

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

JULY 1, 2007 THROUGH JUNE 30, 2008

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Issued on March 31, 2009

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

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NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

BACKGROUND

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

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

The Board meets when necessary to approve and deny license applications and to take actions on complaints. The Board also conducts hearings for new motor vehicle franchise applications, for the termination of any franchise, and for advertising violations. These powers were granted to the Board in order to prevent fraud and other abuses upon the citizens of the State.

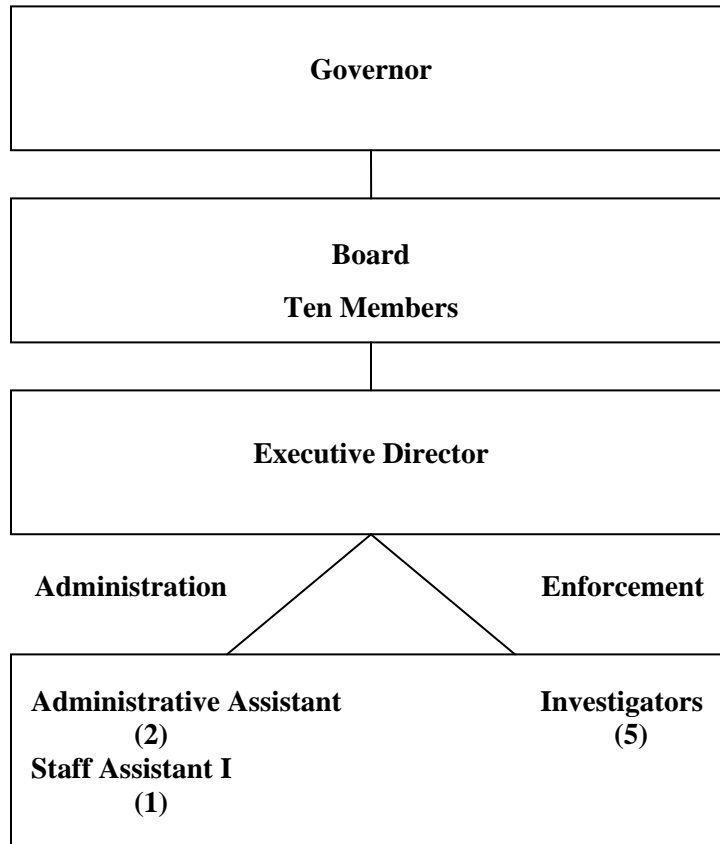
At June 30, 2008, the office and field staff consisted of an Executive Director, two Administrative Assistants, a Staff Assistant, and five Field Investigators who investigate complaints and inspect dealerships for compliance with the law.

MISSION STATEMENT

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

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

ORGANIZATIONAL CHART



NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

EXIT CONFERENCE

An exit conference was held March 9, 2009, with the Board to discuss the results of our examination. Those in attendance for the Nebraska Motor Vehicle Industry Licensing Board were:

NAME	TITLE
William Jackson	Executive Director
Beverly Neth	Director, Department of Motor Vehicles and Motor Vehicle Industry Licensing Board Chair
Joan Zachek	Administrative Assistant

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

SUMMARY OF COMMENTS

During our examination of the Nebraska Motor Vehicle Industry Licensing Board (Board), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

- 1. Controls Over Receipts:** The Board did not have adequate controls to ensure monies received for licenses and permits were properly recorded and deposited with the State Treasurer. Additionally, for special permits, one individual was able to open the mail, process the special permits, and create the deposit document in NIS without compensating controls. A total of \$9,150 was collected for special permits and \$546,430 was collected for all other licenses issued during fiscal year 2008.
- 2. Reconciliation of Licenses:** The Board did not perform a reconciliation of licenses issued to the licenses entered into the Board's computer system. The calculated number of licenses issued was 11,767; however, according to the system only 11,527 licenses were issued. After accounting for voids and licenses not received from the supplier the variance was reduced to 37 licenses.
- 3. Fines and Penalties:** There is a conflict between the Board statutes and the Nebraska Constitution. If fines are deposited into the Permanent School Fund as provided by statute, the monies are not being distributed as required by the Nebraska Constitution. The Board deposited \$138,000 during fiscal year 2008 into the Permanent School Fund for fines.

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 Board to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Board declined to respond.

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

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

1. Controls Over Receipts

Good internal control requires an adequate segregation of duties or compensating controls to ensure no one individual is able to both perpetrate and/or conceal errors and/or irregularities.

There was a lack of initial control over monies received for licenses and permits issued by the Board. The Board did not have an initial listing or log of monies received to compare to the deposit document to ensure all monies received were properly deposited with the State Treasurer. Additionally, for special permits (issued for off-site sales events), one individual was able to open the mail, process the special permits, and create the deposit in the Nebraska Information System (NIS). Special permit numbers were tracked through a spreadsheet available to office staff of the Board. As a special permit was issued, an individual used the next sequential number and entered the appropriate information. However, there were no controls to ensure all special permits were recorded. An individual could issue a special permit using a duplicate number and not record the issuance. There was a total of \$9,150 collected for special permits and \$546,430 collected for all other licenses issued during fiscal year 2008. This was a prior year comment.

Without controls to ensure monies received are properly deposited, there is an increased risk for loss or misuse of State funds.

We recommend the Board implement procedures to ensure monies received are properly deposited. We recommend two individuals open the mail and keep a log of the monies received. The log should then be compared to the deposit document to ensure all monies received were properly deposited with the State Treasurer. Additionally, we recommend the procedure be documented as it is performed.

2. Reconciliation of Licenses

Good internal control requires procedures be in place which ensure the number of licenses issued agrees to the number of licenses recorded in the Board's records.

The Board did not perform a reconciliation of licenses issued to the licenses entered into the Motor Vehicle Industry Licensing Board computer system at the end of the fiscal year. The calculated number of licenses issued during fiscal year 2008 was 11,767; however, according to the system only 11,527 licenses were issued. After accounting for voids and licenses not received from the supplier, the variance was reduced to 37 licenses. This was a prior year comment.

Without a reconciliation of licenses issued to the computer system report, the risk of loss or misuse of State funds increases.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Reconciliation of Licenses (Concluded)

We recommend the Board implement procedures to have an individual reconcile licenses issued to the licenses recorded in the computer system; if this individual cannot be independent from the process of issuing licenses a second individual should review the reconciliation. Additionally, we recommend the Board ensure the individual(s) involved in the reconciliation document their review and all supporting records be retained.

3. Fines and Penalties

The Nebraska Constitution Article VII, Section 5(1) states, “. . . all fines, penalties, and license money arising under the general laws of the state . . . shall belong and be paid over to the counties respectively where the same may be levied or imposed . . . All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue . . .”

Neb. Rev. Stat. § 79-1035.01 (Reissue 2003) created the Permanent School Fund and states the principal balance of the fund “shall be held and invested in perpetuity by the state in trust for the support of its common schools. The annual interest and other income, but not the principal, is subject to use for the support and maintenance of the common schools in each public school district of the state as the Legislature provides in accordance with Article VII, Section 9, of the Constitution of Nebraska.”

Neb. Rev. Stat. § 60-1415 (Reissue 2004) directs the Board to deposit fines into the Permanent School Fund.

During fiscal year 2008, the Board deposited \$138,000 into the Permanent School Fund for fines.

There is a conflict between the statutes governing the Board and the Nebraska Constitution. If fines are deposited into the Permanent School Fund as provided by statute, the monies are not being distributed as required by the Nebraska Constitution. This was a prior year comment.

We recommend the Board request a legal opinion from the Attorney General requesting guidance for the appropriate fund to deposit all fines. We also recommend the Board work with the Legislature to resolve the conflict between State statutes and the Nebraska Constitution.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Motor Vehicle Industry Licensing Board
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Motor Vehicle Industry Licensing Board (Board) for the fiscal year ended June 30, 2008. The Board'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 Motor Vehicle Industry Licensing Board for the fiscal year ended June 30, 2008, 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 24, 2009, on our consideration of the Nebraska Motor Vehicle Industry Licensing Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts 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 Nebraska Motor Vehicle Industry Licensing Board, others within the Board, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

March 24, 2009

Timothy J. Channer, CPA
Assistant Deputy Auditor

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2008

	Motor Vehicle Industry Licensing Board Fund 24010	Permanent School Fund 63340	Totals (Memorandum Only)
REVENUES:			
Sales & Charges	\$ 613,786	\$ -	\$ 613,786
Miscellaneous	12,498	138,000	150,498
TOTAL REVENUES	626,284	138,000	764,284
EXPENDITURES:			
Personal Services	508,280	-	508,280
Operating	67,098	-	67,098
Travel	46,320	-	46,320
TOTAL EXPENDITURES	621,698	-	621,698
Excess of Revenues Over Expenditures	4,586	138,000	142,586
OTHER FINANCING (USES):			
Deposit to/from Common Fund (Note 6)	-	(138,000)	(138,000)
TOTAL OTHER FINANCING (USES)	-	(138,000)	(138,000)
Net Change in Fund Balances	4,586	-	4,586
FUND BALANCES, JULY 1, 2007	212,772	-	212,772
FUND BALANCES, JUNE 30, 2008	\$ 217,358	\$ -	\$ 217,358
FUND BALANCES CONSIST OF:			
General Cash	\$ 216,616	\$ -	\$ 216,616
Deposits with Vendors	742	-	742
TOTAL FUND BALANCES	\$ 217,358	\$ -	\$ 217,358

The accompanying notes are an integral part of the schedule.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2008

1. Criteria

The accounting policies of the Nebraska Motor Vehicle Industry Licensing Board (Board) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (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. § 81-1111(1) (Reissue 2008), The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes 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, 2008, include only those payables posted in the general ledger before June 30, 2008, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2008, **does not** include amounts for goods and services received before June 30, 2008, which had not been posted to the general ledger as of June 30, 2008.

The Board had no accounts receivable at June 30, 2008. 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 Board are:

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.

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.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

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

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

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

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

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

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

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. 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 Financing Sources – Deposits to/from common fund.

2. Reporting Entity

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

The Nebraska Motor Vehicle Industry Licensing Board is part of the primary government for the State of Nebraska.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

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 Board 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 Board to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful life of 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 years.

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

Capital asset activity of the Board recorded in the State Accounting System for the fiscal year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 5,089	\$ -	\$ -	\$ 5,089
Less accumulated depreciation for:				
Equipment				<u>5,089</u>
Total capital assets, net of depreciation				<u>\$ -</u>

6. Deposits to/from Common Funds

Deposits to the Permanent School Fund include administrative fines assessed on violations required to be deposited in the fund by Neb. Rev. Stat. § 60-1415(2) (Reissue 2004).

7. 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 Board. 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 effect of such adjustment, if any, on the Board’s balances; however, State Accounting believes it will not have a material impact on the Board’s operations.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

**NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD
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 Motor Vehicle Industry Licensing Board
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Motor Vehicle Industry Licensing Board as of and for the year ended June 30, 2008, and have issued our report thereon dated March 24, 2009. 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 Motor Vehicle Industry Licensing Board'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 Motor Vehicle Industry Licensing Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Motor Vehicle Industry Licensing Board'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 Motor Vehicle Industry Licensing Board'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 Motor Vehicle Industry Licensing Board's financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska Motor Vehicle Industry Licensing Board'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 Motor Vehicle Industry Licensing Board'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 Motor Vehicle Industry Licensing Board's financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, 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 Motor Vehicle Industry Licensing Board in the Comments Section of this report as Comment Number 1 (Controls Over Receipts), Comment Number 2 (Reconciliation of Licenses), and Comment Number 3 (Fines and Penalties).

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

This report is intended solely for the information and use of management, the Nebraska Motor Vehicle Industry Licensing Board, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

March 24, 2009

Timothy J. Channer, CPA
Assistant Deputy Auditor

NEBRASKA MOTOR VEHICLE INDUSTRY LICENSING BOARD

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, 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 schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

