fund or 100% from State funds. The two expenses were \$660 and \$174 and should have been split 60% Federal and 40% State.
- One travel expense for \$24 was coded to an operating expense.
- An individual's expense reimbursement for \$1,392, paid from the Separate Bank Accounts Cash Fund was coded to the Nebraska Institute Project account and should have been coded to the travel account. The expenses did not relate to the Nebraska Institute Project.
- Two expense reimbursements for \$498 and \$800 related to Historic Preservation were all paid out of the Federal Fund; however, they should have been split 60% Federal and 40% State.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Expenditures and Coding (Continued)

Coding of Expenditures (Continued)

- One expense, in the amount of \$328, was coded to a travel account; however, it should have been coded as an operating expense.
- Two journal entries were not properly coded. One transferred \$1,655 in expenditures from the General Fund to a Federal fund. There was no documentation on file to support this entry. The other entry was done to code office expenses to the appropriate fund and programs. A portion of the expense, \$274, was coded to the Historic Preservation program and the General Fund. The expense should have been split 60/40, Federal/State respectively.
- One document was a payment to the Nebraska Club for membership dues totaling \$1,050, which was coded to a travel account.
- One document for \$155 was for a business lunch and should have been coded to a meal account instead of a travel account.
- One document for \$100 was for a ticket to a fundraiser at a Nebraska Historical Site and was coded to a travel account.

We also noted one of four significant account variances where the variance was due to incorrect coding of expenditures. The Society coded \$74,764 to other government aid; however, the expense should have been coded to contractual services. The financial statements were adjusted to show the correct account classification for these expenditures.

Without adequate procedures to ensure all transactions are coded to the proper fund, program, and major account, there is an increased risk of financial schedule misstatement.

We recommend the Society implement procedures to ensure documents are in accordance with grant agreements and properly coded for fund, program, and major account.

Society's Response: The Society will use the 60/40 split that should be recognized on each transaction and will use this percentage breakdown on an expenditure basis.

In regard to the printing of the Nebraska History magazine, per Nebraska Statute Section 82-101.02 (12) the Society is charged with responsibility "To disseminate and interpret the results of the society's research through publications, exhibitions, reports, public programs, and all other appropriate methods which will promote the study, understanding, and appreciation of

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Expenditures and Coding (Concluded)

Coding of Expenditures (Concluded)

Nebraska history.” Nebraska History is not merely a benefit to members, but is the principal organ through which scholarly research on the history of Nebraska is disseminated to students, teachers, libraries, institutions of higher learning, etc. The Society will examine the formula through which costs of printing are assigned.

Expenditure Approval

Good internal control and sound accounting practice requires supporting documentation for expenditures to be reviewed and approved before payment is made.

There was no written approval on file for 10 of 27 payments tested from the Separate Bank Accounts Cash Fund. The expenditure amounts for these ten payments ranged from \$653 to \$4,121.

Without adequate procedures to ensure all expenditures are properly approved before the payment is processed there is an increased risk for possible loss or misuse of State funds.

We recommend the Society implement procedures to ensure all expenditures have proper written approval before payment is made.

Journal Entry Appropriateness

Good internal control and sound business practice requires items purchased to be for Society business.

The Society made two journal entries between account codes to show an administrative expense and gift store sales for the Lincoln museum store. The Society purchased greeting cards of \$116 to send to Board Members and a \$100 gift certificate for an employee who was leaving the Society. The items purchased should not have been paid for using State funds.

There is an increased risk for the loss or misuse of State funds when journal entries are not appropriate for the Society.

We recommend the Society ensure all journal entries are for appropriate Society business.

Society’s Response: At the time the purchases were made funds used had not been deemed State funds and thus were not expended strictly according to State procedures. The Society will review these procedures.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Lobbyist Contract

Neb. Rev. Stat. Section 49-14,101.02 R.S.Supp., 2006 prohibits the use of public resources or funds for lobbying purposes.

Neb. Rev. Stat. Sections 20-160 R.R.S. 1997 and 81-1315 R.R.S 1999 prohibit State employees from participating in political activities during office hours or while engaged in the performance of official duties.

Good internal control requires documentation be maintained to support all terms of contractual agreements have been met.

The Society paid a lobbyist \$15,200 during the fiscal year with monies from the Separate Bank Accounts Cash Fund. No invoice was provided to support the payment. In addition, there was no documentation to support the Society received all the services noted in Appendix A (Scope of Services) of the contract.

Without procedures to ensure expenditures are reasonable, there is an increased risk for possible loss or misuse of State funds and noncompliance with State statute.

We recommend the Society review the contract with the lobbyist to ensure compliance with State statutes. The Society should implement policies and procedures to ensure payment for lobbying activities is not done using public resources or public funds. We also recommend the Society maintain documentation to support all terms of contractual agreements were met.

Society's Response: Payment was made with funds received from the Society Foundation for the specific purpose of providing information for the Legislature. The lobbyist met regularly with Society staff and made regular verbal reports of activities to the Board.

7. Nebraska Club

Good internal control requires adequate documentation to support the payment for memberships for Society employees. Good internal control and sound accounting practice also requires the review of expenses to ensure they are reasonable and necessary for the Society.

The Society paid \$1,050 for two memberships to the Nebraska Club (an exclusive restaurant in Lincoln, Nebraska) for the Director and the Deputy Director from the Separate Bank Accounts Cash Fund. There was no documentation to support the purpose of the Society paying for this type of membership. The Deputy Director obtained a membership while serving as the interim Director; however, the membership was never canceled once the new Director was hired.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Nebraska Club (Concluded)

Without adequate documentation for memberships paid for by the Society, there is an increased risk for the possible loss or misuse of State funds.

We recommend the Society review the memberships to the Nebraska Club to ensure it is reasonable and necessary. We further recommend the Society implement policies and procedures to maintain adequate documentation for all expenses.

8. Separate Bank Accounts Cash Fund

Neb. Rev. Stat. Section 77-2395 R.R.S. 2003 requires any deposits in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) shall be collateralized at one hundred and five percent of the market value in excess of the amount insured.

Good internal control and sound business practice requires procedures to ensure balances from the branch bank accounts are transferred into the main bank account and to ensure all business activity is recorded on the accounting system.

The following was noted related to the Separate Bank Accounts Cash Fund:

- The accounts held at Cornhusker Bank did not have adequate FDIC coverage for 4 months of the fiscal year. FDIC insurance covers up to \$100,000 and the balance of unsecured deposits ranged from \$3,056 to \$56,492. The Society had no additional pledged collateral.
- The deposits from the branch bank accounts into the main bank account, for store sales, were not performed during the fiscal year for most accounts. Balances at the end of the fiscal year ranged from \$543 to \$36,535.
- Five of the seven bank accounts, which comprise the Separate Bank Accounts Cash Fund, were not recorded on QuickBooks, the accounting software used by the Society. The total balance of the bank accounts not on QuickBooks was \$81,344.

Without adequate pledged security to cover bank balances there is an increased risk of loss of State funds and the Society is not in compliance with State statute. Without adequate procedures to deposit funds into the main bank account in a timely manner and to record all transactions onto the accounting system there is an increased risk of loss of State funds.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Separate Bank Accounts Cash Fund (Concluded)

We recommend the Society maintain adequate pledged security at all times. We also recommend the Society implement procedures to deposit branch bank balances in a timely manner and record all bank account activity on the accounting system.

Society's Response: All of our funds will be deposited into the State Treasury in a timely manner.

9. NIS Security

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include an adequate segregation of duties so no one individual is able to handle all phases of a transaction from beginning to end. It also requires only those individuals needing access to NIS to perform their job duties are given such access.

During our review of NIS security, we noted the following:

- Three employees were authorized on NIS Batch Management to both prepare and approve/post their own batches on NIS. A similar finding was noted in our prior report.
- Three individuals had NIS authorization for capital assets with access to add and change assets, but only two were involved in the capital asset process.
- Eight individuals had NIS authorization for accounts payable and general ledger with complete access to all functions of the accounts payable and general ledger processes. However, two of these individuals were not involved with the daily accounts payable or general ledger processes.

Without good internal control over NIS Security, there is an increased risk of transactions posting in error or fraud to occur and not be detected, resulting in loss or misuse of State funds.

We recommend the Society review NIS authorization and batch management to ensure only employees needing access are authorized on NIS.

Society's Response: The Society has limited access to the accounting system to only those who need it. However, a process is in place to allow cross-training of staff in this small agency. The Society will work with State Accounting to ensure access is appropriate.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

10. General Ledger Review

Good internal control requires procedures to periodically review the general ledger detail report to ensure all transactions posted are authorized. Good internal control also requires adequate review of coding to ensure expenses are paid correctly.

There was no documented review of the general ledger to ensure expenditures were posted properly and no unauthorized transactions occurred. During approval of batches, no one reviewed the coding to ensure it was accurate. The individuals responsible for approval were not familiar with NIS and the account codes used by the Society.

Without a documented review of the general ledger and an adequate review of document coding, there is an increased risk for loss or misuse of State funds and misstatement of expenditures on the financial schedule.

We recommend the Society establish procedures for a documented review of the general ledger to ensure expenditures posted properly and there are no unauthorized transactions. We also recommend the Society review coding during the approval process to ensure transactions are recorded properly.

Society's Response: The Society will be documenting review of the general ledger.

11. Sales Receipts

Neb. Rev. Stat. Section 84-710 R.R.S. 1999 exempts the Society from depositing the proceeds from membership contributions or miscellaneous sales with the State Treasurer. All other receipts are required to be deposited with the State Treasurer and recorded on the State accounting system. Good internal control requires procedures to ensure deposits are made in a timely manner.

Four of twenty-five receipts tested were improperly deposited into the Separate Bank Accounts Cash Fund. The four receipts were for services provided by Society staff and ranged from \$21 to \$1,750; however, the receipts should have been deposited with the State Treasurer and recorded on NIS. Receipts deposited for services performed by the Library/Archives Division were subsequently transferred to the appropriate NIS fund; however, \$93,640 in receipts for services performed at the Gerald R. Ford Conservation Center, were not subsequently transferred to the appropriate NIS fund.

It was noted during testing, deposits were not made in a timely manner for 8 receipts. The time between receipt and deposit ranged from 4 to 13 days.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

11. Sales Receipts (Concluded)

When receipts are deposited incorrectly into the separate bank accounts, the Society is not in compliance with State statute. When deposits are not made in a timely manner there is an increased risk of loss or misuse of State funds.

We recommend the Society implement policies and procedures to ensure deposits into the separate accounts are in accordance with State statutes. We also recommend the Society implement procedures to ensure monies received are deposited in a timely manner.

Society's Response: Because the funds have now been deemed to be State funds, State requirements for deposits will be observed.

12. Travel

Meals

The Historical Society Employee Travel Expense Reimbursements Guidelines state "No receipts are required for meals if the total amount claimed is \$30 or less. Employees should understand that the \$30 rate is a guide and not an amount to be automatically claimed ... Only actual meal expenses are to be claimed." Good internal control requires procedures to ensure amounts reimbursed for meals are reasonable, not duplicated, and adequately documented.

Internal Revenue Service (IRS) Publication 463 requires an accountable plan to have adequate accounting of expenses. The publication states adequate accounting requires employees to submit to their employers a statement of expense, an account book, a diary, or similar record in which each expense is entered at or near the time of occurrence, along with documentary evidence. The publication states, "Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense." Based on discussions with IRS staff, adequate documentation must include the name of the restaurant.

Nebraska State Accounting Manual, AM-004, Travel Policies, Section 6 states "... employees traveling on State business shall claim only actual amounts paid for meals ... Meal expenses incurred in the city or town in which the residence or primary work location of such employee is located, are not reimbursable ..."

Nebraska State Accounting Manual, AM-005, General Policies, Section 22 states "These payments are only allowable under State Statute 81-1174 for attendance at official functions ... not to include normal day to day operations of the agency ..."

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

12. Travel (Continued)

Meals (Continued)

Meal expenses were not reasonable for 9 of 21 expense reimbursement documents tested as follows:

- An individual claimed and was reimbursed \$646 for lodging expenses which included \$41 for room service on April 18, 2007. The individual also claimed \$41 on April 18, 2007, as part of their meal reimbursement. This individual was paid \$41 twice on the same expense reimbursement document, which was approved by three separate individuals. A second individual claimed and was reimbursed \$12 for breakfast for an individual who was not a State employee.
- An individual claimed and was reimbursed \$18 for breakfast for two individuals on September 8, 2006; however, the other individual who attended breakfast also claimed and was reimbursed \$7 for the same meal.
- An individual was reimbursed \$104 for three meals, which were also paid for as part of the conference registration.
- An individual could not provide receipts for three meals over \$30, so the Society reimbursed the \$30 for those days. The Society policy did not state they will reimburse \$30 if receipts are not provided. It could not be determined if meals were provided by the Conference because an agenda could not be obtained. This was noted in our prior report.
- An individual claimed exactly \$30 for meals, the maximum without receipts, for each of the three days while attending a conference. The amount claimed appears to be a per diem amount and not the actual cost of meals.
- An individual was reimbursed \$30 for two days because the amount claimed exceeded \$30 and the individual did not have receipts.
- One employee claimed the same meal on two separate reimbursements. Amount of the meal claimed twice was \$22.
- Meals were not within the Society/DAS policy per place of travel for two documents tested and there was not adequate documentation to determine if there was a business purpose for the meals. The two meals were for the amounts of \$24 and \$55. In addition, the travel did not appear reasonable and necessary for the employee/board member. The reason for travel was for normal day to day operations of the Society.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

12. Travel (Continued)

Meals (Concluded)

The Society's expense reimbursement document was used for their meal log also, by including the amount for each daily meal, breakfast, lunch, and dinner. However, the expense document did not include the name of the restaurant. This was noted in our prior report.

Without adequate documentation to substantiate meal expenses and without an adequate review to ensure meal expenses are reasonable, there is an increased risk for loss or misuse of State funds. In addition, the Society is not in compliance with Federal regulations.

We recommend the Society:

- Request those individuals, who were reimbursed twice, to reimburse the State.
- Implement procedures to ensure adequate documentation is maintained to support meal expenses.
- Review all expense reimbursement requests to ensure all meals claimed are allowable per the Society's policies and procedures and are not claimed more than once.
- Include the name of the restaurant on the expense reimbursement form to ensure compliance with Federal regulations.

Lodging

Nebraska State Accounting Manual, AM-005, Travel Expenses, Section 4 states, "Sales to the State of Nebraska and its agencies are exempt from Nebraska sales, use and lodging tax."

The Historical Society Employee Travel Expense Reimbursements Guidelines state "... many lodging vendors require point of sale payment and the employee may claim this expense on their expense reimbursement. Original receipts are required for reimbursement." Good internal control requires procedures to ensure lodging expenses are reasonable.

The following was noted related to lodging expenses:

- An individual claimed and was reimbursed \$565 for lodging; however, the lodging was for another individual who was not a State employee. The individual who claimed the lodging stayed with another individual who also attended the conference.
- One individual claimed and was reimbursed \$512 for a conference hotel; however, the only support for the hotel payment was an American Express Billing. A similar finding was noted in our prior report.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

12. Travel (Continued)

Lodging (Concluded)

- An individual was reimbursed for lodging on February 4, 2007, which included State and Occupancy tax of \$7.32; however, the State is exempt from Nebraska sales, use, and lodging tax. If the lodging had been direct billed to the Society, the taxes would not have been paid. A similar finding was noted in our prior report.
- An employee attended a conference in Las Vegas, NV that was scheduled from March 12th through the 14th. The employee was reimbursed for lodging expense for March 10th through March 14th. The conference ended at 4:00 PM on March 14th. The Society did not have supporting documentation on file to show why the employee stayed for the two additional nights. The lodging for these two nights was \$543. In addition, the employee was reimbursed \$38 for three meals which were provided by the conference. The individual was also reimbursed for meals on two days in the amount of \$60; however there was not adequate supporting documentation on file to determine if this employee was in “travel status” during these two days.

Without adequate procedures to ensure lodging expenses are reasonable and allowable, there is an increased risk for loss or misuse of State funds.

We recommend the Society ensure all lodging costs are reasonable and allowable. We also recommend the Society ensure in-state hotels are direct billed to avoid the payment of sales, use, and lodging tax.

Expense Reimbursement Documents

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2006 states an employee “... shall be required to present a request for payment or reimbursement each month to the Director of Administrative Services. Each request shall be fully itemized, including when, where and why the expense was incurred and the actual amount involved.”

Good internal control requires proper approval of expense reimbursement documents to ensure expenses are reasonable and necessary for Society function and to ensure the document is completed properly.

Expense reimbursement documents were not properly completed and submitted each month for 15 of 20 documents tested. Of the 15 documents, 3 were not submitted monthly as required by State statute. Four expense reimbursements were not submitted at all, only receipts were

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

12. Travel (Continued)

Expense Reimbursement Documents (Concluded)

submitted. The total of these four documents was \$1,585. The other expense reimbursement documents were missing one or more of the following required items: the purpose of travel, headquarter city, points of destinations, start and stop times, employee residences, and job titles.

Expense reimbursements were not approved by an immediate supervisor for 7 of 16 documents tested.

Miscellaneous expenses did not appear reasonable and necessary as follows:

- An individual claimed and was reimbursed \$48 for phone costs; however, the expense did not include actual receipts.
- An individual was reimbursed \$159 for a rental car for 4 days, which was used by three individuals attending a conference. However, one of the individuals also claimed \$25 for a shuttle to the airport when the rental car should have been used.
- One payment to the John G. Neihardt Foundation for \$100 was payment for the Director to attend a fund raising event for the John G. Neihardt Foundation. It did not appear reasonable for the Society or the Director to pay for attendance at an event for one of the Society's historic sites.

When expense reimbursements are not submitted timely, the Society is not in compliance with State statute. Without an adequate review of expense reimbursement documents, there is an increased risk for loss or misuse of State funds.

We recommend the Society implement procedures to ensure compliance with State statute. We also recommend the Society implement policies and procedures to ensure expense reimbursement documents are accurate, complete, and reasonable. Finally, we recommend the Society ensure miscellaneous expenses are reasonable and proper.

Miscellaneous Travel Items

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2006 states “The approval to attend a function, conference, or hearing shall be obtained from the director of the department, agency, commission, council, committee, or board prior to an individual’s attendance ...”

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

12. Travel (Concluded)

Miscellaneous Travel Items (Concluded)

Nebraska State Accounting Manual, AM-005, Travel Expenses, Section 3, suggests if a conference is attended, the agenda needs to be attached to the expense reimbursement document.

The Historical Society Employee Travel Expense Reimbursements Guidelines state, "A State of Nebraska Travel Request Form must be completed, submitted and approved . . ."

The following was also noted related to travel expenses:

- The purpose of the trip was not adequately identified for 2 of 26 documents tested; a conference agenda could not be provided to support reimbursed expenses and dates of travel could not be supported. This was noted in our prior report.
- Travel could not be traced to a travel approval form or Board minutes for 4 of 16 documents tested.

Noncompliance with State guidelines and an inadequate review of travel related expenses increases the risk for possible loss or misuse of State funds.

We recommend the Society implement policies and procedures to ensure guidelines of the State Accounting Manual are met.

Society's Response: The Society will train its staff in the proper and necessary documentation of travel on State business and will ensure compliance with statutes and procedures in this area. The Society will be requesting individuals to reimburse the State for the items that were paid twice.

13. Agency Owned and Permanently Assigned Vehicles

Mileage

Neb. Rev. Stat. Section 81-1025 (3) R.R.S. 1999 states, "The travel reports on motor vehicles leased or rented from the transportation services bureau shall be transmitted to the chief of such bureau on or before the seventh day of the month following such use of a motor vehicle." Good internal control requires procedures to adequately review mileage logs to ensure mileage is reasonable per the destination traveled to and from.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

13. Agency Owned and Permanently Assigned Vehicles (Continued)

Mileage (Continued)

The Department of Administrative Services Transportation Services Bureau (TSB) requirements for permanently assigned motor vehicles states, "Motor vehicles shall be considered for permanent assignment when they: Are required for a period of thirty days or longer; Will travel a minimum of 1,000 miles per month; and will be utilized seventeen working days per month."

Good internal control requires mileage reimbursement to be based upon the most direct route of travel.

The following was noted related to the Society's vehicles:

- Two of three permanently assigned vehicles were not driven, on average, 1,000 miles and 17 days per month. One vehicle was driven, on average, 5 days and 962 miles a month and for two months of the year the vehicle was not driven at all. The second vehicle was driven, on average, 11 days and 1,029 miles a month and for one month of the year the vehicle was not driven at all. The Society also owned 11 vehicles, including a Ford truck purchased through the DAS Master Lease program. Of the 11, only 1, a Dodge truck averaged more than 1,000 miles a month.
- For 1 of 4 travel documents tested, mileage was not reasonable based on the most direct route of travel or the mileage traveled could not be verified because the locality was the same for the beginning and ending destinations; the purpose of the travel was not descriptive enough to adequately determine the mileage traveled between each point of destination. The document tested, which was not reasonable, was a DAS - TSB billing. Within the TSB billing, we noted 11 of 17 trips were not reasonable based on the criteria noted above. The excess mileage claimed per trip ranged from 3 to 195 miles.
- The Society did not turn their permanently assigned vehicle mileage logs in monthly as required by DAS - TSB policy and State statute. The September TSB billing included mileage logs from July, August, and September.
- The Society utilized TSB official travel logs for all vehicles owned and leased. An individual reviewed the logs for accuracy; however, no one reviewed the logs for appropriateness. The June travel log for one vehicle was not reviewed to ensure mileage was reasonable and accurate.
- Mileage reimbursements were not reasonable based on the most direct route of travel for one of three documents tested. One individual claimed and was reimbursed for mileage

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

13. Agency Owned and Permanently Assigned Vehicles (Continued)

Mileage (Concluded)

for 87 miles round trip from Chadron to Ft. Robinson and back. The APA calculated mileage for the trip was 54 miles. Variance for the mileage reimbursement was 33 miles or \$15.

- During review of monthly logs, it was noted mileage appeared excessive for 4 round trips between Omaha and Norfolk. The actual miles roundtrip between Omaha and Norfolk was 226 miles.
 - One individual traveled 729 miles roundtrip between Omaha and Norfolk on July 8, 2006, which was a Saturday. Per the individual's timesheet, they did not work on July 8, 2006. If the individual drove an average of 60 miles per hour and did not stop, the trip would have taken approximately 12 hours.
 - This same individual traveled roundtrip between Omaha and Norfolk 3 other times on July 3, 6, and 11th and traveled 462, 406, and 365 miles, respectively, with the same purpose. Per the individual's timesheet, they worked 8 hours each of those days.
 - The purpose of all 4 trips was an Archeology Survey. It was also noted the headquarter city of the vehicle was Lincoln; however, the vehicle was being driven from Omaha to Norfolk. It was noted the individual also lived in Omaha, but it could not be determined if the vehicle was driven from the Ford Center which is located in Omaha.

Without adequate procedures to ensure mileage logs are properly completed, submitted timely, and mileage expenses/reimbursements are reasonable, there is an increased risk for loss or misuse of State funds. In addition, the Society is not in compliance with DAS policy.

We recommend the following:

- The Society implement procedures to review mileage logs to ensure logs are completed in accordance with DAS - TSB policies and procedures, and ensure the mileage logs are submitted timely as required by DAS - TSB and State statute.
- The Society review permanently assigned and Society owned vehicle usage to ensure vehicles are driven in accordance with TSB policies and review the Society's need for the vehicles.
- The Society implement procedures to ensure mileage reimbursements are reasonable based upon the most direct route of travel.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

13. Agency Owned and Permanently Assigned Vehicles (Concluded)

Asset Listing

The Society and DAS's inventory policy states all items \$1,500 and over should be included on the NIS capital asset listing.

It was noted during testing of Society owned vehicles, 6 of 11 vehicles were not on the capital asset listing on NIS.

When assets are not recorded on NIS, there is an increased risk for loss, theft, or misuse of State property and capital assets and depreciation are understated.

We recommend the Society implement procedures to ensure all items \$1,500 and over are added to the capital asset listing per the Society's capitalization policy.

Society's Response: The Society is training its staff to complete the vehicle mileage log correctly. Vehicle usage has been reviewed and as a result two vehicles will be surplus. The Society has also coordinated its internal assignment of vehicle use to ensure that cross-divisional use is maximized, which will save on rental expense and better meet the standards of DAS-TSB. In regard to two vehicles on lease from DAS-TSB, the Society notes that these are assigned to archeology division whose fieldwork is overwhelmingly accomplished from the late spring to early fall, so some degree of seasonality in usage is expected.

14. Petty Cash Funds

Neb. Rev. Stat. Section 81-104.01 R.R.S. 2003 states "Whenever a need exists, the executive head of any agency of state government may make application to the Director of Administrative Services and the Auditor of Public Accounts to establish and maintain a petty cash fund ... Such application shall specify the purpose for which the fund is to be used."

Good internal control requires no one individual to be in the position to both perpetrate and conceal errors or irregularities. Sound business practice requires petty cash funds to be maintained at the approved level and any variances be promptly investigated.

Nebraska State Accounting Manual, AM-005, General Policies, Section 24, requires the Petty Cash Fund application to be completed when requesting a petty cash fund be established or to request a change in the current petty cash authorization.

During our review of the Society's petty cash funds, we noted the following:

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

14. **Petty Cash Funds** (Concluded)

- The Society implemented a Charged Admissions Fund at Chimney Rock in the amount of \$500. The purpose of the fund was to allow visitors to utilize the credit card machine at the site to pay for admissions. Sales made by credit cards were deposited directly into the Society's private fund bank account; however, admissions should be deposited with the State Treasurer. The Charged Admissions Fund allowed the Society to transfer money received for admissions from the private fund to the State Treasurer. The Society did not have supporting documentation for the establishment of the \$500 Charged Admissions Fund.
- The Chimney Rock petty cash fund for admissions was \$175 long. The authorized amount was \$25, the amount on hand was \$200. The second petty cash fund authorized for Chimney Rock was \$8 short. In addition, the register which consists of both State and Private fund monies had an overage of \$4.
- One of two petty cash funds could not be located at the Norris House; resulting in a \$50 shortage. The fund was subsequently found at the Society's headquarter office.
- The Society did not have authorizations on file for petty cash funds located at the Nebraska History Museum Store which included a \$100 store change fund, \$50 petty cash, and \$3 Stamp Fund.
- The Society did not have procedures in place to monitor the petty cash funds at the historic site locations.

Without adequate internal controls over petty cash funds, there is an increased risk of the loss or misuse of State funds and noncompliance with State statute.

We recommend the Society follow the correct procedures set forth by the Nebraska State Accounting Manual for requesting changes to petty cash authorizations. We also recommend the Society perform periodic surprise cash counts of all petty cash funds at all sites.

Society's Response: We are reviewing all of our petty cash funds and related procedures.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

15. Federal Grants

Historic Preservation Grant

Title 43 CFR 12.60 requires fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to – (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

NIS is the official accounting system of the State and all expenditures are generated from NIS. Good internal control requires timely, periodic reconciliations between the Historic Preservation Grants and the accounting system.

The Historic Preservation Grants Manual states the financial reports are to be submitted annually and no later than February 28.

APA could not trace amounts on NIS to what was reported to the Federal Government. In addition, a portion of the match reported by the Society could not be traced to supporting documentation. Nonfederal match comes from three different sources including NIS expenditures, historic preservation projects and archeology division; the amount used for NIS and archeology match could not be verified. Additionally, one of two Financial Status Reports (FSR) was not submitted timely as required per the grants manual. A similar finding was noted in our previous report.

The difference between the Historic Preservation expenditures reported compared to the expenditures noted on NIS was as follows:

(All figures are based on a Federal fiscal year, October 1, 2005, through September 30, 2006.)

<u>Aid Expenditures</u>	<u>Federal</u>	<u>Nonfederal</u>
Per Report	\$ 576,490	\$ 413,983
Per NIS	\$ 544,445	\$ 322,127
Local	\$ -	\$ 151,789
Variance	\$ 32,045	\$ (59,933)

The Historic Preservation grant was a reimbursable grant from the Federal government. The Society submitted a drawdown request to the grantor requesting reimbursement for the Federal expenditures they had incurred. The Society requested \$618,158 from the Federal grantor agency during Federal fiscal year 2006; however, this amount did not agree to the Federal expenditures on NIS or the amount reported on the FSR. The APA was unable to determine if there were any questioned costs related to the reported amounts.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

15. Federal Grants (Concluded)

Historic Preservation Grant (Concluded)

The Society did not utilize separate business units on NIS for each new grant, so there was no way to track expenditures within the accounting system for each grant separately. If a cost was initially paid for with Federal funds but determined to be an ineligible cost, no journal entry was done to transfer the Federal expenditures out of the Federal Fund on NIS. The Society did not have a process to reconcile actual grant expenditures to amounts reimbursed by the Federal Government and the Society had not reimbursed the General Fund for its share of reimbursements received.

Without adequate controls, there is an increased risk for misuse of funds and inaccurate reporting. In addition, the State could be subject to Federal Sanctions when they are not in compliance with the Federal grant agreement.

We recommend the Society ensure the expenditures related to the Historic Preservation program agree to NIS or perform reconciliations to show the difference between the amount reported versus NIS. We also recommend the Society submit the Historic Preservation FSR's timely as required by the grants manual.

Financial Status Reports

The Cooperative Agreement, between The Department of Interior-Bureau of Reclamation, Attachment F-P3 "Schedule of Required Reports" states, the financial reports are to be submitted semi-annually and no later than: November 1, 2006, and May 1, 2007.

Both Bureau of Reclamation FSR's tested were not submitted timely as required by the cooperative agreement. One FSR was due November 1, 2006; and was not submitted until November 6, 2006. The second FSR was due May 1, 2007; however, it had not been submitted as of June 30, 2007.

When FSRs are not submitted timely, the Society is not in compliance with the cooperative agreement.

We recommend the Society submit the Bureau of Reclamation FSRs timely as required by the Cooperative Agreement.

Society's Response: Recommendations pertaining to the Historic Preservation grant are being implemented.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

16. Federal Grant Revenues

Section VII subsection E of Cooperative Agreement No. 301816J122 between the United States Fish and Wildlife Service and the Nebraska State Historical Society for work done on the Bertrand Collection states “**Reimbursable payments** will be made by electronic transfer on a quarterly basis.” Section VII subsection H states “... The Center agrees to furnish the following information in support of each invoice: 1. The period of the performance for the itemized costs claimed. 2. Number of artifacts treated.”

Good internal control requires drawdown requests for Federal funds to be reviewed to ensure all monies requested are received. Good internal control also requires drawdown forms to be stamped or marked when the request was originally submitted to prevent reuse and invoices to be reviewed to ensure compliance with provisions of grant agreements.

The Society had a cooperative agreement with the U.S. Fish and Wildlife Service for work to be performed on the Bertrand collection. The Society requested \$61,164 in reimbursement from the U.S. Fish and Wildlife Service but had only recorded \$20,712 in expenses for the project, an excessive request and questioned costs of \$40,452. We also noted invoices for the work performed did not include itemized costs claimed.

The Society also received a grant through the United States Department of Interior for Historic Preservation. This grant was a reimbursable grant; therefore, monies should have been spent first and then a drawdown amount requested. One request for \$45,366 was submitted and received twice by the Society. The original drawdown request was submitted in April 2007 and the same drawdown request was submitted again in June 2007.

Without adequate controls over the requests for Federal grant money there is an increased risk of noncompliance with grant agreements and possible loss or misuse of Federal funds.

We recommend the Society develop procedures to ensure requests are documented and tracked until received. We also recommend the Society review invoices to ensure compliance with agreements. We further recommend the Society maintain supporting documentation for invoices submitted for reimbursement.

Society’s Response: The Society has put procedures in place to assure that filings are accurate and that invoices are properly documented.

17. Internal Control Over Revenues

Good internal controls require an adequate segregation of duties over the receipt of monies to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

17. Internal Control Over Revenues (Concluded)

The Society did not prepare an initial listing of monies received when the mail was opened to ensure it was properly deposited into NIS. After the mail was opened, the money was forwarded to an individual who was responsible for endorsing checks and preparing the deposit document on NIS. One individual performed a count of the actual monies received and prepared the deposit document and no other individual completed a second count of the actual monies to ensure they were properly deposited.

Without an adequate segregation of duties over revenues there is an increased risk of loss or misuse of State funds. In addition, when one person can handle a transaction from beginning to end there is a greater risk of errors or irregularities occurring.

We recommend the Society implement procedures to ensure an adequate segregation of duties over revenues. These procedures would include two individuals opening the mail and preparing an initial list of monies received. An independent comparison of the initial list of monies received to the deposit document should be completed to ensure all monies are deposited properly.

Society's Response: The Society has instituted the recommendations for opening the mail and recording monies received with an appropriate level of segregation of duties.

18. Payroll Issues

Timesheets

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees ... shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." Good internal control requires procedures to ensure adequate documentation that all employees render forty hours of work each week, especially when employees will receive a payment for unused sick and vacation leave upon termination.

Timesheets did not show hours worked or note 40 hours rendered each week for 5 of 11 employees tested. In addition, the Director did not submit timesheets each pay period.

Without adequate documentation to support time worked, there is an increased risk of overpayments of accumulated unused leave time at termination and possible payment for services not rendered by an employee.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

18. Payroll Issues (Continued)

Timesheets (Concluded)

We recommend the Society implement procedures to ensure all employees who expect payment of unused leave at termination maintain adequate documentation to support forty hours of work each week.

Federal Compliance

OMB Circular A-87, Attachment B, Section 11, Subsection h(3) states, “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

The Historic Preservation grant agreement states all funds expended from this grant must be matched with 40% of non-federal funds. Good internal control and sound business practice requires procedures to ensure each Federal expenditure paid is matched with the correct amount of non-federal funds. Good internal control also requires adequate procedures to ensure payroll coding is correct and in compliance with grant agreements.

Employees’ time worked on a Federal grant was not certified for 2 of 3 employees tested who were paid from the Bureau of Reclamation grant. Also, the employees timesheets did not show 100% of their time was spent working on the grant.

We also noted the fund coding for 1 of 11 employees tested was not consistent throughout the fiscal year. The employee was the Associate Director of the Historic Preservation Division and was eligible to be paid from the Historic Preservation Grant. This grant was a 60/40, Federal/State, matching grant. We noted four paychecks were paid 100% from the Federal grant and the 40% matching requirement was not met.

Without compliance with grant agreements and certifying hours worked on a Federal grant there is an increased risk of misuse of Federal and State monies.

We recommend the Society implement procedures to ensure all employees’ paid with Federal monies have their time worked certified at least semi-annually to be in compliance with A-87. We also recommend the Society implement procedures to ensure all Federal expenditures paid from a Federal grant to be properly matched with non-federal funds per the grant agreement.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

18. Payroll Issues (Concluded)

Employee Deductions

Good internal control requires adequate procedures to be in place to ensure the proper deductions are being withheld from an employee's pay.

Payroll deductions were not withheld correctly for 1 of 11 employees tested. The deductions being made did not agree to the W-4 form on file for the employee. There was a \$15 difference in net pay each month because the deductions did not agree to the W-4 form on file. The employee's deductions were incorrectly calculated for 5 months for a total of \$75 paid out incorrectly.

Without adequate procedures there is an increased risk employees' withholdings are not correct.

We recommend the Society implement procedures to ensure all deductions employees have on file are correctly entered into the State's accounting system, NIS.

Payroll Review

Good internal control requires payroll to be reviewed for those employees with access to the payroll function on NIS by someone who does not have payroll access on NIS.

The Society did not have procedures in place to ensure those individuals with access to the payroll function on NIS had their payroll reviewed by a second individual each pay period.

Without proper procedures in place to review payroll for those individuals with the ability to make payroll changes on NIS there is an increased risk of loss of misuse of State funds.

We recommend the Society implement procedures to have payroll, (including timesheets, employee changes, pay changes, one-time overrides, and additions), for those individuals with the ability to change payroll on NIS to be reviewed by someone who does not have this access on NIS. In addition, this review should be completed every pay period and the review should be documented.

Society's Response: All employees, including the director, submit timesheets. The Society will review procedures, which will enable it to be in compliance with OMB Circular A-87 and will review the payroll records of employees who have payroll access.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

19. Internal Control Over Capital Assets

Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 states, “(1) Each executive, department commission, or other state agency ... shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency ... (3) Each such executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska.”

Good internal control requires an adequate segregation of duties over capital assets to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities. If proper segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation.

The following was noted related to the Society’s capital asset procedures:

- One individual was authorized to perform all capital asset transactions on NIS, including maintaining, adding, initiating disposal of assets, and preparing and approving surplus property notification forms. No one reviewed the NIS capital asset integrity reports to ensure all items were properly added to NIS. Additionally, there was no independent review of the NIS additions and retirements report.
- The Society did not maintain a listing of items purchased which were under the \$1,500 capitalization policy. The Society did not monitor assets not recorded on NIS. In addition, the Society did not have a capitalization policy on file for land or buildings.
- Ten of twenty assets tested were not tagged as property of the State of Nebraska. One item, a Compaq computer could not be physically located. Two assets were properly marked as property of the State of Nebraska; however, their tag numbers did not agree to the capital asset listing. We also noted assets were not marked as property of the State of Nebraska in a timely manner.
- The Society has no record of capital assets purchased through the Separate Bank Accounts Cash Fund other than the expenditure entry recorded in QuickBooks and they had no policy regarding the capitalization of assets. Assets purchased through the Separate Bank Accounts Cash Fund are not being monitored and no one performed a physical inventory of items on hand.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

19. Internal Control Over Capital Assets (Concluded)

Without an adequate segregation of duties and documented periodic reviews of all applicable capital asset reports, there is an increased risk of misappropriation of State assets. In addition, without maintaining a list of all assets not included on NIS and not properly tagging items as property of the State of Nebraska or performing a physical count, there is an increased risk of theft of assets.

We recommend the following:

- The Society implement procedures to ensure an adequate segregation of duties is in place over capital assets. These procedures should require an individual separate from the capital asset process to review the NIS capital asset reports including the integrity reports and the additions and retirements report to ensure all additions were properly added to the listing and all deletions were authorized.
- The Society establish procedures to ensure all items below the Society's capitalization policy are monitored.
- The Society implement procedures to ensure all assets are properly tagged as "Property of the State of Nebraska" in a timely manner.
- We recommend the Society implement procedures to perform an annual physical inventory and ensure all items purchased are recorded and monitored.

Society's Response: The Society is reviewing new procedures to track all of its fixed assets. The Society will consider a policy for material items that fall below the DAS capitalization threshold.

20. Store Inventories

Good internal control and sound business practice require procedures to ensure operating statements are prepared and an annual physical inventory is performed at all store locations. Good internal control also requires procedures to ensure two individuals are involved in every physical count of inventory.

The following was noted related to museum store supply inventories:

- An annual inventory was not performed at the Ford Center, Neligh Mill, and the Norris House and no individual ensured the annual inventory was performed at each site.
- Only one individual was involved in the physical count of inventory at the smaller store locations.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

20. Store Inventories (Concluded)

- No operating statements were prepared for any of the store locations. If individual items were taken from the store, there was no way to determine what was taken.

Without an annual physical inventory and adequate controls over the inventory, there is an increased risk for lost or stolen items.

We recommend the Society implement procedures to ensure an annual inventory is performed by at least two individuals and operating statements are prepared for all locations.

Society's Response: Two historic sites are each staffed by one employee. When store inventory is required, a volunteer will be recruited to provide a second inventory-taker.

21. Sales Tax

Neb. Rev. Stat. Section 77-2701.33 R.R.S. 2003 states "Sale means any transfer of title or possession ... exchange, barter, lease, or rental, conditional or otherwise, in any manner or by any means ..."

Nebraska State Accounting Manual, AM-005, General Policies, Section 36, states "When revenues for sales of items are deposited by an agency, the sales tax portion of the deposit should be placed into a liability account ..."

Good internal controls require sales tax collected be properly recorded in a liability account to ensure all sales tax collected is accounted for and properly remitted.

Sales tax was collected and recorded in the Society's revenue accounts in NIS funds and the Separate Bank Accounts Cash Fund. All of the sales tax collected by the Society was being paid out of the Society's Separate Bank Accounts Cash Fund. The Society was not depositing any sales tax collected into a separate liability account to ensure the proper amount was reported. We also noted sales tax was not collected on use fees the Society charged.

Improper remittance of sales tax results in noncompliance with State statutes and an increased risk for the loss or misuse of State funds.

We recommend the Society implement procedures to ensure sales tax is collected and properly remitted to comply with State statutes. We further recommend all sales tax collected be deposited into a liability account.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

21. Sales Tax (Concluded)

Society's Response: The Society will work with State Accounting to ensure conformity with state statute in recording and remitting sales tax and use tax.

22. Society Memberships

Good internal control and sound business practice requires policies and procedures to ensure the Society receives the correct amount for memberships each year.

It was the understanding of the Society that 75% of Society membership dues were transferred by the Nebraska State Historical Society Foundation (Foundation) and 25% was retained for the Foundation's expenses. It appeared this allocation was not followed; however, the Society did not have procedures in place to ensure the amount received from the Foundation for memberships was correct. The Society received \$64,057 in memberships during fiscal year 2007. Included in this amount was the residual amount for fiscal year 2005 of \$38,346. In addition, the Society did not have a written agreement with the Foundation stating how the membership monies would be handled and what percentage the Society would receive. The Society did not follow up with the Foundation to ensure they received the residual amount each year.

Without procedures to ensure allocation amounts are correct, there is an increased risk for loss or misuse of State funds.

We recommend the Society implement procedures to ensure the amount received from the Foundation for membership dues is correct and obtain a written agreement for membership dues.

Society's Response: The Society will work with the Foundation to develop a written agreement.

23. Historical Society Fees

Good internal control and sound business practice requires appropriate fees for services provided be assessed in accordance with a documented fee schedule. Sound business practice requires fees to be adequate to cover expenses incurred at the historic sites.

The Society did not document how admission fees were established for five historic sites (Neligh Mill, George W. Norris House, Thomas Kennard House, Fort Robinson, and Chimney Rock) operated by the Society. Admission fees were last reviewed and approved by the Board of Trustees in the September 2001 Board meeting.

Without a periodic review of the fees collected, costs associated with admissions to historic sites may not be adequately covered.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

23. Historical Society Fees (Concluded)

We recommend the Society implement procedures to periodically review fees to ensure costs are adequately covered.

Society's Response: The Society regularly reviews fees but will review its fees annually. The Society can document establishment of admission fees at sites; fees were established by the Society Board in October of 1985 in response to budget cuts then required by the Governor. However, at that time and since the Society has never held that the admissions fees to its historic sites are in any way sufficient to cover the operating costs for those sites, either individually or collectively. Fees are set in the context of admissions charged at similar facilities in proximity and in consultation with historic sites operators. The Legislature makes appropriations for the operations of those sites and in the footnotes to the appropriations bill dictates that the Society is not to close any of those sites. We do not anticipate any change in the funding of these sites.

24. Timely Collection of Revenues

Good internal control requires revenues to be monitored to ensure all monies due to the Society are collected in a timely manner. Good internal control and sound business practice also requires adequate and sufficient supporting documentation be kept on file for transactions performed by the Society. In addition, sound business practice requires agreements to be signed by all parties involved.

During testing of revenues we noted the following:

- Two of five documents tested did not have adequate supporting documentation on file. One of the documents was a journal entry between programs and the Society did not have documentation to support the entry. For the second document, the Society deleted an entry on NIS and entered the entry again, but they did not have support to show why the original entry was deleted.
- The agreement between the Game and Parks Commission and the Society was not signed by all responsible parties involved and an updated copy of the agreement was not kept on file at the headquarter office in Lincoln. The Society received money from the Nebraska Game and Parks Commission for their portion of proceeds from tours performed at the Fort Robinson site for the time period of October 14, 2004, through August 2006. The amount of time covered was 22.5 months which spanned 3 fiscal years. Per the agreement, the Society was to divide the proceeds from the tours equally between the Society and Nebraska Game and Parks Commission.

Without supporting documentation for transactions performed and timely collection of monies due to the Society, there is an increased risk of the loss or misuse of State funds.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

24. Timely Collection of Revenues (Concluded)

We recommend the Society maintain documentation on file to support all entries made on NIS. We also recommend the Society develop procedures to periodically review agreements to ensure all monies due to the Society are collected in a reasonable and timely manner. We further recommend the Society ensure agreements are signed by all parties involved and a copy of the agreement is kept on file at the headquarter office.

Society's Response: The Society will review the agreement with Game & Parks to bring that up to date and will implement the agreement provisions.

25. Insurance Proceeds

Neb. Rev. Stat. Section 84-710 R.R.S. 1999 states, "It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state ... to receive any fees, proceeds from the sale of any public property, or 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."

Insurance proceeds of \$57,656, from damage related to a State owned building at Fort Robinson, were deposited into the Society's Separate Bank Accounts Cash Fund; however, the funds should have been deposited with the State Treasurer. The repairs related to the building were paid out of the Separate Bank Accounts Cash Fund; however, it was noted an expense reimbursement for \$183 was paid out of State funds.

The Society was not in compliance with State statute because the insurance proceeds were not deposited into State funds.

We recommend the Society ensure all funds due to the State are deposited with the State Treasurer as required by State statute.

Society's Response: We agree that all funds due to the State are to be deposited with the State Treasurer.

26. Children's Museum Lease

Neb. Rev. Stat. Section 81-1108.22 R.S.Supp., 2006 requires agencies that desire to rent office space outside of the State Capitol to submit a request to the Director of the Department of Administrative Services (DAS). Section 81-1108.22 also requires the lease to be approved by the Director and a copy of the lease to be kept on file by the State Building Division.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

26. Children's Museum Lease (Continued)

28 C.F.R. Section 79.9 requires a repository of federally owned archeological collections to keep the collection under physically secure conditions. The Society entered into a cooperative agreement in April 2004, with the Department of Interior, Bureau of Reclamation to catalog and store certain archeological objects recovered from reclamation property in Nebraska, which was in the possession of the Society.

The Archeology and Historic Preservation divisions rent the third floor of the Lincoln Children's Museum located in Lincoln, Nebraska (13,322 square feet) and part of the basement (13,111 square feet) for a total square footage of 26,433. As discussed more fully below, the third floor space was renovated at State expense to provide office space for 16 Society staff, storage, and lab facilities.

In fiscal year 2001, the Society entered into a lease purchase agreement with Smith Hayes Financial Services Corporation in the amount of \$340,008 to partially finance construction costs necessary to occupy the space in the Lincoln Children's Museum. This agreement was executed outside of the State's Master Lease Purchase Program and was not reviewed by the Nebraska Attorney General. However, the Society did have an outside legal firm review the agreement. The proceeds from the lease were deposited into the Society's Separate Bank Accounts Cash Fund. The APA noted in our 2002 audit report of the Society, the deposit of the proceeds into the Separate Bank Accounts Cash Fund did not appear to be in compliance with Neb. Rev. Stat. Section 84-710 R.R.S. 1999. Below is a summary of the actual costs to renovate the space at the Lincoln Children's Museum:

Original Renovation Contract Amount	\$ 390,620
Renovation Contract Change Orders	55,464
Finance Charges on Lease Purchase Agreement	<u>89,992</u>
Total Cost of Renovation	<u>\$ 536,076</u>

All the costs are being paid for with State General Funds except for \$38,076 paid from the Society's Separate Bank Accounts Cash Fund.

The Society was also required to pay \$84,000 plus interest for their portion of the costs for the installation of a central boiler and chiller system over the first 10 years of the lease with the Lincoln Children's Museum. The Society is required to pay this amount even if the lease terminates prior to the end of the first 10 years. The annual rent due to the Lincoln Children's Museum during fiscal year 2007 was \$116,400, which included the monthly amount to repay the installation of the central boiler and chiller system. The annual rent payments were paid from the State General Fund during the fiscal year. The annual rent has an escalator clause and was adjusted upward in July 2005 and will be adjusted every 5 years thereafter during the 20 year term of the lease. DAS is currently negotiating with the Lincoln Children's Museum on the Society's behalf to clarify responsibilities related to the space and change the term of the lease.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

26. **Children's Museum Lease** (Continued)

The following was noted related to the Society's Lincoln Children's Museum office:

- The lease of office space at the Lincoln Children's Museum was not approved by the Director of DAS. The Society had sent a letter to DAS requesting permission to lease this office space on December 18, 2006, 6 years after the lease was signed, but had not received a response as of June 30, 2007. This was noted in our previous two reports.
- The United States Department of Interior, Bureau of Reclamation completed an evaluation of the Society's space in the Lincoln Children's Museum in September 2003 and issued a report on the evaluation in March 2004. The Bureau of Reclamation found the artifacts stored in the basement of the Lincoln Children's Museum were at high risk for serious water damage and should be moved from the basement. The space occupied by the Society in the basement is located beneath a parking lot. Additionally, the APA walked through the space at the Museum and was informed by Society staff, the third floor was also leaking.
- The Society paid \$13,185 for a space use study at the Lincoln Children's Museum. Payment was made out of the Bureau of Reclamation Federal Funds; however, a space study was not one of the funding requirements noted in the cooperative agreement. The Society received a preliminary draft, which confirmed the significant structural deficiencies noted in the Bureau of Reclamation evaluation and provided comments to the consultant on September 19, 2007, in order to finalize the study.

Without proper approval from DAS, the Society is not in compliance with State statute. When the requirements of 28 C.F.R. Section 79.9 are not met there is an increased risk of loss of Federal funding. Historical artifacts are at risk for severe damage when the storage area is not adequately protected.

We recommend the Society contact DAS State Building Division and discuss the status of the lease between the Historical Society and the Lincoln Children's Museum. We also recommend the Society review the lease to ensure it is the most cost effective use of State funds and ensure historical artifacts are properly secured from damage.

Society's Response: As the documentation provided to the APA supports, an onsite evaluation from the U.S. Department of the Interior, Bureau of Reclamation (BOR) prompted the space needs study. The Society has a cooperative agreement with BOR for cataloging and storage of certain archeological objects and specimens recovered in Nebraska in conjunction with

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

26. Children's Museum Lease (Concluded)

Society's Response, Concluded:

Reclamation projects and programs. Significant space is needed for these materials. BOR concluded that the space for archeological materials does not adhere to the intent of the 36 CFR Part 79. The location of the artifact storage room (in the basement, under the parking lot, with storm drainage passing through susceptible to leaking), places the artifacts at risk.

The matter of replacing this lease has been in the hands of the DAS-Building Division since December 2006. DAS-Building Division has reported to us there are many issues involved, but that progress is being made.

27. Purchase Card Transactions

Neb. Rev. Stat. Section 81-118.02(4) R.R.S. 1999 states: "An itemized receipt for purposes of tracking expenditures shall accompany all state purchasing card purchases. In the event that an itemized receipt does not accompany such a purchase, the Department of Administrative Services shall have the authority to temporarily or permanently suspend state purchasing card purchases in accordance with rules and regulations adopted and promulgated by the department."

During testing of purchase card transactions, we noted both documents selected for testing did not have adequate supporting documentation. The Society did not have a receipt on file for one transaction. The amount of the transaction was \$251. The second document had a receipt printed on-line and the amount on the receipt did not agree to the amount charged. The difference between the printed receipt and the amount paid was \$13.

Without adequate procedures over purchase card transactions there is an increased risk of loss or misuse of State funds and noncompliance with State statutes.

We recommend the Society implement procedures to ensure actual receipts are provided for all purchase card transactions.

Society's Response: The Society is reviewing its procedures and training staff in the correct procedures involving the State Purchase Card.

28. Assets Incorrectly Recorded/Disposed

Neb. Rev. Stat. Section 81-161.04 R.R.S. 2003 states, "Whenever any using agency has any personal property for which it no longer has need or use, it shall notify the materiel division in writing setting forth a description of the property and the approximate length of time that the property has been in the possession of the using agency."

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

28. Assets Incorrectly Recorded/Disposed (Continued)

The Historic Preservation grant agreement states all funds expended from this grant must be matched with 40% of State funds. Good internal control and sound business practice requires procedures to ensure each Federal expenditure paid is matched with the correct amount of State funds.

Good internal control and sound business practices require an accurate listing and identification of all capital assets and adequate supporting documentation be maintained. Sound business practices also requires the date of acquisition for assets be recorded as the day the asset was actually placed in operation to ensure depreciation is calculated correctly.

During testing of the Society's capital assets, we noted the following:

- The Society had two rooms with computer equipment items that had been accumulating for more than one year and needed to be surplus. In these rooms were approximately 98 computer towers and monitors, 20 printers, 12 laptops, 2 computer servers, 1 fax machine, and several boxes of miscellaneous computer parts (i.e. mouse, keyboards, etc.) The Society did not have an explanation as to why these items had not been surplus.
- One of five additions tested did not have adequate supporting documentation to verify the addition amount of \$184,580. We were unable to determine what the addition amount should have been for the Cheyenne Calvary Barracks building based on the documentation provided by the Society. The wrong acquisition date was also used, resulting in the incorrect calculation of depreciation expense for one month totaling \$421.
- One asset added, costing \$2,020, was paid for 100% from the General Fund for the Historic Preservation program. This program was funded 60% from Federal funds and 40% from General Funds. The cost should have been allocated in the amount of \$1,212 to Federal funds and \$808 to the General Fund.
- Two assets were not disposed of correctly. The Society did not go through the Department of Administrative Services – Material Division to have these two items surplus, but instead changed the asset status on NIS to disposed. The assets still had a carrying value on NIS and therefore overstated their asset balance. The assets were changed to disposed on NIS in February 2003.
- A Surplus Property Notification form was not signed by an authorized person to ensure the form was reviewed and the item was properly surplus.

Without adequate procedures to ensure assets are properly recorded on NIS, there is an increased risk of the loss or misuse of State assets and inaccurate financial reporting of the Society's capital assets.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

28. Assets Incorrectly Recorded/Disposed (Concluded)

We recommend the Society implement procedures to ensure assets are correctly recorded on NIS. We also recommend the Society implement procedures to ensure items determined to be surplus are tracked and disposed periodically and the Society follows the proper procedures for disposing of assets. Additionally, we recommend the Society ensure documentation is maintained to support the cost of capital assets.

Society's Response: The Society agrees with this finding.

29. Outstanding Checks

Good internal control and sound business practice requires procedures to follow up on all outstanding checks.

Four of five outstanding checks from the Separate Bank Accounts Cash Fund tested were not followed up on or canceled/voided if the check was outstanding for more than one year. One of the checks for \$410 was reissued because the vendor never received the first check; however, the original check was not canceled/voided to ensure the company was not paid twice. The Society did not have procedures in place to follow up on outstanding checks issued from the Separate Bank Accounts Cash Fund.

Without proper procedures to review outstanding checks, there is an increased risk for loss, misuse, or double payment of State funds.

We recommend the Society implement procedures to ensure all outstanding checks are followed up on and if checks are outstanding greater than one year, they should be voided/canceled.

Society's Response: The Society agrees with this finding and will comply.

30. Land Inventory

NIS is the official accounting system of the State of Nebraska and should accurately list all parcels of land and buildings owned by the Society. Good internal controls require a review of the NIS listings of land and buildings to ensure assets are accurately recorded on NIS, listed at cost or fair market value at the date of acquisition or donation, added to NIS at the cost on the date of acquisition, and recorded on NIS accurately and in a timely manner.

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

30. Land Inventory (Concluded)

We noted the Society had seventeen parcels of land and one building recorded on NIS with a cost of \$1 each. Five parcels of land were acquired before 1970, seven were acquired between 1971 and 1990, and five were acquired after 1991. The building was acquired in 1988.

Without properly recording the value of land and buildings, assets may be understated. Improper valuation of land also increases the risk buildings on the land are being over depreciated.

We recommend the Society review the capital asset records to ensure building and land values are correctly recorded on NIS.

Society's Response: The Society will take steps to ensure all land it holds/manages is properly recorded as a fixed asset on NIS.

31. Due to/from Fund

Good internal control and sound business practice requires adequate documentation be maintained on all financial statement transactions and balance sheet accounts. Good internal control also requires review of balance sheet accounts to ensure accuracy and to correct discrepancies.

Transfers were recorded in Due from Other Funds and Due to Fund accounts in prior fiscal years. The Society did not know why the transfers were done or whether they should have been repaid. There was a \$50,000 balance in both accounts as of June 30, 2007.

Without adequate procedures to ensure balances in financial statement accounts are appropriate and supported there is an increased risk of misstatement of fund balances.

We recommend the Society determine and document the origination of the loans to funds and repay all loans no longer needed.

32. Negative Records

Good internal control requires adequate procedures to ensure all negative expenditures are reasonable and necessary for Society function.

Negative records were not reasonable and necessary for Society function for 3 of 7 documents tested. During testing we noted the following:

NEBRASKA STATE HISTORICAL SOCIETY

COMMENTS AND RECOMMENDATIONS

(Continued)

32. Negative Records (Concluded)

- An expenditure document was created twice, once from the purchase order and once from a copy of the invoice. The duplicate document was not noticed until four months after the second document was created. Only one payment was made to the vendor.
- Two negative records did not have documentation on file to support why the original payment was reversed.

Without proper procedures to ensure negative expenditures are reasonable and necessary, there is an increased risk for loss or misuse of State assets.

We recommend the Society ensure negative expenditures entries are reasonable and necessary for Society function.



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NEBRASKA STATE HISTORICAL SOCIETY

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Historical Society
Lincoln, Nebraska

We have examined the accompanying schedules as described in the table of contents of the Nebraska State Historical Society (Society) for the fiscal year ended June 30, 2007. The Society's management is responsible for the schedules. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedules and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following: \$72,913 in alleged fraud related to the Society's Separate Bank Accounts Cash Fund; receipts deposited into the Separate Bank Accounts Cash Fund required to be deposited with the State Treasurer and recorded on NIS in the amount of \$93,640, in addition we were unable to determine if other amounts were improperly deposited into the Separate Bank Accounts Cash Fund; and the control environment was not conducive to fair and complete financial reporting.

In our opinion, except for the deviations from the criteria and the weaknesses in the control environment described in the preceding paragraph, the schedules referred to above present, in all material respects, the revenues/receipts, expenditures/disbursements, and changes in fund balances of the Nebraska State Historical Society for the fiscal year ended June 30, 2007, based on the accounting system, procedures, and basis of accounting as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007, on our consideration of the Nebraska State Historical Society's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

October 12, 2007


Assistant Deputy Auditor

NEBRASKA STATE HISTORICAL SOCIETY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
STATE ACCOUNTING SYSTEM
For the Fiscal Year Ended June 30, 2007

	State General Fund 10000	Historical Society Cash Fund 25410	Historical Landmark Fund 25610	Historical Pres/Grants Fund 45410	Historical Pres/Admin Fund 45420	BOR Grant Fund 45430
REVENUES:						
Appropriations	\$ 4,328,156	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	266,396	497,800	175,275
Sales & Charges	-	583,573	-	-	-	-
Miscellaneous	100	107,830	17,350	1,284	8,816	-
TOTAL REVENUES	4,328,256	691,403	17,350	267,680	506,616	175,275
EXPENDITURES:						
Personal Services	3,211,052	442,454	-	2,095	256,416	167,875
Operating	979,081	249,236	14,075	162,230	146,589	40,736
Travel	32,076	31,248	-	-	14,152	5,265
Capital Outlay	105,947	7,500	-	-	-	-
Government Aid	-	-	-	60,841	-	-
TOTAL EXPENDITURES	4,328,156	730,438	14,075	225,166	417,157	213,876
Excess (Deficiency) of Revenues Over (Under) Expenditures	100	(39,035)	3,275	42,514	89,459	(38,601)
OTHER FINANCING SOURCES (USES):						
Sales of Assets	1,071	-	-	-	-	-
Deposit to General Fund	(1,171)	-	-	-	-	-
Operating Transfers In	-	5,434	-	-	-	-
Operating Transfers Out	-	-	-	(5,434)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(100)	5,434	-	(5,434)	-	-
Net Change in Fund Balances	-	(33,601)	3,275	37,080	89,459	(38,601)
FUND BALANCES, JULY 1, 2006	1,270	106,214	6,032	52,934	147,764	116,908
FUND BALANCES, JUNE 30, 2007	\$ 1,270	\$ 72,613	\$ 9,307	\$ 90,014	\$ 237,223	\$ 78,307
FUND BALANCES CONSIST OF:						
General Cash	\$ -	\$ 67,344	\$ 9,307	\$ 60,014	\$ 264,246	\$ 42,843
Petty Cash	-	740	-	-	-	-
NSF Items	-	100	-	-	-	-
Deposits with Vendors	1,270	-	-	-	-	-
Accounts Receivable Invoiced	-	4,429	-	-	2,977	35,464
Due From Other Funds	-	10,000	-	30,000	10,000	-
Due to Fund	-	(10,000)	-	-	(40,000)	-
TOTAL FUND BALANCES	\$ 1,270	\$ 72,613	\$ 9,307	\$ 90,014	\$ 237,223	\$ 78,307

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA STATE HISTORICAL SOCIETY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
STATE ACCOUNTING SYSTEM
For the Fiscal Year Ended June 30, 2007

	Hall of Fame Trust Fund 61810	Collections Trust Fund 65410	Library Archives Fund 65420	Cheyenne Outbreak Barrack Fund 65430	Bridge Book Sale Fund 65440	Totals (Memorandum Only)
REVENUES:						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,328,156
Intergovernmental	-	-	-	-	-	939,471
Sales & Charges	-	-	-	-	-	583,573
Miscellaneous	-	468	140	1,308	-	137,296
TOTAL REVENUES	-	468	140	1,308	-	5,988,496
EXPENDITURES:						
Personal Services	-	-	-	-	-	4,079,892
Operating	-	2,078	-	1,413	-	1,595,438
Travel	-	-	-	316	-	83,057
Capital Outlay	-	-	-	-	-	113,447
Government Aid	-	-	-	-	-	60,841
TOTAL EXPENDITURES	-	2,078	-	1,729	-	5,932,675
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,610)	140	(421)	-	55,821
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	1,071
Deposit to General Fund	-	-	-	-	-	(1,171)
Operating Transfers In	-	-	-	-	-	5,434
Operating Transfers Out	-	-	-	-	-	(5,434)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	(100)
Net Change in Fund Balances	-	(1,610)	140	(421)	-	55,721
FUND BALANCES, JULY 1, 2006	1,449	11,082	98	3,228	28,339	475,318
FUND BALANCES, JUNE 30, 2007	\$ 1,449	\$ 9,472	\$ 238	\$ 2,807	\$ 28,339	\$ 531,039
FUND BALANCES CONSIST OF:						
General Cash	\$ 1,449	\$ 9,472	\$ 238	\$ 2,807	\$ 28,339	\$ 486,059
Petty Cash	-	-	-	-	-	740
NSF Items	-	-	-	-	-	100
Deposits with Vendors	-	-	-	-	-	1,270
Accounts Receivable Invoiced	-	-	-	-	-	42,870
Due From Other Funds	-	-	-	-	-	50,000
Due to Fund	-	-	-	-	-	(50,000)
TOTAL FUND BALANCES	\$ 1,449	\$ 9,472	\$ 238	\$ 2,807	\$ 28,339	\$ 531,039

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA STATE HISTORICAL SOCIETY
**SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE**
SEPARATE BANK ACCOUNTS CASH FUND
For the Fiscal Year Ended June 30, 2007

	<u>Separate Bank Accounts Cash Fund</u>
RECEIPTS:	
Sales	\$ 152,185
Professional & Technical Services - Ford Center	93,640
Donations	87,080
Membership	64,057
Library Archives	18,217
Ford Center	4,296
Quarter Set Sales	258
Other Miscellaneous Receipts	163,269
TOTAL RECEIPTS	<u>583,002</u>
DISBURSEMENTS:	
Administration & Office	184,373
Purchases for Resale	85,834
Ford Center	80,805
Donation/Member Remittance	73,328
Travel & Meeting	28,430
Printing & Publications	14,776
Volunteer	12,317
Quarter Sets	12,065
Museum Division	11,431
Museum Store Supplies	8,834
Library Archives	8,582
History Day Scholarships	6,757
Chimney Rock - Miscellaneous	5,435
Nebraska Institute Project	4,895
Memberships & Subscriptions	4,277
Legislative Reception	3,182
Museum Display & Collection	856
Other Miscellaneous Disbursements	26,071
TOTAL DISBURSEMENTS	<u>572,248</u>
Excess of Receipts Over Disbursements	<u>10,754</u>
OTHER FINANCING SOURCES (USES)	
Adjustments to Fund Balance	(136)
Transfers to State	(14,355)
Transfers to Foundation	(5,785)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(20,276)</u>
Net Change in Fund Balance	(9,522)
FUND BALANCE, JULY 1, 2006	<u>129,938</u>
FUND BALANCE, JUNE 30, 2007	<u>\$ 120,416</u>
FUND BALANCE CONSISTS OF:	
General Cash	\$ 119,466
Petty Cash	950
TOTAL FUND BALANCE	<u>\$ 120,416</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA STATE HISTORICAL SOCIETY

NOTES TO THE SCHEDULES

For the Fiscal Year Ended June 30, 2007

1. Criteria

State Accounting System:

The accounting policies of the Nebraska State Historical Society (Society) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2006, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

In accordance with Neb. Rev. Stat. Section 81-1111(1) R.R.S. 1999, the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes the Nebraska Information System (NIS) to maintain the general ledger and all detail accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information kept on NIS. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payables recorded in the general ledger as of June 30, 2007, include only those payables posted in the general ledger before June 30, 2007, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2007, **does not** include amounts for goods and services received before June 30, 2007, which had not been posted to the general ledger as of June 30, 2007.

Other liabilities are recorded in an account titled Due to Fund. The assets in this account are being held by the State and will be used to pay those liabilities to other funds. The recording of those liabilities reduces the fund balance/equity. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

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

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

NEBRASKA STATE HISTORICAL SOCIETY

NOTES TO THE SCHEDULES

(Continued)

1. **Criteria** (Continued)

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

40000 – Federal Funds – account for the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

The major revenue account classifications established by State Accounting used by the Society are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

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

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

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

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

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

Travel – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

NEBRASKA STATE HISTORICAL SOCIETY

NOTES TO THE SCHEDULES

(Continued)

1. Criteria (Concluded)

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

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

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

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Society's funds at June 30, 2007, included amounts recorded in Due to Fund. The activity of this account is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

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

Separate Bank Accounts Cash Fund:

The Nebraska State Historical Society's Separate Bank Accounts Cash Fund consists of membership contributions received and sales from the Society's museum stores which are maintained in separate bank accounts in the name of the Society. The Society established the Separate Bank Accounts Cash Fund based on language in Neb. Rev. Stat. Section 84-710 R.R.S 1999. The Separate Bank Accounts Cash Fund is used to assist the Society in fulfilling its mission and statutory responsibilities by supporting Society activities such as publications, acquisition of items for Society collections, public programs, and related special events. The Separate Bank Accounts Cash Fund is on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when received and expenditures when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which require the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

NEBRASKA STATE HISTORICAL SOCIETY

NOTES TO THE SCHEDULES

(Continued)

2. **Reporting Entity**

The Nebraska State Historical Society is a State agency established under and governed by the laws of the State of Nebraska. As such, the Society is exempt from State and Federal income taxes. The schedules include all funds of the Society included in the general ledger and the Society's Separate Bank Accounts Cash Fund but does not include the Society's component unit, as these schedules are not reported in accordance with Generally Accepted Accounting Principles (GAAP). The Society had the following component unit and the financial activity of this component unit would be blended with the Society's funds if the financial statements of the Society were presented in accordance with GAAP:

Nebraska State Historical Society Foundation - The Nebraska State Historical Society Foundation (Foundation) is incorporated as a nonprofit charitable organization in the State of Nebraska. The Foundation was established to financially assist the Society, which is the principal beneficiary of the Foundation, to aid in the general preservation and interpretation of Nebraska history, and to preserve historical sites and structures.

The Nebraska State Historical Society is part of the primary government for the State of Nebraska.

3. **Totals – State Accounting System**

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. **General Cash – State Accounting System**

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. **General Cash – Separate Bank Accounts Cash Fund**

Funds held by the Society are deposited and invested into various bank accounts, which are generally consolidated into a non interest-bearing checking account. As required by Neb. Rev. Stat. Section 77-2395 R.R.S. 2003, any deposits in excess of the amount insured by the Federal Deposit Insurance Corporation shall be collateralized at one hundred and five percent of the market value of the amount on deposit which is in excess of the amount insured.

NEBRASKA STATE HISTORICAL SOCIETY

NOTES TO THE SCHEDULES

(Continued)

5. General Cash – Separate Bank Accounts Cash Fund (Concluded)

As of June 30, 2007, the carrying amounts of total deposits, consisting of multiple checking accounts and a money market account, were \$119,466, and bank balances were \$129,164. These funds were not entirely covered by federal depository insurance or by collateral securities pledged to the Society and held by a Federal Reserve Bank for four months during the fiscal year.

6. Capital Assets – State Accounting System

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

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Society takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System.

For the CAFR, the State requires the Society to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements are capitalized. Building improvements and renovations are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Buildings and Equipment are depreciated in the CAFR using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 Years
Equipment	3 to 10 Years

NEBRASKA STATE HISTORICAL SOCIETY

NOTES TO THE SCHEDULES

(Continued)

6. Capital Assets – State Accounting System (Concluded)

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Land	\$ 1,151,817	\$ -	\$ -	\$ 1,151,817
Buildings	6,850,487	184,580	450,000	6,585,067
Equipment	564,172	103,454	13,210	654,416
Total	<u>\$ 8,566,476</u>	<u>\$ 288,034</u>	<u>\$ 463,210</u>	<u>8,391,300</u>
Less accumulated depreciation for:				
Buildings				3,977,663
Equipment				495,165
Total				<u>4,472,828</u>
Total capital assets, net of depreciation				<u>\$ 3,918,472</u>

7. Lease Purchase Agreement

In May 2001, the Society entered into an agreement with Smith Hayes Financial Corporation to finance the construction costs for the Society to occupy the third floor and lower level of the Lincoln Children’s Museum. The Society uses State General Funds to repay the lease purchase agreement. A summary of the future minimum contractual obligations including interest, as of June 30, 2007, is as follows:

Fiscal Year	Principal	Interest	Total
2008	\$ 36,128	\$ 6,872	\$ 43,000
2009	37,846	5,154	43,000
2010	39,645	3,355	43,000
2011	41,530	1,470	43,000

8. Payments to/from Nebraska State Historical Society Foundation

The Nebraska State Historical Society Foundation (Foundation) provides financial assistance to the Society in order to help the Society complete its mission. During fiscal year 2007, the Foundation gave the Society \$187,736 in financial assistance. These monies were deposited into the Separate Bank Accounts Cash Fund and recorded in various receipt categories.

During fiscal year 2007, the Society paid \$95,423 to the Foundation for memberships, quarter set sales, donations, and other miscellaneous items from the Separate Bank Accounts Cash Fund.

NEBRASKA STATE HISTORICAL SOCIETY

NOTES TO THE SCHEDULES

(Continued)

9. Activity in the Separate Bank Accounts Cash Fund

During fiscal year 2007, the Society improperly made certain deposits into various receipt categories of the Separate Bank Accounts Cash Fund, including Ford Center receipts of \$93,640. In addition, the Society improperly disbursed from the Separate Bank Accounts Cash Fund \$80,805 relating to the Ford Center and \$39,744 to the State Treasurer.

10. Reconciliation of Bank Records to the State's General Ledger

Through their bank reconciliation procedures, State Accounting has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Society. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Society's balances; however, State Accounting believes it will not have a material impact on the Society's operations.

11. Subsequent Event

The Deputy Director was arrested in September 2007 and charged with felony theft by deception over \$1,500. Arraignment is scheduled for October 24, 2007, in Lancaster County District Court. Management believes this will not have a material impact on the overall financial condition of the Society.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA STATE HISTORICAL SOCIETY
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE
SCHEDULES OF REVENUES/RECEIPTS, EXPENDITURES/DISBURSEMENTS, AND
CHANGES IN FUND BALANCES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Nebraska State Historical Society
Lincoln, NE 68509

We have examined the accompanying schedules, as described in the table of contents, of the Nebraska State Historical Society as of and for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska State Historical Society's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the schedules of revenues/receipts, expenditures/disbursements, and changes in fund balances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska State Historical Society's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska State Historical Society's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting system and

procedures prescribed by the State of Nebraska Director of Administrative Services such that there is more than a remote likelihood that a misstatement of the entity's financial schedules that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the Comments Section of the report to be significant deficiencies in internal control over financial reporting: Comment Number 1 (Nebraska State Historical Society's Separate Bank Accounts Cash Fund Investigation), Comment Number 2 (Control Environment), Comment Number 4 (Segregation of Duties Over the Separate Bank Accounts Cash Fund), Comment Number 5 (Expenditures and Coding), Comment Number 6 (Lobbyist Contract), Comment Number 8 (Separate Bank Accounts Cash Fund), Comment Number 9 (NIS Security), Comment Number 10 (General Ledger Review), Comment Number 11 (Sales Receipts), Comment Number 12 (Travel), Comment Number 13 (Agency Owned and Permanently Assigned Vehicles), Comment Number 15 (Federal Grants), Comment Number 16 (Federal Grant Revenues), Comment Number 17 (Internal Control Over Revenues), Comment Number 18 (Payroll Issues), Comment Number 19 (Internal Control Over Capital Assets), Comment Number 20 (Store Inventories), Comment Number 22 (Society Memberships), and Comment Number 28 (Assets Incorrectly Recorded/Disposed).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the Nebraska State Historical Society's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Comment Number 1 (Nebraska State Historical Society's Separate Bank Accounts Cash Fund Investigation), Comment Number 2 (Control Environment), Comment Number 4 (Segregation of Duties Over the Separate Bank Accounts Cash Fund), and Comment Number 11 (Sales Receipts) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska State Historical Society's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Comments Section of our report as Comment Number 1 (Nebraska State Historical Society's Separate Bank Accounts Cash Fund Investigation), Comment Number 3 (State Statutes and Policies Applicable to the Separate Bank Accounts Cash Fund), and Comment Number 11 (Sales Receipts).

We also noted certain additional items that we reported to management of the Nebraska State Historical Society in the Comments Section of this report as Comment Number 7 (Nebraska Club), Comment Number 14 (Petty Cash Funds), Comment Number 21 (Sales Tax), Comment Number 23 (Historical Society Fees), Comment Number 24 (Timely Collection of Revenues), Comment Number 25 (Insurance Proceeds), Comment Number 26 (Children's Museum Lease), Comment Number 27 (Purchase Card Transactions), Comment Number 29 (Outstanding Checks), Comment Number 30 (Land Inventory), Comment Number 31 (Due to/from Fund), and Comment Number 32 (Negative Records).

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

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

October 12, 2007

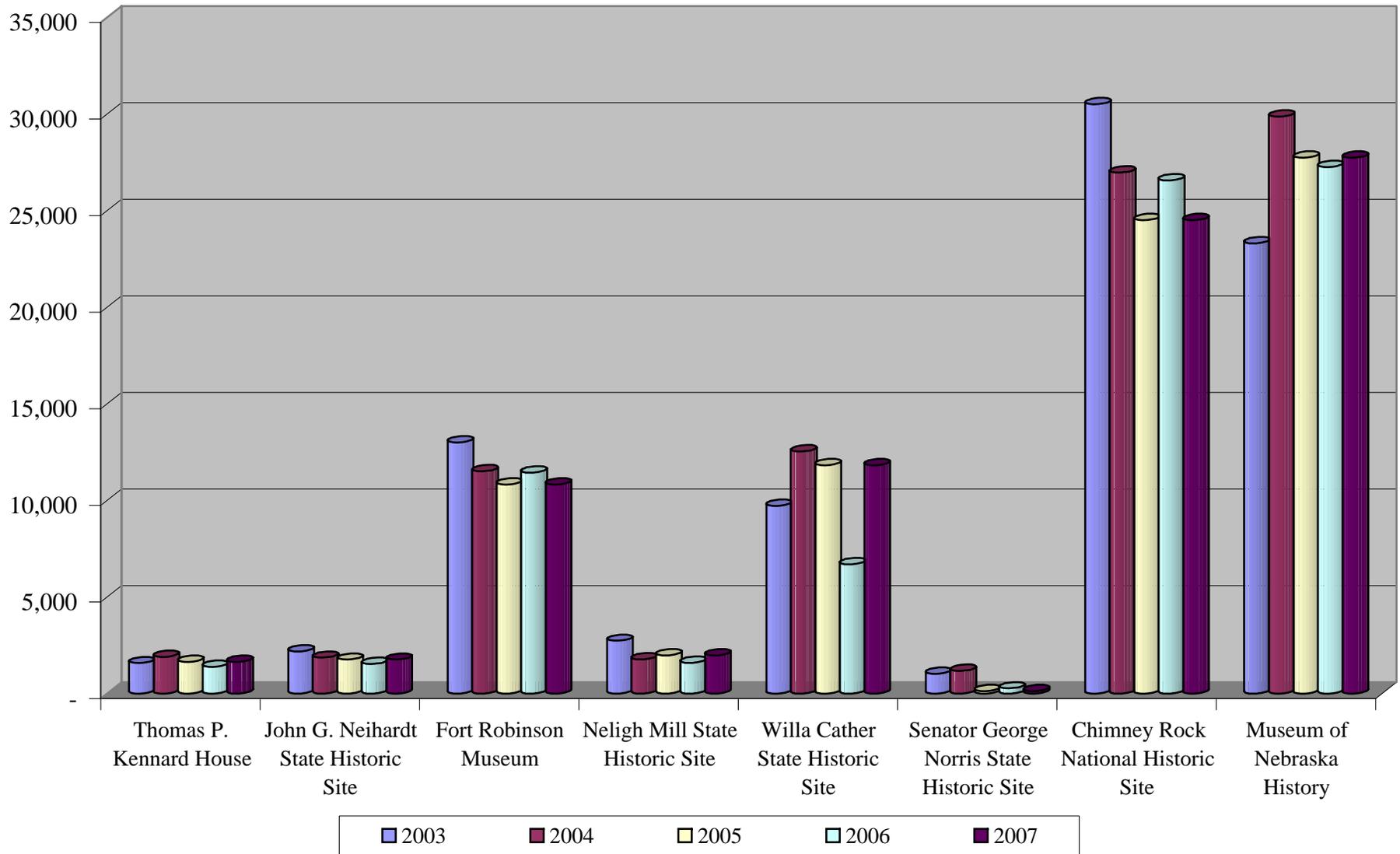

Assistant Deputy Auditor

NEBRASKA STATE HISTORICAL SOCIETY

STATISTICAL SECTION

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

NEBRASKA STATE HISTORICAL SOCIETY
SCHEDULE OF VISITORS BY HISTORICAL SITE
 Fiscal Years Ended June 30, 2003 through 2007



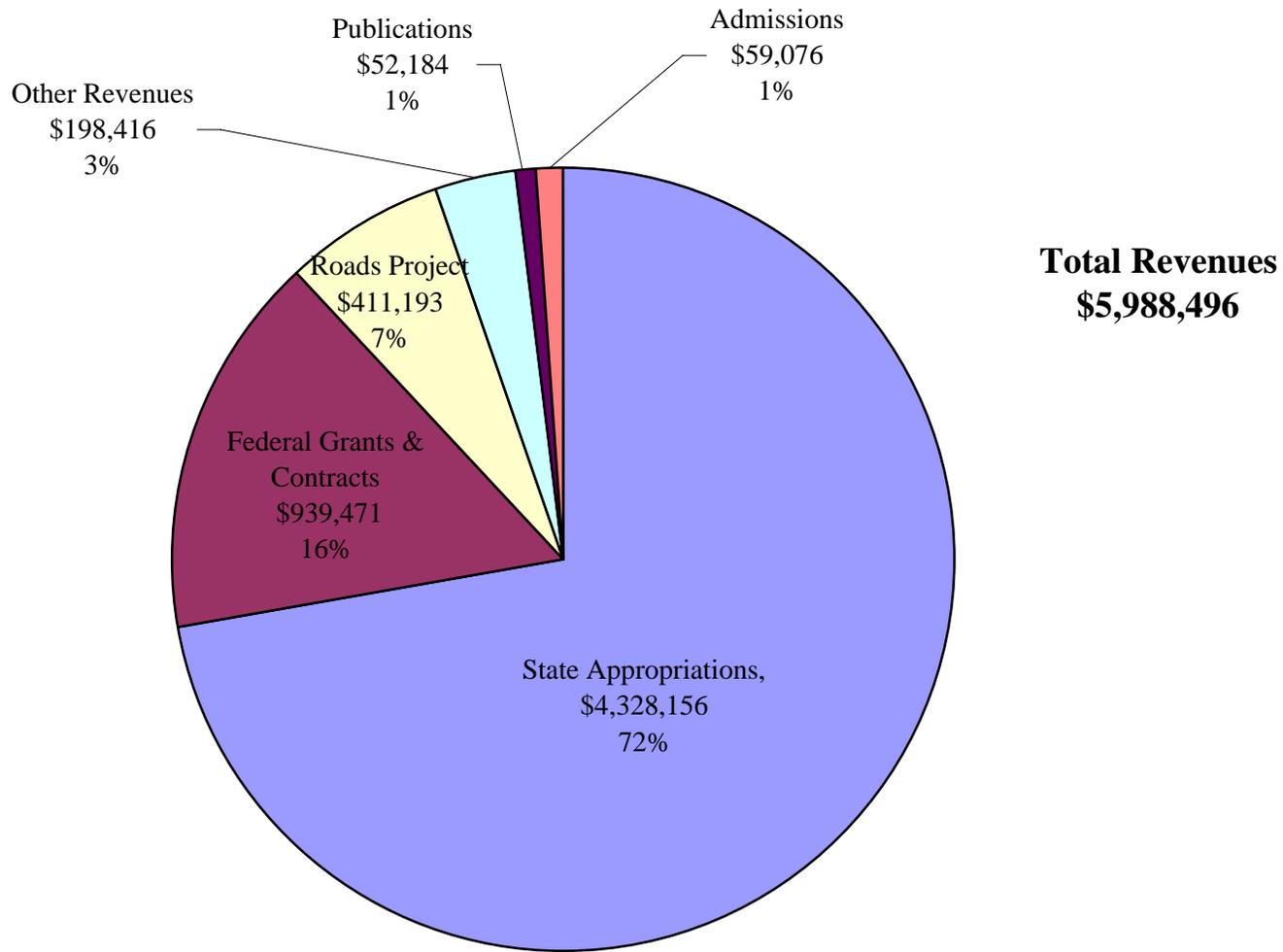
**NEBRASKA STATE HISTORICAL SOCIETY
SCHEDULE OF VISITORS BY HISTORICAL SITE**

(Continued)

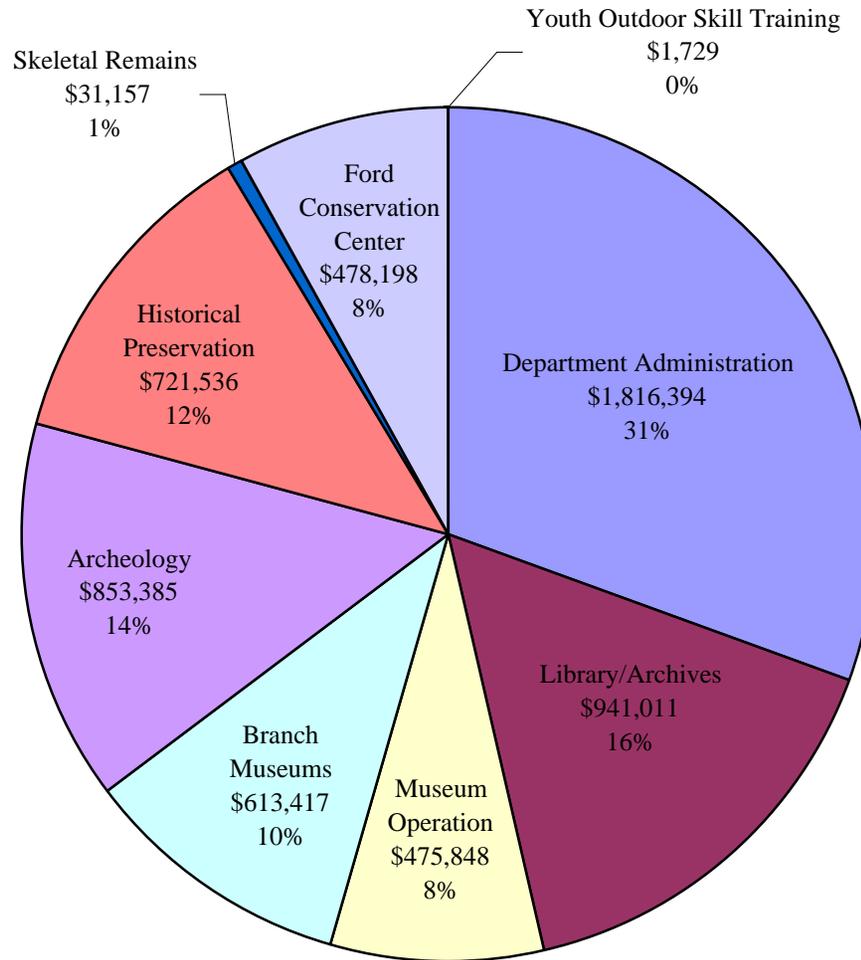
For the Fiscal Years Ended June 30, 2003 through 2007

	2003	2004	2005	2006	2007
Thomas P. Kennard House	1,575	1,908	1,648	1,391	1,593
John G. Neihardt State Historic Site	2,189	1,860	1,756	1,532	1,264
Fort Robinson Museum	13,003	11,503	10,830	11,438	11,371
Neligh Mill State Historic Site	2,730	1,771	1,976	1,599	2,056
Willa Cather State Historic Site	9,723	12,530	11,829	6,693	4,292
Senator George Norris State Historic Site	1,035	1,172	130	270	977
Chimney Rock National Historic Site	30,513	26,971	24,513	26,568	26,678
Museum of Nebraska History	23,314	29,864	27,735	27,267	24,899
Total	84,082	87,579	80,417	76,758	73,130

NEBRASKA STATE HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES
For the Fiscal Year Ending June 30, 2007



**NEBRASKA HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES
For the Fiscal Year Ending June 30, 2007**



**Total Expenditures
\$5,932,675**