

**ATTESTATION REPORT  
OF THE  
NEBRASKA STATE FIRE MARSHAL  
JULY 1, 2006 THROUGH JUNE 30, 2007**

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**Issued on April 4, 2008**

NEBRASKA STATE FIRE MARSHAL

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# NEBRASKA STATE FIRE MARSHAL

## **BACKGROUND**

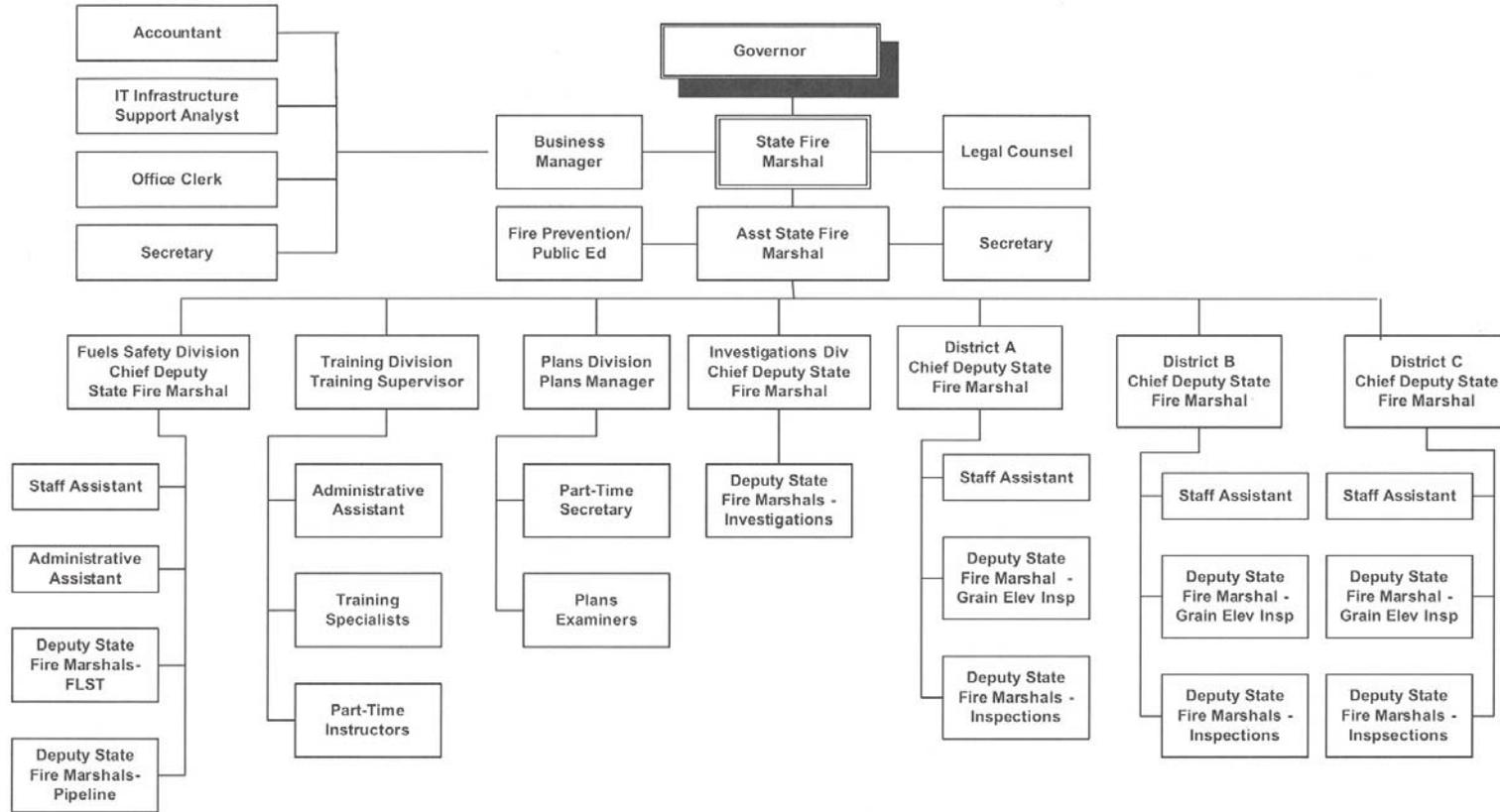
The Nebraska State Fire Marshal's office was created by a Legislative Act in 1909 which was known as the "Fire Commission Law." The State Fire Marshal is responsible for reviewing blueprints of all buildings constructed and remodeled in the State for compliance with fire safety and accessibility codes; conducting fire safety inspections of buildings, pipelines, and storage tanks; investigating fires and explosions; regulating fireworks; and providing training to the State's emergency responders. A nine-member Nebraska Fire Safety Appeals Board assists the Fire Marshal and hears appeals of Fire Marshal orders.

## **MISSION STATEMENT**

The State Fire Marshal's mission is to provide measures for life and property protection from fire, environmental concerns, building accessibility, and homeland security through education, inspections, training, and response.

# NEBRASKA STATE FIRE MARSHAL

## ORGANIZATIONAL CHART



**MAIN OFFICE:** 246 S 14th Street  
Lincoln, NE 68508-1804  
(402) 471-2027  
FAX: (402) 471-3118

**DISTRICT A:** 246 South 14th Street  
Lincoln, NE 68508-1804  
(402) 471-2590  
FAX: (402) 471-3118

**DISTRICT B:** 438 West Market  
Albion, NE 68620-1241  
(402) 395-2164  
(402) 395-2165  
FAX: (402) 395-2400

**DISTRICT C:** Craft State Office Building  
200 South Silber  
North Platte, NE 69101-4200  
(308) 535-8181  
FAX: (308) 535-8175

**TRAINING DIVISION:** 2410 N Wheeler Ave, Suite 112  
Grand Island, NE 678801-2358  
(308) 385-6892  
FAX: (308) 385-6890

**FUELS DIVISION:** 246 South 14th Street  
Lincoln, NE 68508-1804  
(402) 471-9465  
FAX: (402) 471-1024

NEBRASKA STATE FIRE MARSHAL

**EXIT CONFERENCE**

An exit conference was held March 19, 2008, with the Agency to discuss the results of our examination. Those in attendance for the Nebraska State Fire Marshal were:

<b>NAME</b>	<b>TITLE</b>
John Falgione	State Fire Marshal
Cathy Wann	Business Manager
Jim Heine	Assistant State Fire Marshal
Regina Shields	Legal Counsel
Deb Hostetler	Accountant I
Lynda Roesler	State Accounting

## NEBRASKA STATE FIRE MARSHAL

### SUMMARY OF COMMENTS

During our examination of the Nebraska State Fire Marshal (Agency), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. **Cash Fund Balances:** The State Fire Marshal Cash Fund (Fund) balance increased from \$740,826 at June 30, 2006, to \$930,748 at June 30, 2007. The Fund balance appeared excessive as it was over three times the Fund's total fiscal year 2007 expenditures.
2. **Control Over Manual Receipts:** The Lincoln office did not have adequate control of manual receipts issued by offices outside of Lincoln.
3. **Fixed Assets:** Fixed asset additions tested were not correctly recorded on NIS.
4. **Contracts:** The one service contract we tested was not reviewed by legal counsel, was not entered into NIS, and basis for the vendor selection was not on file. The contract was for \$8,800.
5. **Incorrect Sick Payoff:** An employee who qualified for a sick leave payoff upon termination was underpaid 40 hours, which totaled \$748.
6. **NIS Authorization:** An employee was given NIS security access to high-level payroll functions despite their lack of involvement in the payroll process.

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 Agency 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. 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 FIRE MARSHAL

## COMMENTS AND RECOMMENDATIONS

### 1. Cash Fund Balances

Good fiscal policy and good internal control requires fund balances be periodically reviewed and maintained at reasonable levels.

The State Fire Marshal Cash Fund (Fund) balance increased from \$740,826 at June 30, 2006, to \$930,748 at June 30, 2007. The Fund balance appeared excessive as it was over three times the Fund's total fiscal year 2007 expenditures.

We also noted the balances of the Pipeline Safety Cash Fund and the Underground Storage Tank Cash Fund were \$607,451 and \$599,847, respectively. These balances were 2.5 and 2.4 times the total expenditures of each fund for the fiscal year, respectively. It should be noted these fund balances either did not increase or increased by a minimal amount during fiscal year 2007.

This comment was noted in the Agency's prior report.

The excessive fund balance in the State Fire Marshal Cash Fund may indicate administrative costs were not properly charged to the Fund throughout the fiscal year. It may also indicate fees were too high or appropriations were excessive.

We recommend the Agency review cash fund balances on a regular basis. A review should ensure costs are properly allocated to the funds and also ensure revenues being generated are not due to fees being overcharged. We further recommend the Agency take steps to reduce balances to a reasonable level.

*Agency's Response: The Fire Marshal Agency agrees that the Fire Marshal cash fund balance appears excessive; however, this was planned to enable the use of a mixture of cash funds and federal funds to hire three additional health care inspectors to meet federal inspection compliance requirements. Due to the differences in the Federal and State fiscal years, we have not yet been able to accomplish additional FTE and appropriations for the additional employees. Prior approval was granted by the federal government and Governor to add the positions, but Legislative approval is also necessary to add spending authority and three FTE's. This proposal just recently received Legislative approval. These additional positions will be paid from the cash funds and reimbursed a portion of their salaries and operating expenses for the federal portion of the inspections from federal funds.*

*We also agree that administrative costs were not properly allocated to the Fund throughout the fiscal year and have made changes to correct this.*

*The Pipeline Safety Cash Fund and Underground Storage Tank Cash Fund are used for matching the federal dollars. Since the Pipeline Safety Program is a matching program, we initially pay expenses with cash funds. The Department of Transportation reimburses the*

NEBRASKA STATE FIRE MARSHAL

COMMENTS AND RECOMMENDATIONS

1. **Cash Fund Balances** (Concluded)

*Agency's Response, Concluded:*

*expenses either mid-year or once a calendar year. The reimbursements are then deposited into the Pipeline Safety Cash Fund. We will continue to monitor the cash fund to ensure there is enough on hand to pay initial expenses and our portion of the match, while ensuring the fund is not excessive.*

*The Underground Storage Tank Program receives funding from a grant with cash match requirements. The Federal granting agency has increased inspection compliance requirements for Underground Storage Tank inspections and permission is being requested to hire additional staff to meet these requirements. This request is also being requested through the Legislative process. We expect to hire the additional staff as soon as possible after the 2008 Legislative session, which should decrease the balance in the Underground Storage Tank Cash fund.*

2. **Control Over Manual Receipts**

When receipts are processed through a centralized location, good internal controls require receipts issued at multiple locations be pre-numbered. As these receipts are received, the centralized location should ensure they are in sequential order and all are accounted for.

Agency receipts were processed through a centralized location at the Lincoln office. The Lincoln office did not ensure manual receipts issued by offices outside of Lincoln were in sequential order. We noted the North Platte District office receipts were not sequential.

Without proper controls over receipting functions, there is an increased risk of asset misappropriation.

We recommend the central office in Lincoln ensure manual receipts issued by outside offices are in sequential order.

*Agency's Response: We agree that the central office in Lincoln be responsible for ensuring manual receipts issued by district offices are in sequential order and have taken measures to correct this.*

*The Lincoln office will maintain control of receipt books used by district offices. Only one receipt book will be sent to each district office with beginning and ending receipt numbers recorded in Lincoln. Periodic review by the Lincoln office will ensure that manual receipts are in sequential order.*

NEBRASKA STATE FIRE MARSHAL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Fixed Assets**

The Nebraska Information System (NIS) is the accounting system for the State. Per the NIS training manual for Fixed Assets, “You must create an asset master for every asset that you want to manage in the NIS Fixed Assets system. When you create asset master records, you establish the following basic information about each asset: Tag numbers to uniquely identify the asset ... The cost account for the asset.”

We tested five fixed asset additions and noted four were incorrectly recorded on NIS. We then selected two additional documents where fixed assets were to be added to NIS. We again noted errors in recording assets to NIS on each of those documents. Specifically, we noted the following: Fifteen transceivers were entered as one item with one tag number, five radios were entered as one item with one tag number, and three transport trailers were entered as one item with one tag number. A travel trailer costing \$51,636 was entered with a cost of \$9,231. A metal trailer costing \$1,200 was entered with a cost of \$2,400. A computer costing \$2,776 was entered with a cost of \$5,552.

When rules regarding fixed asset entry on NIS are not properly followed, such assets become incorrectly recorded on the State’s accounting system, creating financial reporting errors and increasing the risk of loss of State assets.

We recommend the Agency implement procedures to ensure fixed assets are correctly added to the NIS fixed asset ledger.

*Agency’s Response: Actions have been taken to correct the issues of duplicate costs. We agree that a better method of ensuring fixed assets are correctly added to the NIS fixed asset ledger is needed.*

**4. Contracts**

Good business practices require all contracts be reviewed by legal counsel to ensure the State’s best interests are being met. Neb. Rev. Stat. Section 73-503(1) R.S.Supp., 2003 states, “All state agencies shall process and document all contracts for services through the state accounting system.” Neb. Rev. Stat. Section 73-505 R.S.Supp., 2003 states, “State agency directors shall be responsible for maintaining accurate documentation of the process used for selection of all contracts for services and for ensuring and documenting that services required under the contract are being performed in compliance with the terms of the contract for services. Such documentation shall be kept with each contract for services.”

The one service contract we tested did not have a documented review by legal counsel, was not entered into NIS, and basis for the vendor selection was not on file. The contract was for \$8,800.

NEBRASKA STATE FIRE MARSHAL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Contracts (Concluded)**

Without proper review, the Agency may enter into a contract with language detrimental to the agency or the State. Without procedures to comply with State statute, there is an increased risk for the misuse for State Funds.

We recommend the Agency document legal counsel's review of contracts. We further recommend the Agency ensure all service contracts are entered into NIS. Also, we recommend the Agency ensure all service contracts have adequate documentation of the basis for selection of the vendor on file.

*Agency's Response: All contracts are currently reviewed by legal counsel. Agency legal counsel will document the review process. Service contracts will be entered into NIS and adequate documentation of the basis for selection of the vendor will be maintained in a central location.*

**5. Incorrect Sick Payoff**

The Nebraska Association of Public Employees (NAPE) labor contract Section 14.14 states, "All sick leave shall be forfeited upon separation from employment, except that an employee age 55 or above, or of a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, or at death, shall receive a one-time payment of one quarter of his/her accumulated sick leave not to exceed 60 days."

An employee who qualified for a sick leave payoff upon termination was incorrectly paid. The employee received a sick leave payoff of 55 days, but should have been paid 60 days of sick leave. The employee was underpaid 40 hours which totaled \$748.

The Agency was not in compliance with the labor contract.

We recommend the Agency implement procedures to ensure termination payments are done in accordance with the applicable labor contract. We further recommend the error noted be corrected.

*Agency's Response: The Fire Marshal's office is covered by three labor contracts NAPE, SLEBC and Personnel Rules and Regulations. We will consult the appropriate labor contract when processing termination payments. Correction has been taken and the family of the deceased employee has been paid for the discrepancy. We recommend that the policy in the State Accounting manual for payments of deceased employees be amended to read, "The sick leave payment is one-fourth of the accumulated sick leave. Refer to the employee's labor*

NEBRASKA STATE FIRE MARSHAL

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Incorrect Sick Payoff** (Concluded)

*Agency's Response, Concluded:*

*contract for maximum number of days allowed for payout." The current manual states that payment is one-fourth of the accumulated unused sick leave (not to exceed 55 days for contract employees). The suggested language would clarify the term 'contract employees' not only for the Fire Marshal's office but for all state agencies.*

**6. NIS Authorization**

Good internal controls require access to payroll be limited to those employees who are involved with the process and have a need for access.

An employee was given access to high-level payroll functions when NIS went live in January of 2003 to help the Agency set up payroll. After the initial set up, the employee no longer needed access to high-level payroll functions, but continued to have such access through fiscal year 2007.

When employees have improper access to certain payroll functions there is an increased risk of loss or misuse of State funds.

We recommend the Agency review NIS authorizations to ensure NIS functions are restricted to those employees who require such access.

*Agency's Response: Agree. Correction has been made and NIS authorization will be more closely monitored.*



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA STATE FIRE MARSHAL

### INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Fire Marshal  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska State Fire Marshal (Agency) for the fiscal year ended June 30, 2007. The Agency's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska State Fire Marshal for the fiscal year ended June 30, 2007, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2008, on our consideration of the Nebraska State Fire Marshal'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 State Fire Marshal, others within the Agency, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

March 31, 2008

  
Assistant Deputy Auditor

NEBRASKA STATE FIRE MARSHAL  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2007

	General Fund 10000	Fire Insurance Tax Fund 21220	Pipeline Safety Fund 21230	State Fire Marshal Fund 21250
<b>REVENUES:</b>				
Appropriations	\$ 3,699,736	\$ -	\$ -	\$ -
Intergovernmental	9,276	-	102,711	110,057
Sales and Charges	-	-	115,025	335,161
Miscellaneous	-	-	26,696	36,361
<b>TOTAL REVENUES</b>	<b>3,709,012</b>	<b>-</b>	<b>244,432</b>	<b>481,579</b>
<b>EXPENDITURES:</b>				
Personal Services	2,966,425	-	199,966	139,135
Operating	355,617	-	9,964	59,526
Travel	355,758	-	35,355	53,555
Capital Outlay	21,936	-	-	42,674
Government Aid	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>3,699,736</b>	<b>-</b>	<b>245,285</b>	<b>294,890</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,276	-	(853)	186,689
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	136	-	-	69
Deposit to General Fund	(9,412)	-	-	-
Deposit to/from Common Fund	-	-	-	-
Operating Transfers In	-	-	-	3,164
Operating Transfers Out	-	(3,164)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(9,276)</b>	<b>(3,164)</b>	<b>-</b>	<b>3,233</b>
Net Change in Fund Balances	-	(3,164)	(853)	189,922
<b>FUND BALANCES, JULY 1, 2006</b>	<b>8,754</b>	<b>3,164</b>	<b>608,304</b>	<b>740,826</b>
<b>FUND BALANCES, JUNE 30, 2007</b>	<b>\$ 8,754</b>	<b>\$ -</b>	<b>\$ 607,451</b>	<b>\$ 930,748</b>
<b>FUND BALANCES CONSIST OF:</b>				
General Cash	\$ -	\$ -	\$ 607,468	\$ 888,505
Petty Cash	-	-	-	50
NSF Items	-	-	-	542
Deposits with Vendors	8,754	-	-	4,120
Accounts Receivable Invoiced	-	-	-	91
Due From Other Funds	-	-	-	37,500
Due to Vendors	-	-	(17)	(60)
Due to Fund	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 8,754</b>	<b>\$ -</b>	<b>\$ 607,451</b>	<b>\$ 930,748</b>

The accompanying notes are an integral part of the schedule.

Underground Storage Tank Fund 22110	Petroleum Release Fund 28490	Fire Marshal Federal Fund 41210	<b>Totals (Memorandum Only)</b>
\$ -	\$ -	\$ -	\$ 3,699,736
-	524,855	316,118	1,063,017
185,642	-	-	635,828
27,508	-	3,006	93,571
<u>213,150</u>	<u>524,855</u>	<u>319,124</u>	<u>5,492,152</u>
150,668	-	154,329	3,610,523
42,330	-	74,109	541,546
18,651	-	45,947	509,266
5,083	-	52,791	122,484
28,410	-	-	28,410
<u>245,142</u>	<u>-</u>	<u>327,176</u>	<u>4,812,229</u>
(31,992)	524,855	(8,052)	679,923
39	-	-	244
-	-	-	(9,412)
-	(524,855)	-	(524,855)
50,000	-	-	53,164
-	-	-	(3,164)
<u>50,039</u>	<u>(524,855)</u>	<u>-</u>	<u>(484,023)</u>
18,047	-	(8,052)	195,900
<u>581,800</u>	<u>-</u>	<u>123,588</u>	<u>2,066,436</u>
<u>\$ 599,847</u>	<u>\$ -</u>	<u>\$ 115,536</u>	<u>\$ 2,262,336</u>
\$ 599,847	\$ -	\$ 153,906	\$ 2,249,726
-	-	-	50
-	-	-	542
-	-	-	12,874
-	-	-	91
-	-	-	37,500
-	-	(870)	(947)
-	-	(37,500)	(37,500)
<u>\$ 599,847</u>	<u>\$ -</u>	<u>\$ 115,536</u>	<u>\$ 2,262,336</u>

NEBRASKA STATE FIRE MARSHAL

**NOTES TO THE SCHEDULE**

For the Fiscal Year Ended June 30, 2007

**1. Criteria**

The accounting policies of the Nebraska State Fire Marshal (Agency) 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 accounts titled Due to Fund and Due to Vendors for the Agency. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

The Agency had accounts receivable not included in the Schedule of \$90,898 from various fees and inspections completed during the fiscal year. DAS did not require the Agency to record their receivables on the general ledger and these amounts are not reflected in revenues or fund balances on the Schedule. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

NEBRASKA STATE FIRE MARSHAL

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Continued)

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

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

**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** – accounts 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.

The major revenue account classifications established by State Accounting used by the Agency 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.

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

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

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

NEBRASKA STATE FIRE MARSHAL

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

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

**Capital Outlay** – Expenditures which result in the acquisition of or an addition to 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 Agency include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to 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 Agency's funds at June 30, 2007, included amounts recorded in Due to Fund and Due to Vendors. The activity of these accounts are 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.

**2. Reporting Entity**

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

The Nebraska State Fire Marshal is part of the primary government for the State of Nebraska.

NEBRASKA STATE FIRE MARSHAL

**NOTES TO THE SCHEDULE**

(Continued)

**3. Totals**

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

**4. General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council 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. Capital Assets**

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

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

For the CAFR, the State requires the Agency 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. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of three to ten years.

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

NEBRASKA STATE FIRE MARSHAL

**NOTES TO THE SCHEDULE**

(Continued)

**5. Capital Assets (Concluded)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	<u>\$ 1,492,032</u>	<u>\$ 134,299</u>	<u>\$ 12,600</u>	\$ 1,613,731
Less accumulated depreciation for:				
Equipment				<u>1,017,197</u>
Total capital assets, net of depreciation				<u>\$ 596,534</u>

**6. Transfers**

Transfers include \$50,000 from the Petroleum Release Remedial Action Fund to the Underground Storage Tank Fund per 2006 Neb. Laws LB 1060 and transfer of the balance in the Fire Insurance Tax Fund to the State Fire Marshal Cash Fund per Neb. Rev. Stat. Section 81-523 R.S.Supp., 2006.

**7. Deposits to Common Fund**

Neb. Rev. Stat. Section 66-1520 R.R.S. 2003 requires the Nebraska State Fire Marshal to collect a petroleum release remedial action fee that is remitted to the State Treasurer for deposit into the Petroleum Release Remedial Action Fund. The collections are reflected as Sales and Charges and as Deposits to Common Fund to the Petroleum Release Remedial Action Fund. The Nebraska Department of Environmental Quality maintains and is responsible for this Fund.

**8. 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 Agency. 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 Agency's balances; however, State Accounting believes it will not have a material impact on the Agency's operations.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA STATE FIRE MARSHAL  
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Nebraska State Fire Marshal  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska State Fire Marshal as of and for the year ended June 30, 2007, and have issued our report thereon dated March 31, 2008. 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 Fire Marshal's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska State Fire Marshal's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska State Fire Marshal's internal control over financial reporting.

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 Nebraska State Fire Marshal'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 Nebraska State Fire Marshal's financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska State Fire Marshal's internal control.

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 schedule will not be prevented or detected by the Nebraska State Fire Marshal's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska State Fire Marshal's financial schedule is 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional items that we reported to management of the Nebraska State Fire Marshal in the Comments Section of this report as Comment Number 1 (Cash Fund Balances), Comment Number 2 (Control Over Manual Receipts), Comment Number 3 (Fixed Assets), Comment Number 4 (Contracts), Comment Number 5 (Incorrect Sick Payoff), and Comment Number 6 (NIS Authorization).

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

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

March 31, 2008

  
Assistant Deputy Auditor