

**ATTESTATION REPORT
OF THE
NEBRASKA SECRETARY OF STATE
JULY 1, 2012 THROUGH JUNE 30, 2013**

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the Auditor of Public Accounts.**

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Issued on October 21, 2013

The Nebraska Auditor of Public Accounts Office was created by the first territorial Legislature in 1855. The Auditor was the general accountant and revenue officer of the territory. Those duties have expanded and evolved over the decades, as modern accounting theory has been implemented. The office of the Auditor of Public Accounts is one of six offices making up the executive branch of Nebraska State Government. Mike Foley was elected November 2006 and re-elected November 2010 as the Nebraska Auditor of Public Accounts. He was sworn into office on January 4, 2007, as Nebraska's 24th State Auditor.

The mission of the Nebraska Auditor of Public Accounts' office is to provide independent, accurate, and timely audits, reviews, or investigations of the financial operations of Nebraska State and local governments.

We will provide this information, as required by statute, to all policymakers and taxpayers through written reports and our Internet-based Budget and Audit databases.

We will maintain a professionally prepared staff, utilizing up-to-date technology, and following current Government Auditing Standards.

Audit Staff Working On This Examination

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NEBRASKA SECRETARY OF STATE

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NEBRASKA SECRETARY OF STATE

BACKGROUND

The authority and responsibilities of the Nebraska Secretary of State, an elected official, are derived from the State Constitution and Nebraska statutes. The office of the Nebraska Secretary of State (Office), created in 1867, administers laws in the areas of elections, business entities, trademarks and trade names, and State records management. The Office issues licenses to private detectives, notaries, debt management companies, truth and deception examiners, collection agencies, and registers athlete agents, and civil litigation funding companies. Official filings are maintained in a variety of areas including official bonds and oaths of office, business entity filings, uniform commercial code documents, and other statutory liens.

The Secretary of State is the keeper of the Great Seal of the State of Nebraska and is the repository for the State Constitution, legislative bills, State agency Rules and Regulations, and other official documents of the State.

The programs established to administer the requirements of the Office are:

Program 9 Salary-Secretary of State - to provide compensation for the Secretary of State. The Secretary of State serves in several capacities including Chief Elections Officer, Chief Records Officer, Chief Protocol Officer, and Keeper of the Great Seal; these duties all relate directly to his direct office responsibilities. In addition, the Secretary of State serves by constitutional or statutory direction as a member of the Pardons Board, Chairman of the Nebraska Real Estate Commission, Chairman of the State Records Board, a permanent member of the Accountability and Disclosure Commission, Chairman of the Collection Agency Review Board, Non Voting, Ex Officio member of the Nebraska Brand Committee, and Secretary of the State Canvassing Board.

Program 22 Departmental Administration - provides the overall coordination of Office operations. This program administers and processes the Office's budget and allocation of program funds; provides the management functions to insure legality, efficiency and coordination of office duties; directs the hiring and firing of personnel, the updating of office procedure manuals and organization charts, the assignment of duties to staff members, and the human resources capabilities to insure consistency and fairness in employment policies and employee benefits; administers its protocol duties to provide goodwill outreach to foreign countries to promote international exchanges with Nebraska for educational, cultural, and commercial purposes. Also included in the Administrative program are Licensing Services. These services include administering and processing the licensing duties of the office, including private detectives, private investigators, notary publics, polygraph and voice stress examiners, inventors, debt management agencies, Address Confidentiality duties, Collection Agency oversight, processing authentications and apostilles, and the processing and recording of State agency Rules and Regulations.

Program 45 Election Administration - responsible, with the assistance of local election officials, for the conduct of elections within the State. This includes overall responsibility for the registration of voters, candidate filings, ballot design, and compilation of results as well as ensuring compliance with various Federal mandates such as the Voting Rights Act, Americans with Disabilities Act (as it applies to polling places), the National Voter Registration Act, and the

NEBRASKA SECRETARY OF STATE

BACKGROUND

(Concluded)

recently passed (2003) “Help America Vote Act.” Additional responsibilities of the program include the processing of initiative and referenda petitions, and providing information and materials to the public on the various aspects of the election process.

Program 51 Enforcement of Standards - Corporations - The program’s responsibility is to verify, record, and file all Articles of Incorporation, Certificates of Authority, Trade Names, Trade Marks, Service marks, Limited Liability Partnerships, Limited Liability Companies, Local Cooperative Associations and Limited Cooperative Associations of both domestic and foreign entities doing business in the State of Nebraska. These functions include the processing of any amendments or dissolution of any entity, along with revival certificates.

Program 53 Enforcement of Standards - Collection Agencies - regulates, licenses, and administers bonding requirements for collection agencies and solicitors. Receives and investigates applicants and complaints regarding collection agencies.

Program 86 Enforcement of Standards - Records Management - provides comprehensive records management to all agencies of State government, including higher education, and advises and assists local political subdivisions in implementing records management programs, policies, and procedures. This program also administers the receipts and disbursements of the State Records Board. The Board contracts with Nebraska Interactive, LLC to provide electronic access to public records.

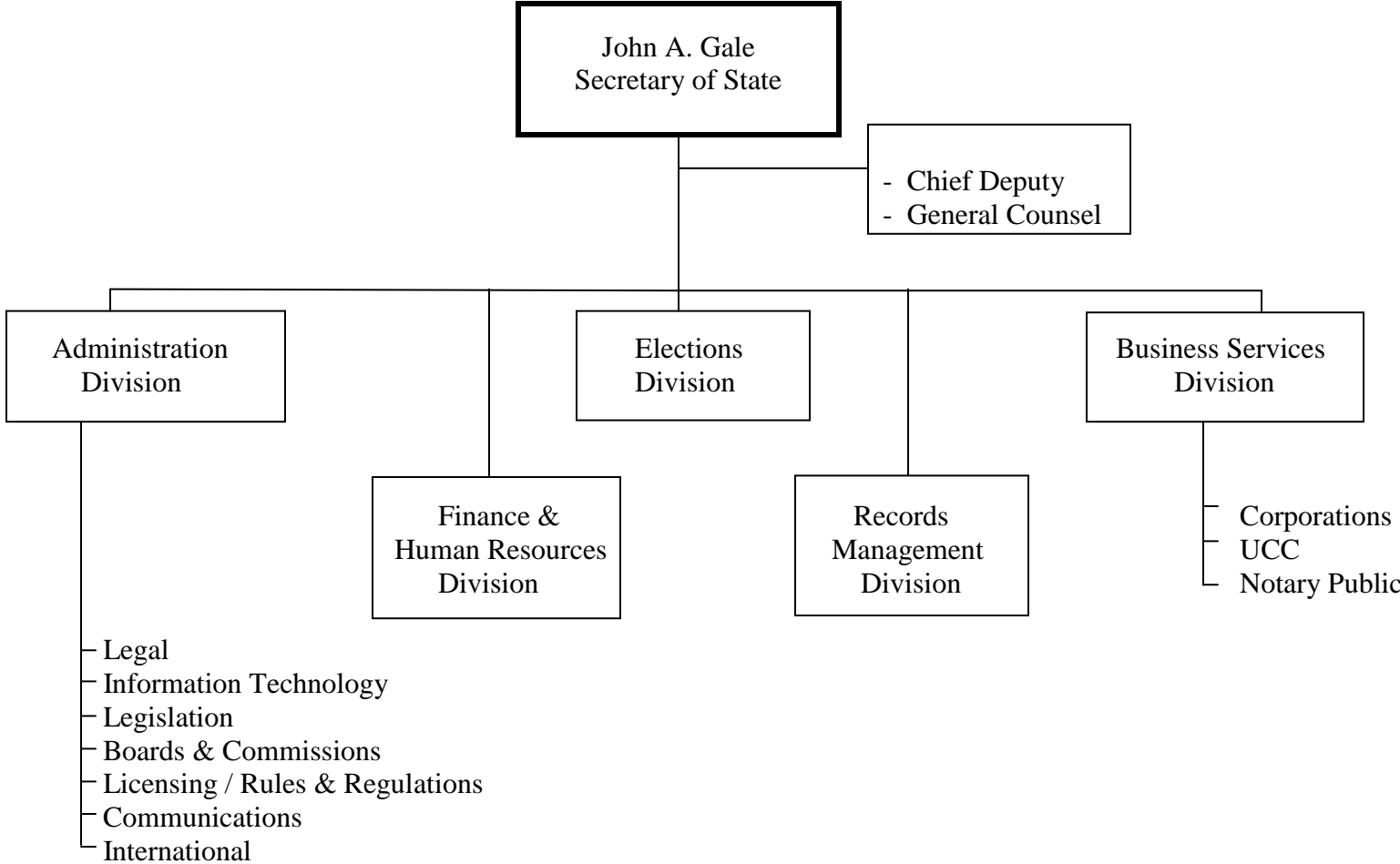
Program 89 Uniform Commercial Code Central Filing - receives, records, and files Uniform Commercial Code (UCC) financing statements to make a public record of secured financial transactions between a debtor and a secured party.

MISSION STATEMENT

The mission of the constitutional office of the Secretary of State is as follows: provide a modern, fair, reliable, accessible, accurate and transparent election system to insure citizen confidence and to encourage citizen participation in democratic elections in Nebraska; to make doing business in Nebraska easier by providing business services to business entities, lenders, and secured parties that are professional, competent, prompt, accurate, and accessible, using modern technologies and trained and skillful staff; securing and protecting the multitude of state agency public records entrusted to its care, and insuring prompt access to such records by the agencies upon demand; acting as a protocol office to receive and honor visiting foreign dignitaries, promoting international contacts that promote goodwill and encourage educational, cultural and commercial ties between Nebraska and foreign countries; assisting the Secretary of State with all necessary assistance to carry out his tasks as a member of numerous boards and commissions.

NEBRASKA SECRETARY OF STATE

ORGANIZATIONAL CHART



NEBRASKA SECRETARY OF STATE

EXIT CONFERENCE

An exit conference was held October 1, 2013, with the Nebraska Secretary of State (Office) to discuss the results of our examination. Those in attendance for the Office were:

NAME	TITLE
Collen Byelick	General Counsel
Suzanne Hinzman	Controller
John Gale	Secretary of State

NEBRASKA SECRETARY OF STATE

SUMMARY OF COMMENTS

During our examination of the Nebraska Secretary of State (Office), we noted certain deficiencies and other operational matters that are presented here.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Nebraska Interactive Receipts/Fees:*** The Office does not have procedures in place to ensure the receipts from Nebraska Interactive are accurate.
2. ***Expenditure Purchasing Policies:*** The Office did not have procedures or documentation to support contracts were competitively bid.
3. ***Internal Control Over Receipts:*** A lack of segregation of duties over receipts was noted for several divisions.
4. ***Review of Tax Filings:*** When domestic and foreign corporate tax filings are sent to the Office, there is no review of the filings to ensure what was reported and paid is correct.
5. ***Capital Assets:*** During testing of capital asset records, we noted assets with incorrect asset values recorded on the State's accounting system, items that had been surplus/sold but had not been removed from the capital asset records, and the Office was not periodically running capital asset reports to ensure the capital asset records were correct.
6. ***Payroll Not in Compliance with OMB Circular A-87:*** One employee tested did not have adequate documentation to support charging Federal funds.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Nebraska Secretary of State.

Draft copies of this report were furnished to the Office to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

NEBRASKA SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS

1. Nebraska Interactive Receipts/Fees

Nebraska Interactive, LLC is the State's contractual vendor for operating and managing the Nebraska.gov Network which is the State's information and communication system created to provide equal electronic access to public information for citizens, businesses, and local governments across Nebraska. The Nebraska.gov Network allows State agencies to provide data to the public and to collect data from constituents.

Through the Nebraska.gov Network, the Office allows the public to perform various searches of corporation and business filings, such as, Articles of Incorporation. Also through the Nebraska.gov Network, entities are able to submit Uniform Commercial Code (UCC) filings, which are primarily security interest reports. Due to the costs incurred to make this information available to the public and to provide the infrastructure to support the online filings, fees are charged. The fee is split among the Office, Nebraska Interactive, and the Nebraska State Records Board (NSRB). The fees charged are based on an agreement between the Office and Nebraska Interactive and must be approved by the NSRB.

When a search or filing is performed, the user is charged a fee on top of the normal filing cost. Fees charged by State agencies are collected by Nebraska Interactive and remitted to the NSRB monthly. The NSRB, of which the Secretary of State serves as the Chairman, then deposits the fees and transfers the funds to the various State agencies. When Nebraska Interactive remits the fees collected, they submit a report to each State agency breaking down how many searches and filings were performed and the amount collected. During the fiscal year, Nebraska Interactive remitted \$1,626,482 for filings and searches of the Office's records.

Sound business practices and a good internal control plan require procedures be in place to review amounts collected and remitted by a third party, as well as, amounts charged for the collection of those receipts to ensure the correct amount is received or charged.

During our testing, we noted the Office was not reviewing the monthly report from Nebraska Interactive to ensure the amounts received were proper. One of the primary reasons a review was not performed was because the Office did not have the capability to verify the data reported was correct. The Office was not aware whether their information system tracked when a search or filing was done through Nebraska Interactive. In addition, we noted no one reviewed the Nebraska Interactive Report to ensure fees charged by Nebraska Interactive were in compliance with the agreement.

Without a review of the support for Nebraska Interactive receipts and charges, there is an increased risk the Office will not receive the correct amount and the public may be charged an incorrect fee.

We recommend the Office implement procedures to review the amounts submitted to the Office as receipts and the fees charged by Nebraska Interactive. This would include reconciling the number of filings received by the Office's systems to the Nebraska Interactive reports, if possible. We also recommend the number of searches reported be reviewed for reasonableness.

NEBRASKA SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Interactive Receipts/Fees (Concluded)

Office's Response: The agency agrees with the recommendation and will implement procedures to more thoroughly review amounts received from Nebraska Interactive from on-line filings and fees. With the current internal information system, an exact reconciliation may not be possible; however we believe an acceptable analytical review of revenues, filings and searches can be performed for reasonableness. The agency anticipates replacing the current Business Services information system within the next two bienniums. Any such replacement system will incorporate appropriate checks and balances to ensure that on-line filings can be reconciled with the internal accounting/filing records.

2. Expenditure Purchasing Policies

Neb. Rev. Stat. § 73-507 (Reissue 2009) exempts the Office from the Department of Administration Services Material Purchasing policies. These policies generally require State agencies to obtain competitive bids for service contracts exceeding \$50,000. Sound business practices also require contracts and purchases be competitively bid and documentation to support the basis of vendor selection be on file.

Our review of expenditures noted the following:

- The Office has not adopted formal purchasing policies and does not follow the Department of Administrative Services Material Purchasing policies.
- Documentation was not available to support two contracts tested had been competitively bid or that the vendor used was the sole provider of the service. The two contracts were for \$193,000 and \$137,817.
- We also noted one vendor was paid over \$50,000 during the fiscal year; however, the Office did not have a contract for the service and there was no documentation to support competitive bids were obtained.
- For two additional vendors tested and paid more than \$10,000 during the fiscal year, the Office did not have documentation to support the lowest bid or the best qualified bidder was selected.

Without adequate purchasing policies and documentation there is an increased risk the Office will not receive the best price for services.

We recommend the Office implement formal policies for the procurement of service contracts. We also recommend the Office maintain documentation to support the basis of vendor selection.

Office's Response: The Nebraska Secretary of State follows all purchasing statutes and procedures that apply to the agency and adheres to and employs sound business practices. However, we do understand the merit of written policies to ensure and document a fair and transparent process for the procurement of contractual services. Therefore, the Secretary of State will develop written policies for the procurement of contractual services by December 31, 2013.

NEBRASKA SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Internal Control Over Receipts

The Office is responsible for multiple functions and receives money from various sources. The Office is responsible for: elections, business registrations, occupational licensing (e.g., notaries and collection agencies), State rules and regulations, records management, international relations, and youth civics programs.

A good internal control plan requires an adequate segregation of duties 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 of duties. Additionally, a good internal control plan requires initial controls over receipts to ensure all amounts received are deposited.

We noted various control weaknesses in the Office's divisions as follows:

- **Business Services Division:** Multiple staff opened the mail and separated the different filings; however, no initial recording of the total money received was created and compared to what was recorded in the information system and ultimately deposited. The Business Services Division had revenues of \$3,090,648 during fiscal year 2013, which included payments received in the mail, paid online, and submitted in person.
- We also noted a lack of segregation of duties over the Uniform Commercial Code (UCC) accounts receivable within the Business Services Division. One individual was responsible for generating the UCC invoices, reviewed the outstanding receivables report, and was able to write off receivables within the system. This individual could also receive and process payments in the UCC system. The UCC collected accounts receivable of \$147,805 during the fiscal year.
- **Licensing and Rules and Regulations Divisions:** Multiple staff opened the mail and separated the different filings; however, no initial recording of the total money received was created and compared to what was entered into their system and deposited. Once staff received the filings they were responsible for entering the information into the Office's system and creating and issuing the license. No individual, separate from the process, compared the amount of licenses issued to the deposits. Receipts for the Licensing and Rules and Regulations Divisions totaled \$167,831 during the fiscal year.
- **Elections Division:** One individual collected receipts, provided the appropriate service, and prepared the deposit. No separate individual reviewed candidate filings to the total amount deposited to ensure the amounts agreed. We also noted the Elections Division did not consistently endorse checks "For Deposit Only" when checks were received. Elections received \$18,799 during the fiscal year.

A similar comment was included in the prior report.

Without initial control and adequate segregation of duties, there is an increased risk of misappropriation of State assets.

NEBRASKA SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Internal Control Over Receipts (Concluded)

We recommend the Office implement procedures to create an initial list of all checks and cash received as the mail is being opened and for all checks to be endorsed "For Deposit Only" upon receipt. We also recommend the Office implement procedures to segregate duties so no one individual is responsible for collecting fees and processing transactions. In instances where a segregation of duties is not possible, we recommend another individual reconcile the deposits to licenses issued or filings received to ensure the proper amount was deposited.

Office's Response: The agency has informed Elections staff that all checks must be endorsed "For Deposit Only" immediately upon receipt. As to segregation of duties, the Secretary of State's office will review current internal controls over receipts to ensure adequate compensating controls are in place in those divisions where additional segregation of duties is not possible. For the Business Services division, the sheer volume of checks received does not make it feasible to prepare a manual check register daily. However, we will develop compensating, analytical procedures to provide for a comparison between daily deposits and revenues recorded in the Corporation and UCC systems.

4. Review of Tax Filings

Neb. Rev. Stat. §§ 21-301 and 21-304, (Reissue 2012) requires each corporation, foreign or domestic, to submit a biennial report and biennial fee to the Secretary of State. For domestic corporations, the biennial report is to include the name of corporation, the amount of paid-up capital stock (stock par value times the number of shares issued), and a brief description of the nature of the corporation's business. Foreign corporations are required to file similar information, except they are to file the value of property owned and used by the foreign corporation in Nebraska and where such property is located rather than the amount of paid up capital stock. The fee charged domestic corporations ranged from \$26 to \$23,990. The fee charged foreign corporations ranged from \$52 to \$30,000.

A good internal control plan requires biennial report filings be reviewed to ensure the correct amount of revenue is being received or the correct refund is being paid out.

During testing of fiscal year 2013 receipts, we identified a corporation who filed an amended return which requested a refund for the prior three biennial filings. On the filing they claimed they had paid \$21,330 for all 3 biennial filings and should have only paid \$26. There was no documentation to support the Office ensured the \$26 was appropriate. The corporation received a refund of \$63,912. We reviewed the corporation's Articles of Incorporation and observed the corporation had authorized 1,000 shares of stock at a par value of \$1, which would result in a \$26 filing fee.

NEBRASKA SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Review of Tax Filings (Concluded)

We further noted the Office did not have procedures in place to verify the data submitted by corporations for biennial filings was correct. The Office can investigate reported amounts if the amounts reported appear improper. However, the Office does not have written procedures or policies to review filings on a routine basis to ensure amounts reported and paid are correct. The Office received biennial report fees of \$11,469,174 and \$288,845 in fiscal year 2012 and 2013, respectively.

Without a review of biennial reports, there is an increased risk the amount being collected is not correct. Additionally, without requiring supporting documentation, especially for large refunds, there is a risk a refund could be paid incorrectly.

We recommend the Office implement procedures to review a sample of biennial report filings to ensure they are receiving the correct amount. We also recommend the Office request additional documentation for refund applications to ensure the amounts being reported are accurate.

Office's Response: The agency agrees with the recommendation and will implement procedures which provide for a periodic reconciliation of biennial report filings to ensure we are receiving the correct amount. We anticipate having those procedures in place by January, 2014.

5. Capital Assets

Sound accounting practice require capital assets be recorded correctly on the State's accounting system.

Good internal controls require reports of capital asset activity be periodically reviewed to ensure assets are correctly recorded and assets are appropriately removed when surplused.

During testing, we noted the Office's capital asset records were overstated by \$217,742. This was caused by assets being recorded twice on the capital asset records.

The Office could not physically locate three of forty assets tested from their capital asset records. These assets had been surplused through the Department of Administrative Services (DAS) Surplus Property, but had not been removed from the capital asset listing. The value of these assets totaled \$348,824. When an asset is surplused, it is DAS Surplus Property's responsibility to remove the assets from the capital asset records. However, the Office should periodically review its records to ensure surplused assets are appropriately removed. We also noted the Office is not running various capital asset reports, which would identify instances of incorrect recording of capital assets.

A similar finding was included in the prior report.

NEBRASKA SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Capital Assets** (Concluded)

When assets are not correctly recorded on the State's accounting system, there is an increased risk the Office's capital assets will be misstated. When capital asset reports are not periodically reviewed, there is an increased risk errors will not be identified and resolved in a timely manner.

We recommend the Office implement procedures to ensure capital assets are correctly recorded on the State's accounting system. We further recommend, the Office periodically run and review capital asset reports to ensure items are being recorded and removed correctly.

Office's Response: The agency agrees with the recommendation and is in the process of refining processes and procedures related to fixed assets, including the periodic review of relevant capital asset reports.

6. **Payroll Not in Compliance with OMB Circular A-87**

OMB Circular A-87, Attachment B § Section 8, subsection h states:

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,*
- (b) A Federal award and a non Federal award,*
- (c) An indirect cost activity and a direct cost activity,*
- (d) Two or more indirect activities which are allocated using different allocation bases, or*
- (e) An unallowable activity and a direct or indirect cost activity.*

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,*
- (b) They must account for the total activity for which each employee is compensated,*
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and*
- (d) They must be signed by the employee.*
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:*

One employee tested did not have adequate documentation to support charging part of the employee's time to a Federal program. The employee's timesheet only listed the total hours worked each day and did not differentiate the time spent on Federal and non-Federal programs. For the month tested, the employee received gross wages of \$1,356 paid from CFDA 90.401, Help America Vote Act Title 1 (HAVA). Per review of the State's accounting system, \$195,609 in HAVA funds was used to pay employee salaries during the fiscal year. HAVA is accounted for in the Elections Administration Cash Fund. Based on discussions with the Office staff, they were not aware of the OMB requirement and thus any staff paid with Federal grant funds would not have adequate documentation as required by OMB A-87.

NEBRASKA SECRETARY OF STATE

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Payroll Not in Compliance with OMB Circular A-87 (Concluded)

The Office is not in compliance with Federal regulations.

We recommend the Office implement procedures to ensure documentation for all employees paid with Federal grants is in accordance with Federal regulations.

Office's Response: The agency agrees with the recommendation and has already changed the timekeeping policies and procedures for those employees paid for either partially or wholly with federal funds. Timesheets have been correctly prepared since July, 2013.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA SECRETARY OF STATE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Secretary of State
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Secretary of State (Office) for the fiscal year ended June 30, 2013. The Office'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, revenues, expenditures, and changes in fund balances of the Nebraska Secretary of State for the fiscal year ended June 30, 2013, based on the accounting system and procedures prescribed by the State of Nebraska's Director of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our

attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, others within the Office, and the appropriate Federal and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

October 18, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA SECRETARY OF STATE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2013

	General Fund 10000	Collection Agency Fund 20910	Corporation Cash Fund 20920	Records Management Cash Fund 20930
REVENUES:				
Appropriations	\$ 426,571	\$ -	\$ -	\$ -
Taxes	288,845	-	-	-
Intergovernmental	-	-	-	-
Sales & Charges	2,256,187	143,366	888,627	2,377,807
Miscellaneous	13,057	7,075	26,679	19,850
TOTAL REVENUES	2,984,660	150,441	915,306	2,397,657
EXPENDITURES:				
Personal Services	386,074	58,099	377,805	79,058
Operating	37,568	13,443	264,130	2,365,328
Travel	2,929	2,894	859	3,089
Capital Outlay	-	-	-	-
Government Aid	-	-	-	-
TOTAL EXPENDITURES	426,571	74,436	642,794	2,447,475
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,558,089	76,005	272,512	(49,818)
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	-	-	-
Deposit to General Fund	(2,558,089)	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(2,558,089)	-	-	-
Net Change in Fund Balances	-	76,005	272,512	(49,818)
FUND BALANCES, July 1, 2012	-	252,047	928,426	722,656
FUND BALANCES, June 30, 2013	<u>\$ -</u>	<u>\$ 328,052</u>	<u>\$ 1,200,938</u>	<u>\$ 672,838</u>
FUND BALANCES CONSIST OF:				
General Cash	\$ -	\$ 328,035	\$ 1,200,563	\$ 865,887
NSF Items	-	-	93	-
Deposits with Vendors	-	17	-	-
Accounts Receivable Invoiced	-	-	332	(12,165)
Due From Other Government	-	-	-	-
Due to Vendors	-	-	-	(180,884)
Due to Fund	-	-	(50)	-
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 328,052</u>	<u>\$ 1,200,938</u>	<u>\$ 672,838</u>

The accompanying notes are an integral part of the schedule.

Administration Cash Fund 20940	Elections Administration Fund 20950	Uniform Commercial Code Fund 26110	Federal General Fund 40000	Micrographics Service Fund 50900	Totals (Memorandum Only)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 426,571
-	-	-	-	-	288,845
-	7,399	-	49,194	-	56,593
86,783	11,400	994,938	-	773,957	7,533,065
556	35,303	31,130	-	2,808	136,458
<u>87,339</u>	<u>54,102</u>	<u>1,026,068</u>	<u>49,194</u>	<u>776,765</u>	<u>8,441,532</u>
67,632	356,658	445,270	-	329,676	2,100,272
17,801	330,095	359,458	468	401,757	3,790,048
12	5,103	2,463	1,378	146	18,873
-	30,923	-	-	-	30,923
-	-	-	47,348	-	47,348
<u>85,445</u>	<u>722,779</u>	<u>807,191</u>	<u>49,194</u>	<u>731,579</u>	<u>5,987,464</u>
1,894	(668,677)	218,877	-	45,186	2,454,068
23	-	-	-	34	57
-	-	-	-	-	(2,558,089)
-	234,954	-	-	-	234,954
-	-	(234,954)	-	-	(234,954)
<u>23</u>	<u>234,954</u>	<u>(234,954)</u>	<u>-</u>	<u>34</u>	<u>(2,558,032)</u>
1,917	(433,723)	(16,077)	-	45,220	(103,964)
17,660	1,570,493	1,442,953	-	146,300	5,080,535
<u>\$ 19,577</u>	<u>\$ 1,136,770</u>	<u>\$ 1,426,876</u>	<u>\$ -</u>	<u>\$ 191,520</u>	<u>\$ 4,976,571</u>
\$ 20,231	\$ 1,136,770	\$ 1,424,311	\$ -	\$ 146,822	\$ 5,122,619
-	-	-	-	-	93
-	-	2,706	-	-	2,723
-	-	-	-	45,314	33,481
(654)	-	-	-	-	(654)
-	-	(141)	-	(616)	(181,641)
-	-	-	-	-	(50)
<u>\$ 19,577</u>	<u>\$ 1,136,770</u>	<u>\$ 1,426,876</u>	<u>\$ -</u>	<u>\$ 191,520</u>	<u>\$ 4,976,571</u>

NEBRASKA SECRETARY OF STATE

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2013

1. Criteria

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) 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 EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed 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 maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivable 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 payable recorded in the general ledger, as of June 30, 2013, include only those payables posted in the general ledger before June 30, 2013, and not yet paid as of that date. The amount recorded as expenditures, as of June 30, 2013, **does not** include amounts for goods and services received before June 30, 2013, which had not been posted to the general ledger as of June 30, 2013.

Other liabilities are recorded in accounts entitled Due to Fund and Due to Vendors for the Office. 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, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

The Nebraska Secretary of State (Office) had accounts receivable not included in the Schedule of \$10,871 from various Business Services Division filings. State Accounting did not require the Office to record its 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.

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

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

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.

50000 – Revolving Funds – account for the operation of State agencies that provide goods and services to other departments or agencies within State government.

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

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Office consist of Corporate and Foreign Business Taxes.

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 and used by the Office are:

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

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

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 that 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 Office 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 the fund balance on the schedule. Cash accounts and deposits with vendors are also included in the 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 the fund balance. Other liabilities recorded in the general ledger for the Office's funds at June 30, 2013, 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, proceeds of fixed asset dispositions, and Deposits to the General Fund.

2. Reporting Entity

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

The Nebraska Secretary of State is part of the primary government for the State of Nebraska.

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, which 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 Office takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

For the CAFR, the State requires the Office 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 more than one year 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.

5. Capital Assets (Concluded)

Capital asset activity of the Office recorded in the State Accounting System for the fiscal year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	<u>\$11,602,986</u>	<u>\$ 40,453</u>	<u>\$ 176,063</u>	<u>\$11,467,376</u>
Less accumulated depreciation for:				
Equipment				<u>8,416,784</u>
Total capital assets, net of depreciation				<u><u>\$ 3,050,592</u></u>

6. Transfers

LB 378, § 2 (2011) required the State Treasurer to transfer \$234,954 from the Uniform Commercial Code Cash Fund to the Election Administration Fund prior to July 5, 2012.

7. Subsequent Events

LB 199 § 1 (2013) required \$134,954 from the Corporation Cash Fund and \$300,000 from the Uniform Commercial Code Cash Fund to the Election Administration Fund prior to July 5, 2013.

LB 199 § 41 (2013) required \$170,400 to be transferred from the Corporation Cash Fund to the Secretary of State Administration Cash Fund prior to July 5, 2013. This section further requires \$39,400 to be transferred from the Corporate Cash Fund to the Records Management Micrographics Services Revolving Fund.

LB 199 § 21 (2013) required the State Treasurer to transfer \$100,000 from the Nebraska Collection Agency Fund to the Election Administration Fund prior to July 5, 2013.

LB 79 § 36 (2013) required the balance of the Campaign Finance Limitation Cash Fund to be transferred to the Election Administration Fund by July 5, 2013. The total transferred was \$314,888.

NEBRASKA SECRETARY OF STATE

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary 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.

NEBRASKA SECRETARY OF STATE
SERVICE EFFORTS AND ACCOMPLISHMENTS
 For the Fiscal Year Ended June 30, 2013

Program 22 - Notary

	Fiscal Year		
	2011	2012	2013
Regular Certifications	1,440	1,460	1,689
Apostille Certifications	2,654	3,070	2,851
Total program revenue collected	\$ 374,310	\$ 416,042	\$ 391,066

Program 51 - Corporations

	Fiscal Year		
	2011	2012	2013
<i>Applications For:</i>			
Limited Partnerships	42	41	102
Foreign Authority	1,149	1,178	1,226
Articles, Nonprofit & Domestic	2,448	2,240	2,184
Trade Names, Trade Marks, Service Marks	2,253	2,178	2,283
Professional Registrations	3,979	4,311	4,459
Change of Agents	6,543	6,368	15,315
Corporate Revival	1,233	1,776	1,236
Proof of Publication	7,660	8,368	8,720
LLC	5,593	6,237	7,004
LLC Revival	311	971	371
<i>Corporations on Record:</i>			
Domestic	38,733	40,328	42,434
Foreign	9,933	10,947	11,769
Non Profit	13,340	13,853	14,167
<i>LLC's on Record:</i>			
Domestic	32,001	38,175	40,100
Foreign	5,094	6,037	6,191
Total Program Revenue	\$ 2,834,373	\$ 13,816,418	\$ 3,169,667

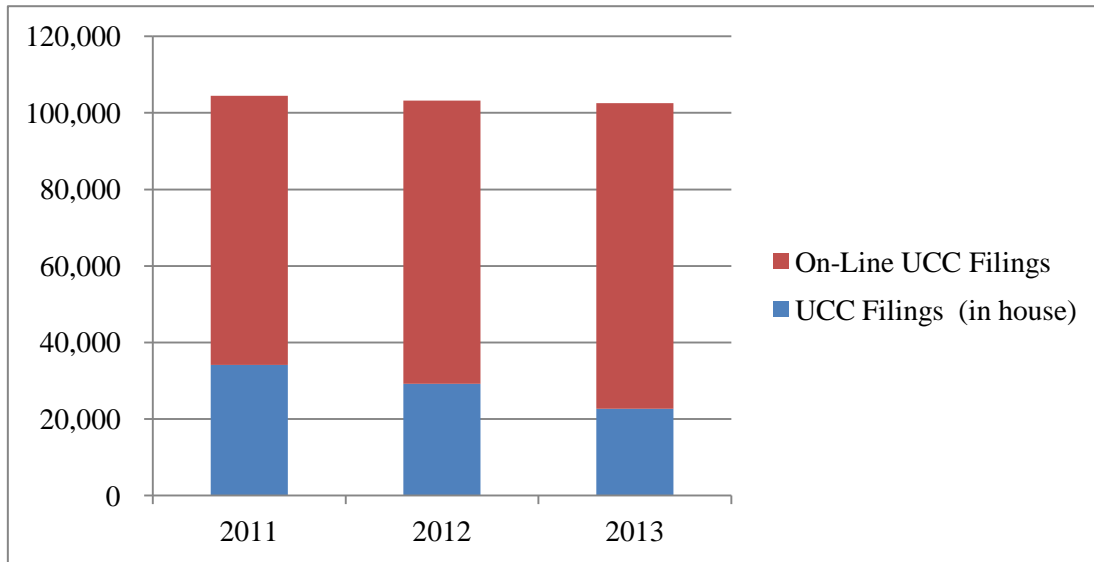
Neb. Rev. Stat. § 21-303 (Reissue 2012) requires corporations to pay a biennial fee for each even numbered calendar year on January first.

(Continued)

NEBRASKA SECRETARY OF STATE
SERVICE EFFORTS AND ACCOMPLISHMENTS
 For the Fiscal Year Ended June 30, 2013

Program 89 - Uniform Commercial Code Central Filing

	Fiscal Year		
	2011	2012	2013
UCC Filings (in house)	34,106	29,230	22,683
On-Line UCC Filings	70,397	74,017	79,904
Total Program Revenue	\$ 1,068,367	\$ 1,050,981	\$ 1,026,069



Program 53 - Collection Agencies

	Fiscal Year		
	2011	2012	2013
New Agency Licenses	55	68	45
Renewed Agency Licenses	388	396	421
New Branch Offices	76	125	76
Renewed Branch Offices	397	359	400
Total Program Revenue	\$ 138,977	\$ 146,416	\$ 150,441

(Concluded)