

**ATTESTATION REPORT
OF THE
NEBRASKA LIBRARY COMMISSION**

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

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Issued on August 5, 2014

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Audit Staff Working On This Examination

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NEBRASKA LIBRARY COMMISSION

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NEBRASKA LIBRARY COMMISSION

BACKGROUND

The Nebraska Public Library Commission (Commission) was established by an act of the Legislature on March 27, 1901, and the office of the Commission was opened November 11, 1901. The Commission was charged to “encourage the establishment of libraries where none existed and the improvement of those already established.” In 1933, due to economic hardships, the Legislature passed a bill abolishing the Library Commission and establishing in its place the Nebraska Public Library, relocating it to the University of Nebraska – Lincoln. The University Librarian served as the Public Library Commissioner. The Nebraska Public Library Commission was re-established by law in 1935. In 1952, the Commission was designated by the Library of Congress as the official distribution center for the Books for the Blind Program. In 1972, the Nebraska Public Library Commission assumed its present identity as the Nebraska Library Commission.

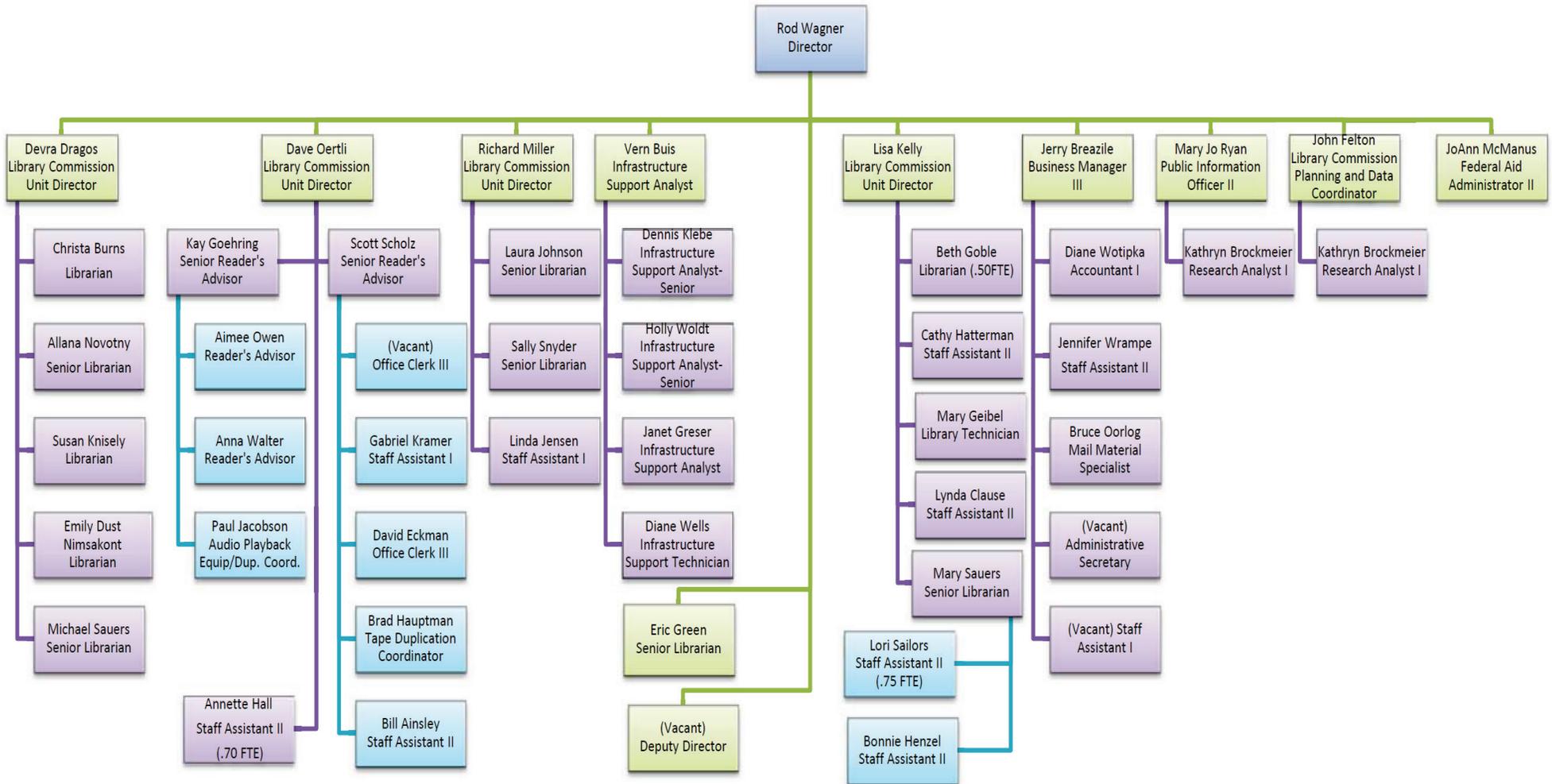
The Commission promotes, develops, and coordinates library and information programs and services statewide. As the State library agency, the Commission serves as an advocate for the library and information service needs of Nebraskans. The Commission:

- makes rules and regulations to govern itself;
- appoints a director authorized to hire staff as needed;
- receives and disburses Federal funds;
- accepts and administers gifts;
- makes a biennial report to the Governor;
- provides leadership, technical help, and financial support for improvement of library and information services through the State’s libraries;
- develops, coordinates, and promotes specialized statewide library and information services; and
- provides information and library services to State government.

The Commission’s six members are appointed by the Governor to three-year terms, with members serving no more than two consecutive terms. Members generally are appointed from each of the State’s six library system areas. Commissioners meet every other month and are not paid, but they are reimbursed for expenses. At December 31, 2013, the Commission employed 44 individuals.

NEBRASKA LIBRARY COMMISSION

ORGANIZATIONAL CHART



NEBRASKA LIBRARY COMMISSION

EXIT CONFERENCE

An exit conference was held July 16, 2014, with the Nebraska Library Commission (Commission) to discuss the results of our examination. Those in attendance for the Commission were:

NAME	TITLE
Rod Wagner	Director
Jerry Breazile	Business Manager
Diane Wotipka	Accountant
Sherry Crow	Commission Chair (teleconference)

NEBRASKA LIBRARY COMMISSION

SUMMARY OF COMMENTS

During our examination of the Nebraska Library Commission (Commission), 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. ***Payroll Charged to Federal Grants:*** The Commission did not have adequate documentation to support the payroll charged to Federal grants for eight Commission employees who split their time between Federal and non-Federal programs during calendar year 2013. Total gross wages paid to these eight employees and charged to a Federal grant during calendar year ended December 31, 2013, was \$129,756.
2. ***Federal Administrative Charges:*** The Commission did not separately identify program expenditures from administrative expenditures on the State's accounting system; therefore, the Auditor of Public Accounts (APA) was unable to determine if the Commission spent less than the four percent administrative cap on the 2012 Federal grant received from the Institute of Museum and Library Services. Additionally, the Commission allocated 25 percent of its rent to the same Federal grant; however, the Commission did not have a reasonable basis to support this allocation.
3. ***Aid to Regional Systems:*** The process to determine the amount of aid to provide to the regional systems was not approved by the Commission board, as required by rules and regulations, and the Commission's subrecipient monitoring procedures were not adequate. During calendar year 2013, the Commission paid the regional systems \$575,668 in aid.
4. ***State Aid to Public Libraries:*** The Commission board did not adopt the formula and guidelines used to calculate the State aid paid out during calendar year 2013, as required by rules and regulations. Additionally, the Commission did not have procedures in place to determine if the local income reported by the libraries was accurate to ensure the libraries met the maintenance of effort requirements.
5. ***Internal Controls Over Receipts and Billings:*** The Commission did not have procedures in place to ensure all receipts received were accounted for and properly posted to the Commission's funds. Additionally, the Commission did not have procedures in place to document review of billings to ensure their accuracy and to ensure checks received were endorsed timely.
6. ***Internal Controls Over Capital Assets:*** One individual was able to perform all functions of the capital asset processing, and there was no independent review of the Additions and Retirements Report or Integrity Reports to ensure the Commission's fixed assets were properly accounted for. Additionally, the Commission did not have procedures in place to track items under \$500 that were susceptible to theft. Furthermore, the Commission did not tag five assets purchased with Federal funds.

NEBRASKA LIBRARY COMMISSION

SUMMARY OF COMMENTS

(Concluded)

7. ***Library Collections:*** The Commission uses a separate cataloging system to track its books and periodicals. During review of the Commission's procedures related to its library collection, it was noted the Commission did not have adequate controls in place to ensure all items purchased for the collection were properly added to the catalog and all deletions from the catalog were properly supported.

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 Commission.

Draft copies of this report were furnished to the Commission 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 they will be verified in the next examination.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

1. Payroll Charged to Federal Grants

Program: CFDA 45.310 – Grants to States; CFDA 11.557 – Broadband Technology Opportunities Program ARRA – Allowability

Grant Number & Year: #LS-00-12-0028-12, FFY 2012; #LS-00-13-0028-13, FFY 2013; #31-42-B10530, FFY 2010

Federal Grantor Agency: Institute of Museum and Library Services; U.S. Department of Commerce

Criteria: OMB Circular A-87, Attachment B, §§ 8(h)(4) & (5), states, in relevant part:

(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*

Condition: One employee tested did not have adequate documentation to support charging part of the employee's time to a Federal program. The employee's payroll was being split 25 percent to Federal programs and 75 percent to State programs. The Commission did not have documentation to support the split. The employee's timesheet listed the total hours worked each day along with the time coded to the Federal grant. However, it appeared the hours listed as Federal were an exact split and did not reflect actual time spent on the Federal grant.

Questioned Costs: Unknown

Context: For the pay period tested, the employee received gross wages of \$934 paid from CFDA 45.310 – Grants to States. After further inquiry with the Commission, it was determined that seven other Commission staff were coding time to a Federal award and a non-Federal award during calendar year ended December 31, 2013. The Commission was unaware of the OMB requirement; therefore, any of these other seven staff would not have adequate documentation

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Payroll Charged to Federal Grants** (Concluded)

supporting the splits between Federal and non-Federal programs as well. The Commission indicated Federal time charged were estimates based on staff discussions related to employees' job responsibilities. The following table summarizes by grant number the gross wages paid to the eight staff members during the calendar year ended December 31, 2013:

CFDA	Grant Number	CY13 Amount
45.310	LS-00-12-0028-12	\$73,843
45.310	LS-00-13-0028-13	37,920
11.557	31-42-B10530	17,993
Total		\$129,756

Cause: Commission was unaware of the Federal requirement.

Effect: Increased risk for misuse of grant funds.

Recommendation: We recommend the Commission implement procedures to ensure proper documentation for all staff paid with Federal grants is on file in accordance with Federal regulations.

Management Response: The Commission was aware of the requirement but not the extent of documentation necessary to support expenditures. State and federal payroll allocations for Commission staff are appropriate. The nature of the Library Commission's programs and services are such that in most instances there is minimal difference between activities that are state or federal. The Commission recognizes that for those activities that are identifiable as state activities expenditures for personnel salaries and benefits must reflect those distinctions.

Corrective Action Plan: The Commission will address payroll requirements with the Institute of Museum and Library Services to assure that federal requirements are appropriately documented.

Contact: Jerry Breazile, Business Manager

Anticipated Completion Date: August 30, 2014

2. **Federal Administrative Charges**

Program: CFDA 45.310 – Grants to States – Allowability, Earmarking, & Reporting

Grant Number & Year: #LS-00-12-0028-12, FFY 2012

Federal Grantor Agency: Institute of Museum and Library Services

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Federal Administrative Charges** (Continued)

Criteria: 20 USC § 9132(a), relating to Subchapter II – Library Services and Technology, states:

Not more than 4 percent of the total amount of funds received under this subchapter for any fiscal year by a State may be used for administrative costs.

According to 45 CFR § 1183.20(a) (October 1, 2013):

A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to —

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Per OMB Circular A-87, Attachment A, § C(3)(a):

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

A good internal control plan and sound business practices require procedures to ensure amounts reported to the Federal awarding agency are accurate and properly supported.

Condition: The Commission did not have adequate documentation to support that it was in compliance with the requirement that no more than four percent of the Federal grant award can be used on administrative expenses. In addition, the Commission allocated 25 percent of rent expense to the Federal grant; however, this allocation does not appear to be in accordance with OMB A-87, and the Commission did not have documented support that rent expense was a program expense rather than an administrative expense.

Questioned Costs: \$133,999 known

Context: The Commission was awarded \$1,377,353 for the 2012 grant, of which \$55,094 or, four percent of the granted amount, could be used for administration. On the final financial status report submitted by the Commission for the 2012 grant, the Commission reported the maximum amount, or \$55,094, on administrative costs. Per the Commission's support, administrative costs included \$53,714 in payroll and \$2,290 in other operating expenditures for a total of \$56,004 – some \$910 over the maximum allowed amount. The Commission indicated some of the \$53,714 included payroll for program expenditures; however, there was no detail or documentation to support the amount of payroll claimed as program expenditures. Also, the Commission did not have any documentation to support that any payroll could be claimed as program expenditures.

Also, the Commission did not separately identify program expenditures from administrative expenditures on the State's accounting system; therefore, the APA was unable to determine if the amount spent on administrative expenses fell within the cap requirement. Instead, a manual spreadsheet was used by the Commission to track administrative expenditures; however, the APA was unable to determine if this spreadsheet was complete and listed all administrative related expenditures.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS
(Continued)

2. **Federal Administrative Charges** (Continued)

Also during review, the APA noted that \$133,999 was coded to the 2012 grant as a program expense for the Commission's rent, or 25 percent of the total rent charged to the Commission during calendar year ended December 31, 2013. Per discussion with the Commission's Director, it has been the Commission's long-standing practice to allocate the Commission's rent as a program expense on a 75 percent State and 25 percent Federal basis in proportion to the Commission's annual State and Federal appropriations. This practice does not appear to be in accordance with OMB A-87, which requires allocations to be based upon relative benefits received. Therefore, the APA considers \$133,999 to be questioned costs. Additionally, the APA was unable to determine if rent expense should be classified as an administrative expense rather than as a program expense and, therefore, be subject to the four percent administrative cap.

The following table illustrates how the Commission spent the 2012 grant:

Expenditure Type	Amount
Payroll	\$688,216
Operating	178,274
Travel	17,307
Capital Outlay	550
Aid	493,006
Total	\$1,377,353

The Commission did not have adequate documentation to support only \$55,094 of grant expenses were administrative expenses.

Cause: In part, it should be noted that the Commission employee who created the final financial status report terminated employment in January 2014, and the current staff was unable to locate documentation to address the questions raised.

Effect: Increased risk of noncompliance with grant and Federal requirements and increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Commission implement procedures to ensure expenditures noted on Federal reports can be traced to the accounting system. Additionally, we recommend the Commission work with the Federal grantor to determine what expenses are considered administrative. Finally, we recommend the Commission determine an appropriate allocation of rent to the Federal award, based on relative benefits received.

Management Response: The 75% state and 25% federal cost allocation for office lease space is appropriate but the Commission recognizes that this split is not adequately documented. The Commission's Talking Book and Braille Service (TBBS) is largely supported from the LSTA state program grant. The TBBS, for example, occupies approximately 35% of the Commission's leased office space. This space usage exceeds the total spent from LSTA funds for leased office space.

NEBRASKA LIBRARY COMMISSION
COMMENTS AND RECOMMENDATIONS
(Continued)

2. Federal Administrative Charges (Concluded)

The Commission's expenses for administration of the LSTA state program grant are largely supported from the Commission's state general fund appropriation.

Corrective Action Plan: Commission management will seek guidance from the Institute of Museum and Library Services to assure that administrative expenses charged to the federal grant are properly documented and are within the 4% federal funds expenditure cap.

The Commission is reviewing space usage and will allocate office space lease costs accordingly (i.e., administrative, reference/information services, publications clearinghouse, TBBS, Technology & Access Services, Library Development, etc.).

Contact: Jerry Breazile, Business Manager

Anticipated Completion Date: September 30, 2014

3. Aid to Regional Systems

Program: CFDA 45.310 – Grants to States – Subrecipient Monitoring

Grant Number & Year: #LS-00-12-0028-12, FFY 2012; #LS-00-13-0028-13, FFY 2013

Federal Grantor Agency: Institute of Museum and Library Services

Criteria: Title 236 NAC 2-008.03 states:

Funds designated for support of regional multi-type library systems shall be disbursed to the systems according to a formula and guidelines adopted annually by the Commission Board. The formula shall have two parts: an equal base allocation for each system, and an allocation based on an approved system service plan.

45 CFR § 1183.20(a) (October 1, 2013) states in part:

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds.

OMB Circular A-133, § __.400(d), states, in relevant part:

A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency

According to Section (3) of the August 18, 2003, agreement between the Commission and the Republican Valley Library System:

The System will provide or perform the following, related to financial matters . . . e. Have a biennial audit completed and submitted to the Commission's Business Manager.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS
(Continued)

3. **Aid to Regional Systems** (Continued)

OMB Circular A-133 § __.300 states, as is relevant:

The auditee shall . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition: The process to determine the amount of aid provided was not approved by the Commission board, as required by rules and regulations, and the Commission's subrecipient monitoring procedures were not adequate.

Questioned Costs: Unknown

Context: The State of Nebraska is divided into six regional library systems. These systems are non-profit entities governed by boards that are representative of libraries and citizens in the region. The systems were established to provide access to improved library services. A significant portion of the systems' funding comes from the Commission through both State and Federal funds.

The APA tested one payment to a regional library system during calendar year 2013. The aid payment tested was to the Republican Valley Library System (system) for \$24,356 and paid with the 2012 grant. During testing of this payment, the following was noted:

- The Commission board did not approve the process used to determine the amount of aid to provide to the system. Instead, the Commission based the aid payment to the regional system upon prior year funding, plus an amount for increased anticipated expenses of the system.
- The Commission entered into an agreement with the system tested in 2003, which stated the system must have a biennial audit completed and submitted to the Commission. An audit of financial statements provides an independent opinion on whether those financial statements are fairly presented in all material respects. Rather than an audit, the Commission received a compilation of the regional system's financial statements, which did not provide an opinion on the financial statements or any assurance the grant funds were spent properly.
- Aid to the regional systems was paid out of both State and Federal funds. The Commission did not notify the system tested of the CFDA title and number, award number, award year, and Federal awarding agency, as required by OMB Circular A-133.
- To monitor the funds provided to the system, the system was required to submit a plan of service to the Commission that detailed its goals and objectives. The Commission also

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS
(Continued)

3. **Aid to Regional Systems** (Continued)

received a compilation of the system’s financial statements, as noted above. Furthermore, the Commission indicated that a Commission staff representative attended all system board meetings. At the board meetings, a detailed listing of system expenditures was provided. This listing was reviewed for allowability; however, the Commission did not compare the expenditure listing to the system’s financial statements to ensure no expenditures were left off of the listings provided at the board meetings. Additionally, the Commission did not review support for the expenditures included on the system listings to ensure they were allowable per Federal regulations.

The following amounts were paid as aid to the six regional systems during the calendar year ended December 31, 2013:

Type Of Funding	CFDA	Grant Number	CY13 Amount
State	N/A	N/A	\$377,218
Federal	45.310	LS-00-12-0028-12	156,795
Federal	45.310	LS-00-13-0028-13	41,655
Total			\$575,668

Cause: The Commission was not familiar with the Federal requirements. Additionally, the Commission was unaware that a compilation of financial statements was different than an audit.

Effect: Noncompliance with rules and regulations, Federal requirements, agreements in place, and an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Commission follow established rules and regulations to ensure the board approves the formula and guidelines used to calculate funding to the regional systems. Additionally, we recommend the Commission update the system agreements and determine if the systems should have audited financial statements. Furthermore, we recommend the Commission notify the systems of the grant information, as required by OMB Circular A-133. Finally, we recommend the Commission strengthen its monitoring procedures by comparing the systems’ detailed expenditure listings to the compiled financial statements and implement procedures to review support for these expenditures to ensure they are allowable.

Management Response: Annual payments to the regional library systems have been maintained at approximately the same level over the past few fiscal years. This reflects biennium appropriations that remained at prior levels, including both state and federal funds. As such, Commission board approval was not sought to affirm these amounts.

Corrective Action Plan: Annual approval for regional system funding allocations will be requested per Commission rules & regulations.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Aid to Regional Systems** (Concluded)

The Commission acknowledges that regional library system contract amendments did not reference the appropriate federal requirements for financial management. The Commission included these references in its most recent grant agreement amendments. In addition, the Commission will issue a reminder to the regional library systems of sub-grant requirements applicable to the Library Services and Technology Act.

Contact: Rod Wagner, Director, or Richard Miller, Library Development Director

Anticipated Completion Date: September 1, 2014

4. **State Aid to Public Libraries**

Title 236 NAC 2-008.02 states:

Funds designated for financial aid to public libraries shall be disbursed to the public libraries according to a formula and guidelines adopted annually by the Commission board.

A good internal control plan requires procedures to ensure local income amounts reported by the libraries for maintenance of effort (MOE) purposes are accurate.

Annually, the Commission calculates the amount of State aid for which each Nebraska public library is eligible. The amount disbursed to each library is based on the library's service area population. The libraries can also obtain additional funds based upon accreditation or if the library receives additional funding from another public entity. Additionally, eligibility requirements for State aid require the library to report its local income. This income is then used for the MOE to determine if the library's current local income is at least equal to the lowest annual local income from the three previous years. The funds to be included in local income are outlined in Neb. Rev. Stat. § 51-209 (Reissue 2010). If the library does not meet the MOE requirement, its State aid amount may be reduced.

The formula and guidelines used to calculate State aid paid during calendar year 2013 were not adopted by the Commission board, as required by the Commission's rules and regulations. Additionally, the Commission did not have procedures in place to ensure the local income reported by the libraries was accurate. The total amount of State aid to public libraries paid by the Commission during calendar year ended December 31, 2013, was \$354,620.

Without Commission board approval of the formula and guidelines used to calculate State aid, the Commission did not comply with its own rules and regulations. Additionally, when the local income of libraries is not verified, there is an increased risk that State aid payments will be incorrect.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **State Aid to Public Libraries** (Concluded)

We recommend the Commission follow its own rules and regulations and ensure the board approves the formula and guidelines used to calculate State aid. Additionally, we recommend the Commission implement procedures to ascertain that the local income reported by the libraries is accurate to ensure MOE requirements are being met.

Commission Response: State aid to public libraries appropriations have remained at the same funding level for the past few fiscal years. The annual aid payments are based on a formula approved by the Commission board during a prior fiscal year. Approval was not sought during calendar year 2013 since the formula remained the same. Minor adjustments were made to reflect library eligibility and population updates. Annual approval will be sought for state aid to public libraries payments in accordance with Commission rules & regulations.

5. **Internal Controls Over Receipts and Billings**

A good internal control plan requires an adequate segregation of duties or compensating controls to ensure no one individual is able both to perpetrate and/or to conceal errors or irregularities. A good internal control plan also requires documented procedures to ensure billings are accurate and all receipts received are accounted for and properly posted to the Commission's funds, and checks received are endorsed timely.

During review of the Commission's processes, the following was noted:

- Two individuals opened the mail; however, the initial listing documenting all receipts received was created after the mail opening process was completed, and only one individual who opened the mail was involved in creating the list. In addition, the individual who opened the mail and created the initial listing of monies received also had access to the billing and receipting system. Furthermore, when this individual was out of the office, the person assigned to be the backup also had access to the billing and receipting system.
- Checks received by the Commission were not endorsed until they were entered into the accounting system, which could have been a few days after they were received. During a surprise cash count on May 15, 2014, the APA noted the Commission had \$1,015 in unendorsed checks in a safe. These checks were received by the Commission on May 13, 2014, and May 14, 2014.
- The Commission did not have procedures in place to document a review of the general ledger to ensure all deposits were properly posted by the State Treasurer. Typically, the Commission reviewed a daily report from the accounting system showing cash available. By reviewing this report, the Commission might identify if a significant deposit was not posted; however, this review might not catch if a smaller deposit was improperly posted.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Internal Controls Over Receipts and Billings** (Concluded)

- One individual at the Commission created invoices to bill entities, while a different individual reviewed those invoices to ensure the entity being billed and the amount were accurate. This review was not documented.
- The Commission did not have controls in place to ensure cash received, other than through the mail, was properly receipted.

When controls over receipts and billings are not adequate, there is an increased risk that receipts received are misappropriated and that billings are incorrect.

We recommend the Commission implement procedures to:

- Have two individuals create the initial listing of monies received and that both individuals initial this list once created;
- Endorse checks upon receipt or upon opening of the mail;
- Document its review of the State accounting system to ensure all receipts were properly posted to the Commission's funds;
- Document a review of all invoices to ensure they are accurate and proper prior to billing; and
- Ensure receipts are written for all monies received, other than through the mail, and two staff sign off on the receipt to verify its accuracy.

Commission Response: The Commission now requires tabulated receipts to bear two sets of initials to assure that all incoming funds are accounted for and properly posted to Commission funds. The Commission has a procedure to document review of billings to ensure accuracy and to ensure checks received are endorsed in a timely fashion.

6. **Internal Controls Over Capital Assets**

A good internal control plan requires an adequate segregation of duties or compensating controls to ensure no one individual is able both to perpetrate and/or to conceal errors or irregularities. A good internal control plan also requires procedures to ensure that reports in the accounting system are reviewed, and these reviews or approvals are documented to ensure capital asset entries are proper.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Internal Controls Over Capital Assets** (Continued)

Neb. Rev. Stat. § 81-1118.02(1) (Cum. Supp. 2012) states, in relevant part:

Each commission, or other state agency . . . shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission, or other state agency as of June 30 and shall be completed and filed with the materiel administrator by August 31 of each year.

Subsection (3) of that same statute adds:

Each such executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska. In the inventory required by subsection (1) of this section, each such executive, department, commission, or other state agency shall state positively that each item of such property has been so tagged, marked, or stamped.

A good internal control plan requires procedures to ensure all property in the Commission's possession is accounted for and properly marked as property of the State of Nebraska.

Capital Asset Procedures

During review of the Commission's capital asset procedures, the APA noted the following:

- One individual was able to perform all functions of the capital asset processing for the Commission. The individual had the ability to add, initiate the deletion, and maintain the capital assets on the State's accounting system. Furthermore, there was no independent review of the Additions and Retirements Report from the State's accounting system to ensure all items added and deleted were proper.
- The Commission did not have procedures in place to track assets susceptible to theft that were below its capitalization threshold of \$500.
- Review and approval of surplus property notification forms, the Unposted Fixed Asset Transaction Report, and the Fixed Asset No Cost Report was not documented to ensure proper actions were taken on capital assets.
- The Commission did not review the other integrity reports within the State's accounting system, including the Business Unit Fund Integrity Report and the Item Code Object Account Integrity Report, to ensure capital asset records were accurate.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Internal Controls Over Capital Assets** (Continued)

Capital Assets Purchased with Federal Funds

During testing, the APA found a laptop computer that was not tagged as being property of the State of Nebraska, nor did it have an asset number for tracking purposes. After further inquiry with the Commission, it was determined the laptop was purchased with Federal funds from the Broadband Technology Opportunities Program – Recovery grant (BTOP). When purchased, the Commission was expecting to provide the laptop to a Nebraska library eligible for assistance. However, in August 2013, the Commission indicated it received verbal approval from the Federal awarding agency that it could keep the laptop in order to assist Nebraska libraries having trouble with their related BTOP laptops and also for Americans with Disabilities Act training purposes. The Commission also requested to keep three other laptops and two desktop computers that were purchased with the BTOP grant for the same purposes. None of this equipment was either tagged or included in the annual inventory required by § 81-1118.02.

A similar finding was noted in the fiscal year ended June 30, 2007, examination.

Without proper controls over capital assets and without procedures to ensure assets are accounted for and tagged, as required by State statute, there is an increased risk that items could be lost or stolen.

We recommend the Commission implement the following:

- Procedures to improve controls over capital assets by performing a documented review of the Additions and Retirements Report and the Integrity Reports on the State's accounting system;
- Procedures to document their approval of surplused items and to document the secondary review of the integrity reports. These reports could either be printed or initialed to document the review, or a log could be used noting the reports reviewed and documenting this review by initialing the log. The actual reports could then be kept electronically by the Commission for subsequent review;
- Policy and procedures to track items susceptible to theft that do not meet the threshold to be capitalized on the State's accounting system and take an annual inventory of these items; and
- Procedures to ensure all assets in the Commission's possession are tagged as property of the State of Nebraska.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Internal Controls Over Capital Assets** (Concluded)

Commission Response: Although one individual is able to perform all functions of the capital asset processing, there is now a documented independent review process in place for the Additions and Retirements Report and/or Integrity Reports to ensure that the Commission's fixed assets are properly accounted for and maintained. The Commission has strengthened procedures to track items under \$500 that may be susceptible to theft.

7. **Library Collections**

A good internal control plan requires adequate controls to ensure no one individual is able both to perpetrate and/or to conceal errors or irregularities and that employees' access to the system is appropriate in accordance with their job descriptions.

Title 236 NAC 2-003.01B states:

Library materials which are no longer needed to meet Commission program objectives shall be removed from the collection and disposed of. When such materials are appropriate to the needs of other publicly funded libraries in the state they shall be transferred to such libraries. Other disposition of materials shall be at the discretion of the Director. When library materials are disposed of at public sale, each item shall be marked "No longer property of the Nebraska Library Commission." Funds from such sales shall be deposited in the Nebraska Library Commission cash fund.

The Commission uses a separate cataloging system to track its books and periodicals. During review of the Commission's procedures related to its library collection, it was noted the Commission did not have adequate controls in place to ensure all items purchased for the collection were properly added to the catalog and all deletions were proper.

- One individual at the Commission ordered the books or periodicals and received them. The books and periodicals were forwarded to another Commission employee who entered them into the Commission's catalog system. A review was not performed to ensure the books were properly entered into the catalog once received.
- Additionally, the Commission did not maintain documentation showing approval of the items that were deleted from the catalog. In order for an item to be deleted from the catalog, the item must first be marked as deleted in the system, which means the item is shown as not available in the system. Once deleted, the item can then be purged, which removes the item completely from the system. The individual who purged the items out of the catalog was also able to delete items in the system, increasing the risk for misappropriation.
- The APA also noted that nine Commission employees had access to add and delete items in the catalog. This access has not been updated to match the employees' current job descriptions.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Concluded)

7. **Library Collections** (Concluded)

It was also noted that once books or periodicals were no longer needed at the Commission, and other Nebraska libraries did not show interest in them, they were sent to the City of Lincoln Public Library book sale. Proceeds of this sale went to the City of Lincoln Library Foundation, which was not in accordance with the Commission's rules and regulations.

Without adequate procedures in place over the Commission's collection, there is an increased risk of loss or misuse of State assets.

We recommend the Commission:

- Implement a process to review items purchased to ensure items are properly added to the catalog;
- Maintain documentation showing approval of the items deleted from the catalog;
- Ensure the individuals involved in the purging process do not also have access to delete items from the system;
- Review access in the catalog system to ensure access is appropriate based upon job description; and
- Follow rules and regulations on how to dispose of items no longer needed in the Commission's collection.

Commission Response: The Commission will review its current practices and procedures and implement appropriate changes in order to protect assets.



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NEBRASKA LIBRARY COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Library Commission
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Library Commission (Commission) for the calendar year ended December 31, 2013. 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 changes in fund balances of the Commission for the calendar year ended December 31, 2013, based on the accounting system and procedures prescribed by the State of Nebraska Department 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, the Commission, 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.

July 30, 2014



Mike Foley
Auditor of Public Accounts

NEBRASKA LIBRARY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2013

	General Fund Fund 10000	Library Commission Cash Fund Fund 23400	Federal Funds Fund 43450	Library Commission Trust Fund Fund 68340	Library Commission Distributive Fund Fund 73410	Totals (Memorandum Only)
REVENUES:						
Appropriations	\$ 3,504,126	\$ -	\$ -	\$ -	\$ -	\$ 3,504,126
Intergovernmental	-	-	2,143,044	-	-	2,143,044
Sales & Charges	-	4,850	-	-	-	4,850
Miscellaneous	835	2,998	(224)	26,212	-	29,821
TOTAL REVENUES	3,504,961	7,848	2,142,820	26,212	-	5,681,841
EXPENDITURES:						
Personal Services	1,691,748	34,275	858,332	-	-	2,584,355
Operating	505,760	56,263	366,689	459	-	929,171
Travel	27,797	6,791	52,124	-	-	86,712
Capital Outlay	75,799	42	542	-	-	76,383
Government Aid	1,203,022	78,011	956,921	-	-	2,237,954
TOTAL EXPENDITURES	3,504,126	175,382	2,234,608	459	-	5,914,575
Excess (Deficiency) of Revenues Over (Under) Expenditures	835	(167,534)	(91,788)	25,753	-	(232,734)
OTHER FINANCING SOURCES (USES):						
Sales of Assets	771	-	-	-	-	771
Adjustment to Fund Balance	-	-	(3,567)	-	-	(3,567)
Deposit to General Fund	(1,606)	-	-	-	-	(1,606)
TOTAL OTHER FINANCING SOURCES (USES)	(835)	-	(3,567)	-	-	(4,402)
Net Change in Fund Balances	-	(167,534)	(95,355)	25,753	-	(237,136)
FUND BALANCES, JANUARY 1, 2013	2,380	220,924	191,019	100,905	-	515,228
FUND BALANCES, DECEMBER 31, 2013	<u>\$ 2,380</u>	<u>\$ 53,390</u>	<u>\$ 95,664</u>	<u>\$ 126,658</u>	<u>\$ -</u>	<u>\$ 278,092</u>
FUND BALANCES CONSIST OF:						
General Cash	\$ -	\$ 50,790	\$ 95,664	\$ 126,658	\$ 113,361	\$ 386,473
Petty Cash	150	-	-	-	-	150
Deposits with Vendors	2,230	2,600	-	-	-	4,830
Accounts Receivable Invoiced	-	-	-	-	20,454	20,454
Due to Vendors	-	-	-	-	(133,815)	(133,815)
TOTAL FUND BALANCES	<u>\$ 2,380</u>	<u>\$ 53,390</u>	<u>\$ 95,664</u>	<u>\$ 126,658</u>	<u>\$ -</u>	<u>\$ 278,092</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2013

1. Criteria

The accounting policies of the Nebraska Library Commission (Commission) 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) (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 Revenue, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned regardless of the timing of related cash flows. State Accounting does not require the Commission to record all accounts receivable and related revenues in EnterpriseOne. As such, the Commission's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payables posted in the general ledger as of December 31, 2013, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2013, **does not** include amounts for goods and services received before December 31, 2013, which had not been posted to the general ledger as of December 31, 2013.

Other liabilities (primarily in the Distributive Fund Type) are recorded in accounts titled Due to Vendor for the Commission. 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. For further information of the activity recorded to those accounts for the calendar year ended December 31, 2013, see Note 6.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

The Commission had accounts receivable not included in the Schedule of \$68,194 from invoice billings to Nebraska schools and libraries (see Note 7 for further explanation). State Accounting did not require the Department 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 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.

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. During the calendar year ended 2013, the Commission received Federal funds from the Institute of Museum and Library Services and the Department of Commerce.

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.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

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

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

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

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

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

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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.

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 Commission include:

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

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Commission's funds at December 31, 2013, included amounts recorded in Due to Vendor. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The activity processed on the general ledger through these accounts is summarized in Note 6.

Other Financing Sources – Deposit to the General Fund, adjustment to fund balance, and proceeds of fixed asset dispositions.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE
(Continued)

2. Reporting Entity

The 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.

The 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 \$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 LIBRARY 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 3 to 10 years.

Capital asset activity of the Commission recorded in the State Accounting System for the calendar year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 470,731	\$ 14,978	\$ 11,063	\$ 474,646
Less accumulated depreciation for:				
Equipment				442,439
Total capital assets, net of depreciation				<u>\$ 32,207</u>

Note: The accumulated depreciation noted in the table above was calculated in the accounting system through September 30, 2013. Depreciation for October through December 2013 was not run in the accounting system until after the end of the calendar year 2013.

6. Changes in Due to Vendors

<u>Fund</u>	<u>Balance January 1, 2013</u>	<u>In</u>	<u>Out</u>	<u>Balance December 31, 2013</u>
Distributive Fund 73410	\$ 127,641	\$ 2,479,540	\$ 2,473,366	\$ 133,815

Due to Vendors consists of accounts payable and advanced payments. The accounts payable are amounts received from entities for payment of participation fees or for database access which is still due to be paid to the vendor by the Commission. Advanced payments consist of monies received from Nebraska schools and libraries on account. These monies are then used to pay vendors for digital audio books, eBooks, or database fees.

7. Distributive Activity

The Library Commission Distributive Fund is used to record two different types of Commission activity. The first activity included in this fund is receipt of participation fees and payment for eBooks and audio books for the Nebraska OverDrive Libraries Group. This group enables Nebraska libraries to share eBooks and audio books purchased by the Commission with the participation fees collected. The intent of this group is to make these types of digital media available to Nebraska libraries that might not otherwise be able to afford them. At December 31, 2013, there were approximately 150 libraries participating in this group.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Concluded)

7. **Distributive Activity** (Concluded)

The second type of activity included in this fund is related to online databases and eResources. The Commission works with multiple database vendors to provide access to discounted eResources and databases to Nebraska schools and libraries. The vendors notify the Commission of specific pricing, which allows the Commission to bill each school or library its portion of the cost. The Commission then pays the vendor, using the receipts received from the schools or libraries.

8. **Library Regional Systems**

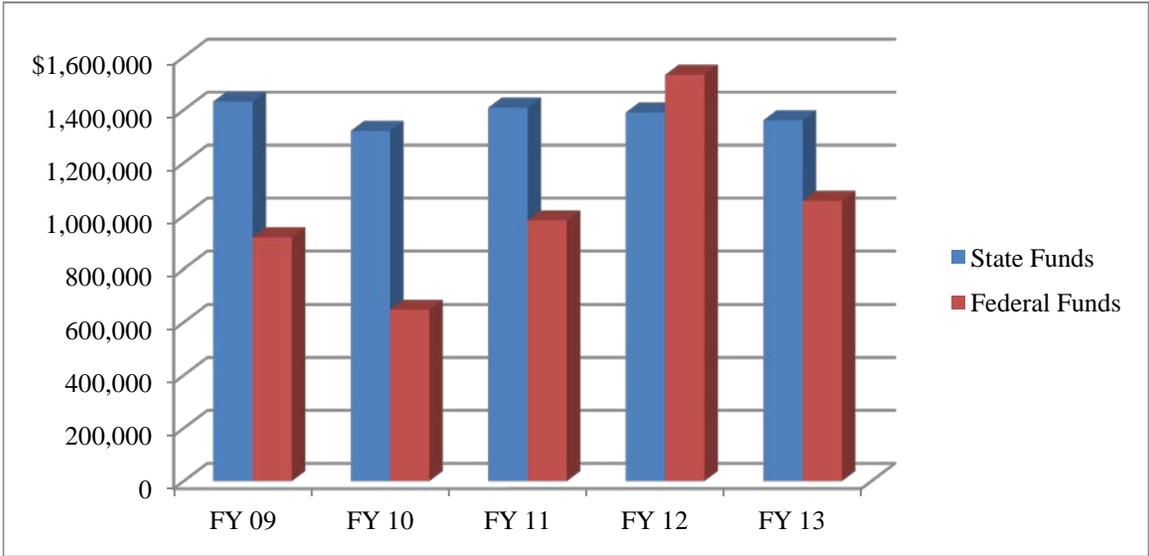
The six library regional systems, including the Eastern Library System, Meridian Library System, Northeast Library System, Panhandle Library System, Republican Valley Library System, and Southeast Library System, are component units of the Nebraska Library Commission, as defined by the Government Accounting Standards Board (GASB). Financial information for these component units was not included in the financial schedule of the Commission. Additional information on the component units is available from the Commission. During the calendar year ended December 31, 2013, the Commission paid in State and Federal funds the following, which includes both aid and non-aid expenditures of the Commission: \$82,089 to the Eastern Library System; \$131,368 to the Meridian Library System; \$104,589 to the Northeast Library System; \$45,324 to the Panhandle Library System; \$102,554 to the Republican Valley Library System; and \$112,597 to the Southeast Library System.

NEBRASKA LIBRARY COMMISSION

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 Balance, and, accordingly, we express no opinion on it.

NEBRASKA LIBRARY COMMISSION
NEBRASKA LIBRARY COMMISSION AID EXPENDITURES BY STATE FISCAL YEAR
 For the Fiscal Years Ended June 30, 2009, 2010, 2011, 2012, and 2013



Note 1: State funds include aid expenditures from both the State General Fund and the Commission's Cash Fund.

Note 2: The significant increase in Federal fund aid expenditures in fiscal year ended June 30, 2012, was due to the Broadband Technology Opportunities Program ARRA grant, which was awarded to the Commission during fiscal year ended June 30, 2011.