

**ATTESTATION REPORT
OF THE
NEBRASKA TAX EQUALIZATION AND
REVIEW COMMISSION**

JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

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Issued on July 23, 2013

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NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

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NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

BACKGROUND

The Tax Equalization and Review Commission (Commission) was created on January 1, 1996. The Commission consists of three commissioners, one from each congressional district. The Governor appoints the commissioners with the approval of the majority of the members of the Legislature. Each commissioner serves a staggered six-year term. Each Chairperson and Vice-Chairperson serves a term of two years on a rotating basis. One commissioner must hold a Registered Appraiser's License. Each commissioner must satisfy certain continuing education requirements on an annual basis.

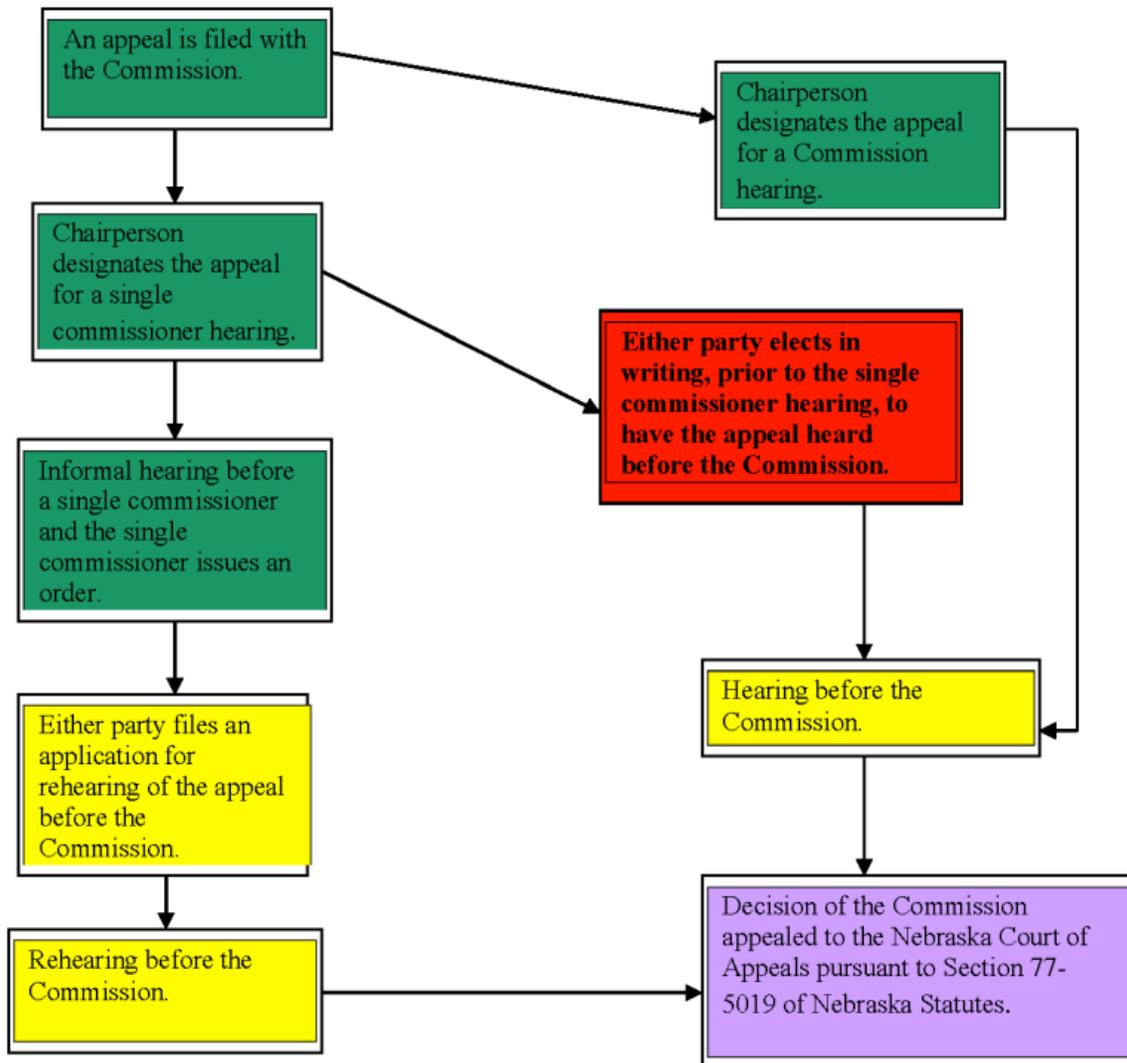
The Commission is charged with four principle duties: (1) to hear and decide appeals from decisions of the County Boards of Equalization; (2) to hear and decide appeals from certain decisions of the Property Tax Administrator, the Tax Commissioner, and the Department of Motor Vehicles; (3) to hear and decide petitions filed by County Boards of Equalization after the protest process; and (4) to review and equalize assessments of property for taxation within the State, as provided under Article IV, Section 28, of the Constitution of the State of Nebraska. The Commission spends the majority of its time hearing individual appeals from County Boards of Equalization regarding the valuation of real property. The hearings are usually "informal," though structured. The commissioners travel extensively to regional hearing sites to hear these appeals in order to be accessible to both taxpayers and county officials. Most hearings are held in Lincoln. Hearings are conducted by a single Commissioner or a panel of the Commission.

A twenty-five dollar (\$25) filing fee is required for each appeal filed with the Commission, except if the appeal is filed by a county assessor, the Tax Commissioner, the Property Tax Administrator, or a County Board of Equalization. The fee is deposited in the Commission's Cash Fund.

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

BACKGROUND
(Continued)

**Informal Single
Commissioner Hearings
Flow Chart**



NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

EXIT CONFERENCE

An exit conference was held July 15, 2013, with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Tax Equalization and Review Commission were:

NAME	TITLE
Robert W. Hotz	Chairman (as of 7/1/2013)
Nancy J. Salmon	Vice-Chair
Beth Mares	Administrative Assistant II

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

COMMENT AND RECOMMENDATION

During our examination of the Nebraska Tax Equalization and Review Commission (Commission), we noted a certain deficiency and other operational matters that are presented here.

This comment and recommendation is intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

Receipts

We noted two areas in our testing of the Commission's receipts where the Commission could improve its controls and procedures. We noted the Commission did not have adequate controls over receipts, and deposits were not made in a timely manner in accordance with State statute. The following outlines the results of our testing.

A. Controls Over Receipts

Good internal control over receipts requires a plan of organization, procedures, and records where initial control is established over receipts and requires an adequate segregation of duties to ensure no one individual is in a position both to perpetuate and to conceal errors or irregularities. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. This control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by an individual separate from the two individuals opening the mail and the individual preparing the deposit. This reconciliation should be documented. A good internal control plan also includes depositing all monies received, restrictively endorsing checks immediately upon receipt, and reconciling deposits to the State Accounting System.

The Commission received money for property tax appeals cases and copies. The total amount of receipts recorded in the Commission's Cash Fund 29310 for the year ended December 31, 2012, was \$56,825.

The Commission's receipting procedures included, in part, the following:

- One individual opened the mail. If it appeared all the required items necessary for a perfected appeals case were received, a case file was created. As defined by Title 442 NAC 2-001.46, a perfected appeals case requires a properly completed appeal form to be filed timely, the \$25 filing fee, and documentation of the decision, order, determination, or action being appealed.
- If all the items necessary for a perfected appeals case were not received, and it appeared possible to perfect an appeals case by the deadline, a case file was created, and the check received for the filing fee was filed with the case file. The individual/entity submitting the appeal request was contacted to provide the necessary information to perfect the case. If the information required to perfect an appeal was still not received, the Commission's legal counsel contacted the appellant by letter regarding the option of requesting a hearing to determine whether the appeal was perfected or withdrawing the

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

COMMENT AND RECOMMENDATION

(Continued)

A. Controls Over Receipts (Continued)

appeal. If a hearing was not requested within 30 days of the date of the letter, or if the appeal was withdrawn, the Commission returned all documents, along with the original filing fee check, and retained a copy of all returned documents. If a hearing was requested, all documents and the filing fee were retained.

- Once an appeals case was perfected, the check was endorsed for deposit only, entered onto a list of checks, and provided to another employee to prepare a deposit.

As noted in the procedures above:

- One individual opened the mail. For an adequate segregation of duties two individuals should participate in opening the mail.
- An initial control log of all monies received was not created by the individual opening the mail.
- The individual opening the mail did not restrictively endorse the checks when received.
- All monies received were not deposited intact. This was due to the Commission's procedures, as outlined above, to withhold receipts when the items necessary to perfect an appeals case were not received. Receipts would not be deposited to the State Treasurer until all necessary items to perfect an appeals case were received. If all items to perfect a case were never received, the Commission's procedure was to return the check to the sender. For additional information on this matter, see section **B. Deposits Were Not Made in a Timely Manner** below.
- There was no reconciliation of receipts to the amount deposited in the State's accounting system by an individual separate from the individuals opening the mail and preparing the deposits.
- After the deposits had been posted by the State Treasurer, no one at the Commission reconciled the deposits to the State's accounting system.

There is an increased risk of loss or misuse of State funds when adequate internal controls over receipts are not in place.

We recommend the Commission implement procedures to ensure an adequate system of internal controls over receipts is in place. These procedures should include:

- Two individuals open the mail and create an initial control log of receipts;
- The control log be initialed and dated by the two individuals opening the mail;
- The immediate endorsement of checks received;
- All monies received are deposited intact. Any necessary refund of monies should be done through the warrant process;

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

COMMENT AND RECOMMENDATION

(Continued)

A. Controls Over Receipts (Concluded)

- A documented reconciliation of the initial control log to the amount deposited in the State's accounting system be performed by an individual separate from the individuals opening the mail and preparing the deposit; and
- After the deposits have been posted by the State Treasurer, a documented reconciliation of the deposits to the State's accounting system be completed.

Commission's Response: We agree with the recommendations, and procedures to implement them are being put in place.

B. Deposits Were Not Made in a Timely Manner

Neb. Rev. Stat. § 84-710 (Reissue 2008) requires funds received by the Commission to be deposited with the State Treasurer within three business days of receipt when the total amount is \$500 or more and within seven days of receipt when the total amount is less than \$500.

Receipts were not deposited timely and in accordance with § 84-710. For eight of ten case files tested, the monies received were not deposited within the required three business days. The number of days from the day received until deposit ranged from seven to thirty-five days. Per the Commission, they receive the majority of the filing fees in a short period of time right before the filing date deadline for appeals cases. If adequate information is not received to allow the Commission to file a perfected appeal case, it may take a month or more to determine if a perfected case would be filed and the filing fee deposited. See additional information on this matter in section A. **Controls Over Receipts** above.

When deposits are not made timely and in accordance with § 84-710, there is an increased risk of loss or misuse of State funds.

We recommend the Commission implement procedures to ensure deposits are made timely and in accordance with the timeframe required under § 84-710, which is three business days if the total received is \$500 or more, or within seven days if the amount is less than \$500.

Commission's Response: Procedures to make more timely deposits are being put in place.

It should be noted that this report is critical in nature, containing only our comment and recommendation on the area noted for improvement and does not include our observations on any accounting strengths of the Nebraska Tax Equalization and Review Commission.

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

COMMENT AND RECOMMENDATION

(Continued)

Draft copies of this report were furnished to the Commission to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next examination.



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NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Tax Equalization and Review Commission
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balance of the Nebraska Tax Equalization and Review Commission (Commission) for the period January 1, 2012, through December 31, 2012. The Commission'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 Fund Balances of the Nebraska Tax Equalization and Review Commission for the calendar year ended December 31, 2012, 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 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 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 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 Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed a certain finding that is required to be reported under *Government Auditing Standards*, and the finding, along with the views of management, is described in the Comments Section of the report.

This report is intended solely for the information and use of management, the Commissioners, others within the Commission, 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

July 11, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2012

	General Fund 10000	Tax Equalization and Review Commission Cash Fund 29310	Totals (Memorandum Only)
REVENUES:			
Appropriations	\$ 651,449	\$ -	\$ 651,449
Sales & Charges	409	56,416	56,825
Miscellaneous	-	3,976	3,976
TOTAL REVENUES	651,858	60,392	712,250
EXPENDITURES:			
Personal Services	629,765	5,246	635,011
Operating	16,169	77,609	93,778
Travel	5,515	2,475	7,990
TOTAL EXPENDITURES	651,449	85,330	736,779
Excess (Deficiency) of Revenues Over (Under) Expenditures	409	(24,938)	(24,529)
OTHER FINANCING SOURCES (USES):			
Sales of Assets	-	3	3
Deposit to General Fund	(409)	-	(409)
TOTAL OTHER FINANCING SOURCES (USES)	(409)	3	(406)
Net Change in Fund Balances	-	(24,935)	(24,935)
FUND BALANCES, January 1, 2012	-	190,139	190,139
FUND BALANCES, December 31, 2012	\$ -	\$ 165,204	\$ 165,204
FUND BALANCES CONSIST OF:			
General Cash	\$ -	\$ 165,179	\$ 165,179
NSF Items	-	25	25
TOTAL FUND BALANCES	\$ -	\$ 165,204	\$ 165,204

The accompanying notes are an integral part of the schedule.

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2012

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 the Tax Equalization and Review Commission 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 December 31, 2012, include only those payables posted in the general ledger before December 31, 2012, and not yet paid as of that date. The amount recorded as expenditures, as of December 31, 2012, **does not** include amounts for goods and services received before December 31, 2012, which had not been posted to the general ledger as of December 31, 2012.

The Commission had no accounts receivable at December 31, 2012. 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 Commission 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.

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

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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.

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 Commission are:

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

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 Commission include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts. Cash accounts 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 – Proceeds of fixed asset dispositions.

2. Reporting Entity

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

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

NOTES TO THE SCHEDULE

(Continued)

2. **Reporting Entity** (Concluded)

The Nebraska Tax Equalization and Review Commission 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 Commission 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 Commission 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.

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

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 Commission recorded in the State Accounting System for the Calendar year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 48,782	\$ -	\$ 1,535	\$ 47,247
Less accumulated depreciation * for:				
Equipment				<u>43,182</u>
Total capital assets, net of depreciation				<u>\$ 4,065</u>

**Note: The accumulated depreciation noted in the table above was calculated in the accounting system through June 30, 2012. Depreciation for July through December 2012 was not run in the accounting system until the beginning of calendar year 2013.*

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and 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 Fund Balances, and, accordingly, we express no opinion on it.

NEBRASKA TAX EQUALIZATION AND REVIEW COMMISSION

NUMBER OF APPEALS FILED
Calendar Years 2003 through 2012

