

**ATTESTATION REPORT
OF THE
NEBRASKA LIQUOR CONTROL COMMISSION
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013**

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Issued on June 11, 2014

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NEBRASKA LIQUOR CONTROL COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Comments Section	
Exit Conference	2
Summary of Comments	3
Comments and Recommendations	4 - 11
Financial Section	
Independent Accountant's Report	12 - 13
Schedule of Revenues, Expenditures, and Changes in Fund Balances	14
Notes to the Schedule	15 - 19
Supplementary Information	20
Beer and Alcohol Tax Revenue	21
Revenues by Category	22
Expenditures by Category	23
Beer and Alcohol Tax Revenue Fees	24

NEBRASKA LIQUOR CONTROL COMMISSION

BACKGROUND

The Nebraska Liquor Control Commission (Commission) was created by the Legislature in 1935. The Commission has three members appointed by the Governor to six-year terms with legislative approval. No more than two members can be in the same political party. The Commission hires the executive director, with the approval of the Governor. The Commission meets at least once a month, and each member is paid \$12,500 a year and is reimbursed for actual expenses.

The Commission's duties include, but are not limited to:

- Receiving applications for and issuing, suspending, canceling and revoking liquor licenses of manufacturers, distributors, non-beverage users, retailers, railroads, airlines, and boats.
- Setting standards through rules and regulations for enforcing the Nebraska Liquor Control Act to promote public health and welfare.
- Inspecting places where liquors are manufactured, distributed, or sold.
- Conducting audits of licensees.
- Conducting hearings to carry out its duties.
- Receiving and accounting for all license fees and liquor excise taxes that are turned over to the State Treasurer.
- Providing law books and other printed material to licensees.

NEBRASKA LIQUOR CONTROL COMMISSION

EXIT CONFERENCE

An exit conference was held May 29, 2014, with the Commission to discuss the results of our examination. Those in attendance for the Commission were:

NAME	TITLE
Hobert B. Rupe	Executive Director
William Austin	Commissioner
Jerry Van Ackeren	Wholesale Compliance Manager
Mary Messman	Licensing Division Administrator
Debbie Jacobson	Revenue Division Administrator
Jill L. Nelson	Legal Division Administrator

NEBRASKA LIQUOR CONTROL COMMISSION

SUMMARY OF COMMENTS

During our examination of the Nebraska Liquor Control 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. ***Lack of Controls Over Revenues:*** The Commission did not have adequate segregation of duties over revenues, and reconciliations of tax reports were not accurate and complete.
2. ***Commissioners' Payroll Benefits:*** The three Commissioners received insurance benefits during the calendar year; however, there was a lack of documentation on file to support their eligibility for those benefits.
3. ***Common School Fund:*** The Commission did not deposit \$178,358 in the proper Common School Fund in accordance with the Nebraska State Constitution.
4. ***Travel Expenditures:*** There were several issues noted related to travel expenditures, including lack of supporting documentation for airfare, lodging reimbursed, and improper payment of lodging taxes.
5. ***Lack of Segregation of Duties Over Fixed Assets:*** The Commission did not have adequate segregation of duties over fixed assets. One individual was able to add assets, change asset information, initiate the disposal of assets, and perform the annual inventory.

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. Where no response has been included, the Commission declined to respond. Responses that indicates corrective action has been taken were not verified at this time, but they will be verified in the next examination.

NEBRASKA LIQUOR CONTROL COMMISSION

COMMENTS AND RECOMMENDATIONS

1. Lack of Controls Over Revenues

Segregation of Duties

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. Furthermore, good internal controls require procedures to ensure all licenses issued have been properly paid for, all license numbers have been properly accounted for, checks are restrictively endorsed immediately upon receipt, and monies are deposited within statutory requirements.

During testing, we noted the Commission lacked adequate controls for monies received, as individuals were able to issue a license and process monies without adequate controls in place to detect possible improprieties:

- When mail was opened by the Commission, two or more individuals prepared a log of new license monies received in an electronic spreadsheet. The log was not printed or documented as prepared for review against the actual deposit made; instead, the log remained electronically where it could be manipulated by other staff. The correspondence received, such as applications, and monies were given to staff to enter the license into the license system and prepare the deposit. The same individuals who opened the mail were able to enter information into the system and prepare the deposit.
- Renewals were not logged in when received in the mail; instead, the correspondence and monies were given to a staff person who ran a calculator tape of monies received. This individual also entered the renewal information into the licensing system.
- Not all monies received by the Commission were deposited in accordance with Neb. Rev. Stat. § 84-710 (Reissue 2008), which requires deposits of \$500 or more to be deposited with the State Treasurer within three business days. The Commission would hold monies received due to missing information for completion of licenses, etc.

During the cash count, we noted 91 of 107 checks were not deposited timely. Fifty of the 91 checks had not been deposited as of March 28, 2014, when we performed our procedures. The oldest check was dated February 26, 2014, 30 days after receipt. For the remaining 41 checks, the deposits were made up to 20 days after receipt. The 91 checks totaled \$24,369. One check was also not restrictively endorsed for deposit and was documented as returned to the sender on March 27, 2014.

During detailed testing of 10 deposit documents, we also noted three checks were not deposited timely, up to 15 days after receipt.

NEBRASKA LIQUOR CONTROL COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Lack of Controls Over Revenues (Continued)

- The Commission also received checks made payable to the Nebraska State Patrol for fingerprinting fees, which were required in order to process a new license application. The checks were not deposited by the Commission; instead, they were sent to the Nebraska State Patrol for deposit and processing. Monies received by the Commission should be deposited intact.
- The Commission was able to issue a license without entering monies received into the license system. The system would flag occurrences such as this; however, the Commission did not monitor these occurrences to ensure money was subsequently received.
- New licenses were assigned sequential numbers; however, renewals were not. Therefore, the licenses were not able to be reconciled or monitored to ensure all licenses issued were properly accounted for. The system was not capable of running a report of licenses issued for a certain date in time; only a current report could be generated, and the Commission did not have procedures to run the report on a regular basis.

A similar finding was noted during the prior attestation review for the fiscal year ended June 30, 2008.

Reconciliations of Tax Returns

A good internal control plan requires adequate policies and procedures to ensure taxes received, as well as the procedures to verify the accuracy of those taxes, are complete and accurate.

The Commission performed reconciliations of Wholesale Reports for Beer and Spirit/Wine to shippers' reports to ensure taxes being reported were complete and accurate. According to the Commission's Procedures for Cross-Checking Monthly Wholesale Spirit/Wine Reports:

The Spirit/Wine desk chooses 10 percent of wholesalers each month to reconcile against shippers. Each wholesaler is cross-checked each year at a minimum.

During testing of the Commission's procedures to reconcile monthly wholesale spirit/wine tax returns, we noted the Commission was reconciling purchases from shippers; however, the tax was based upon sales to retailers. The Commission did not have documented procedures to ensure the sales to retailers were proper. Therefore, the procedures performed did not ensure the taxes were accurate and complete.

NEBRASKA LIQUOR CONTROL COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Lack of Controls Over Revenues (Continued)

Furthermore, during testing of the reconciliations performed, we noted the following:

- Four of 27 wholesalers did not have a reconciliation performed by the Commission during the calendar year.
- One wholesaler tax return tested did not have accurate or all necessary information reported when compared to the shippers' reports; however, the Commission did not identify these variances. Two shippers' reports were not accurately reported on the wholesaler tax return, and two shippers' reports were not included on the wholesaler tax return. The Commission did not have procedures to ensure all amounts included on the shippers' reports were accurately included on the wholesaler tax return for the month tested or subsequent months for timing issues.

Without controls to ensure all monies received are properly deposited, there is an increased risk of misappropriation of State funds. Furthermore, without adequate policies and procedures for the reconciliation of wholesale reports for the tax base, there is an increased risk taxes remitted will not be accurate and complete.

We recommend the Commission do the following:

- Implement policies and procedures for the proper segregation of duties to ensure no one individual is able to issue licenses and receipt monies.
- Ensure the mail log includes all monies received for the day, including renewals. The log should be printed and documented as prepared by the individuals opening the mail and compared to the daily deposit to ensure all monies received were properly deposited.
- Ensure all monies received are deposited timely in accordance with State statute and all checks received by the Commission are payable to the Commission.
- Implement procedures for the review of flagged licenses with no money receipted in the system. The review should be documented by someone other than those entering information into the system.
- Establish policies and procedures for an adequate reconciliation of licenses issued. A report should be generated daily of all licenses issued and compared to the daily deposit of monies received to ensure all licenses are accounted for.

NEBRASKA LIQUOR CONTROL COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Lack of Controls Over Revenues** (Concluded)

- Develop policies and procedures for the reconciliation of wholesaler tax returns to sales to retailers to ensure taxes reported are accurate and complete. Furthermore, reconciliations performed should follow policies already implemented, and all wholesalers should be tested at least annually, and variances in information reported should be followed up on and resolution documented.

Commission Response: The Commission will take State auditors' recommendations in this area of concern under advisement. The Commission plans to make a full study and evaluate each issue and determine a corrective line of action including the possibility of requesting additional personnel to meet accounting standards. The Commission plans to re-write procedures over reconciliation of state excise tax returns involving all three tiers to reach greater accountability over state excise taxes.

2. **Commissioners' Payroll Benefits**

Neb. Rev. Stat. § 84-1601(1) (Reissue 2008) states, in relevant part:

There is hereby established a program of group life and health insurance for all permanent employees of this state who work one-half or more of the regularly scheduled hours during each pay period

Neb. Rev. Stat. § 84-1604 (Reissue 2008) provides, as is relevant:

The coverages provided for by sections 84-1601 to 84-1615 shall be afforded to each permanent state employee who works one-half or more of the regularly scheduled hours during each pay period, commencing after thirty days of such employment. Permanent and temporary employees who are employed less than the regularly scheduled hours as defined for a permanent employee shall be entitled to state contributions on a proportionately reduced basis.

Op. Att'y Gen. No. 10011 (December 9, 2010) determined that:

[T]he Commissioners' eligibility for participation in the State Insurance Program ultimately turns upon the amount of time each Commissioner works or is expected to work each week. If they work for twenty hours per week, then they are eligible to participate in the program. If they do not work for the requisite time each week, then they are not eligible to participate in the program . . . the Commissioners should be prepared to document that they do work the required hours to maintain eligibility for the benefit

The three Commissioners received insurance benefits during the calendar year ended December 31, 2013, with no documentation they worked the required hours to maintain eligibility for the benefits. Furthermore, none of the benefits received were proportionately reduced for less than the regularly scheduled hours, as required by § 84-1604, indicating the Commissioners worked 40 hours each week. According to discussions with the Commission, the Commissioners work on average two days a month. Therefore, contrary to the established practice, it appears the Commissioners are not entitled to receive health insurance and other benefits, as they work less than the required 20 hours each week.

NEBRASKA LIQUOR CONTROL COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Commissioners' Payroll Benefits (Concluded)

The State paid \$5,164 for the Commissioners' benefits during the calendar year. One Commissioner received health insurance benefits, and all three Commissioners received life insurance benefits. According to discussion with the Executive Director, the Commissioners may have begun receiving these benefits as early as the 1970's; however, he could not provide documentation to indicate the actual number of years the benefits in question had been provided.

Inappropriate expenses are incurred by the State when employee benefits are granted to those, as appears to be the case with the Commissioners, who do not meet the statutory requirements for receiving them. A similar finding was noted during the prior attestation review for the fiscal year ended June 30, 2008.

We recommend the Commission discontinue the provision of health and life insurance benefits to Commissioners unless Commissioners can document they work the required 20 hours per week in order to be eligible to receive the benefits. We also recommend that the benefits received be proportionately reduced to reflect the actual hours worked by the Commissioners, if they are determined to be eligible.

Commission Response: The Commission will undertake a review of the policy and will consult with other State agencies to insure that all statutory requirements are met in the determination of whether benefits are allowed and in the determination of hours worked.

3. Common School Fund

Neb. Rev. Stat. § 53-1,104(5) (Cum. Supp. 2012) refers to violations by licensees and the penalties imposed by the Commission related to the violations. Amounts collected under this section are required to be remitted "to the State Treasurer for distribution in accordance with Article VII, section 5, of the Constitution of Nebraska."

Neb. Rev. Stat. § 53-138.01 (Reissue 2010) also requires the State Treasurer to distribute:

[L]icense fees received by the commission for licenses issued pertaining to alcoholic liquor, including beer, in accordance with Article VII, section 5, of the Constitution of Nebraska.

The Nebraska State Constitution, Article VII, Section 5(1), requires:

[A]ll fines, penalties, and license money arising under the general laws of the state . . . shall belong and be paid over to the counties respectively where the same may be levied and imposed . . . All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue . . .

NEBRASKA LIQUOR CONTROL COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Common School Fund** (Concluded)

During calendar year 2013, the Commission deposited \$178,358 of monies received in accordance with § 53-1,104(5) and § 53-138.01 to the Temporary School Fund rather than the Common School Fund, as required by the Nebraska State Constitution. Deposits have been made to the improper fund since 2010.

When monies are not properly deposited to the Common School Fund, in accordance with the Nebraska State Constitution, the monies are not being distributed to the common schools of a county or municipality where the fine, penalty, or license fee arose.

We recommend the Commission ensure monies received are properly deposited into the Common School Fund in accordance with the Nebraska State Constitution when required by State statute. We also recommend the Commission confer with the State Treasurer to determine both the feasibility and appropriate method of adjusting the respective fund amounts accordingly to reflect the deposits that should have been made by law since 2010.

Commission Response: The Commission fully agrees with State Auditors' recommendation that monies received in accordance with specific statutes reference shall be deposited into Common School Fund versus Temporary School Fund. The Commission has already taken necessary steps with deposit procedures in coordination with State Treasurer's office and DAS Accounting. It should be noted that in a previous meeting with the State Treasurer's office it was determined that previous funds deposited into the Temporary School Fund versus the Common School Fund do not carry any need to transfer monies or make any accounting adjustment.

4. **Travel Expenditures**

A good internal control plan requires documentation be on file to support that travel expenditures are reasonable and necessary for reimbursement.

During testing of travel expenditures, we noted the following issues:

- The Executive Director and two Commissioners attended the 2013 National Conference of State Liquor Administrators (NCSLA) Annual Conference, which was held June 24-28, 2013, in Honolulu, Hawaii. All three individuals traveled to Hawaii on Friday, June 21, prior to the conference starting. According to discussions with the Commission, and confirmation from the Executive Director of NCSLA, a meeting was held on Sunday, June 23, to discuss and approve the budget for the NCSLA 2013 Regional Conference that the Commission was hosting in Omaha, Nebraska, in October 2013. However, there was no documentation of any meetings or official business that took place on Saturday, June 22. Therefore, travel to Hawaii on Friday, June 21, does not appear to have been reasonable or necessary. Unnecessary lodging for Friday evening for the three individuals totaled \$605, and one Commissioner was also reimbursed for one \$6 meal.

NEBRASKA LIQUOR CONTROL COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Travel Expenditures (Continued)

Also, the Commission was unable to provide adequate supporting documentation for the airline flight for one Commissioner and the Executive Director. All that was provided was a credit card statement. The Commission should have obtained flight itineraries to verify the details of the flights agreed to supporting documentation.

Furthermore, the Commissioner and the Executive Director flew first class for \$2,469 each. According to the Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 1, reimbursement for commercial air travel is limited to coach fare. Therefore, the Commission staff looked up coach fare rates after the individuals returned in July and only reimbursed the airfare at \$1,598 for each ticket. It is unknown what the tickets would have cost at the time of actual purchase; however, the second Commissioner was able to obtain a coach flight costing only \$1,117, from Kearney, Nebraska, to Honolulu, Hawaii.

- One Commissioner who lived in Omaha traveled to Lincoln for Commission hearings held on December 18-19, 2012. We tested the lodging payment to the Cornhusker Marriott Hotel for \$190 (\$95 each night). According to the Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 4, “It is State Accounting policy that a person generally be more than 60 miles from his or her workplace in order to be eligible for lodging.” Per review of Mapquest, the distance between the Commissioner’s home in Omaha and the hotel was only 53 miles, and there was no documentation of the necessity of the lodging. According to the Commission minutes, the hearings started at 9:00 am.

Furthermore, valet parking of \$32 (\$16 each day) was also paid for the Commissioner. Garage parking would have been \$10 per day. Reimbursement of valet parking appears excessive and unnecessary.

- The Commission hosted the 2013 NCSLA Central/Western Regional Conference held at the Hilton Omaha on October 27-30, 2013. Lodging expenses associated with the conference included \$290 in sales and lodging taxes. According to the Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 4, “Sales to the State of Nebraska and its agencies are exempt from Nebraska sales, use and lodging tax.” The Commission should have been directly billed and exempt from the taxes.

When supporting documentation is not provided and travel expense policies are not followed for travel expenditures, it increases the risk of unnecessary and unreasonable reimbursements using State funds.

We recommend the Commission implement policies and procedures to ensure adequate documentation is on file to support travel expenditures. The Commission should ensure only reasonable and necessary expenditures are paid for travel. When travel is deemed necessary, the Commission should ensure adequate documentation is on file to substantiate the expense. Furthermore, the Commission should ensure in-state lodging is directly billed to avoid the payment of taxes.

NEBRASKA LIQUOR CONTROL COMMISSION

COMMENTS AND RECOMMENDATIONS

(Concluded)

4. Travel Expenditures (Concluded)

Commission Response: The Commission plans to develop and write full travel policies to include and address State Auditors' findings and concerns. The Commission intends to work closely with DAS Accounting and also contacting other State agencies as to their policies accordingly. Once the policy is formulated, it will be presented to the Commission Board for their official adoption.

5. Lack of Segregation of Duties Over Fixed Assets

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.

We noted one individual was able to add assets, change asset information, and initiate the disposal of an asset in the accounting system. This same individual performed the annual inventory and also reviewed the Additions and Retirements Report, which showed changes to the Commission's assets. According to the Commission, the report was only reviewed by a second individual when assets were purchased. During calendar year 2013, the Commission did not add any new assets; however, several assets were retired, and there was no independent documented review of the report or the Surplus Property Notification form for the disposal of the assets.

Without proper procedures and segregation of duties, there is an increased risk for misuse or theft of State assets.

We recommend the Commission implement policies and procedures to ensure an adequate segregation of duties exists, so individuals are not in a position to both perpetrate and conceal errors or irregularities. We recommend an individual, independent from the process of maintaining the assets, periodically document his or her review of the Additions and Retirement Report and also approve the Surplus Property Notification form for the disposal of assets.

Commission Response: The Commission plans to re-write policies and procedures that will meet the accounting standard of segregation of duties to ensure employees are not in a position to both perpetrate and conceal errors or irregularities.



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NEBRASKA LIQUOR CONTROL COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Liquor Control Commission
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Liquor Control 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.

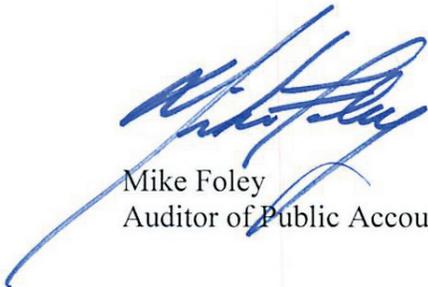
In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Liquor Control Commission for the calendar year ended December 31, 2013, based on the accounting system and procedures prescribed by the State of Nebraska's Director of the 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 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, individuals charged with governance, others within the Commission, and the appropriate Federal and regulatory agencies, and it 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.

June 6, 2014



Mike Foley
Auditor of Public Accounts

NEBRASKA LIQUOR CONTROL COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For Calendar Year Ended December 31, 2013

	General Fund 10000	Winery & Grape Producers Promotional Fund 21970	Rule & Regulation Cash Fund 23500	Temporary School Fund 61360	Totals (Memorandum Only)
REVENUES:					
Appropriations	\$ 936,579	\$ -	\$ -	\$ -	\$ 936,579
Taxes	29,213,207	9,955	-	-	29,223,162
Sales & Charges	924,162	168,000	53,137	178,358	1,323,657
Miscellaneous	20,310	-	1,968	-	22,278
TOTAL REVENUES	31,094,258	177,955	55,105	178,358	31,505,676
EXPENDITURES:					
Personal Services	714,114	-	-	-	714,114
Operating	203,536	-	78,992	-	282,528
Travel	18,929	-	-	-	18,929
TOTAL EXPENDITURES	936,579	-	78,992	-	1,015,571
Excess (Deficiency) of Revenues Over (Under) Expenditures	30,157,679	177,955	(23,887)	178,358	30,490,105
OTHER FINANCING SOURCES (USES):					
Sales of Assets	760	-	-	-	760
Deposit to General Fund	(30,158,439)	-	-	-	(30,158,439)
Deposit to Common Fund (Note 6)	-	(177,955)	-	(178,358)	(356,313)
TOTAL OTHER FINANCING SOURCES (USES)	(30,157,679)	(177,955)	-	(178,358)	(30,513,992)
Net Change in Fund Balances	-	-	(23,887)	-	(23,887)
FUND BALANCES, JANUARY 1, 2013	4,391	-	104,253	-	108,644
FUND BALANCES, DECEMBER 31, 2013	<u>\$ 4,391</u>	<u>\$ -</u>	<u>\$ 80,366</u>	<u>\$ -</u>	<u>\$ 84,757</u>
FUND BALANCES CONSIST OF:					
General Cash	\$ -	\$ -	\$ 80,430	\$ -	\$ 80,430
NSF Items	-	-	200	-	200
Deposits with Vendors	4,391	-	-	-	4,391
Due to Fund	-	-	(264)	-	(264)
TOTAL FUND BALANCES	\$ 4,391	\$ -	\$ 80,366	\$ -	\$ 84,757

The accompanying notes are an integral part of the schedule.

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO THE SCHEDULE

For the calendar year ended December 31, 2013

1. Criteria

The accounting policies of the Nebraska Liquor Control Commission (Commission) are on the basis of accounting, as prescribed by the State of Nebraska's Director of the Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of 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. 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 are recorded in accounts entitled Deposits and Due to Fund 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.

The Commission had no accounts receivable at December 31, 2013. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

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.

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.

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

Appropriations – Appropriations 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 Commission consist of alcohol and beer taxes.

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

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

The major expenditure account classifications established by State Accounting 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.

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Concluded)

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 and deposits with vendors. 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 fund balance. Other liabilities recorded in the general ledger for the Commission's funds at December 31, 2013, included amounts recorded in Deposits and Due to Fund. 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 – Proceeds of fixed asset dispositions and deposits to the General and Common Funds.

2. **Reporting Entity**

The Nebraska Liquor Control 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 Nebraska Liquor Control 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.

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO THE SCHEDULE
(Continued)

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.

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:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	\$ 24,088	\$ -	\$ 12,333	\$ 11,755
Total	<u>24,088</u>	<u>-</u>	<u>12,333</u>	<u>11,755</u>
Less accumulated depreciation for:				
Equipment				<u>9,364</u>
Total capital assets, net of depreciation				<u>\$ 2,391</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.

NEBRASKA LIQUOR CONTROL COMMISSION

NOTES TO THE SCHEDULE

(Concluded)

6. Deposits to Common Funds

Neb. Rev. Stat. § 53-1,104(5) (Cum. Supp. 2012) refers to violations by licensees and the penalties imposed by the Commission related to the violations. Amounts collected under this section are required to be remitted “to the State Treasurer for distribution in accordance with Article VII, section 5, of the Constitution of Nebraska.”

Additionally, Neb. Rev. Stat. § 53-138.01 (Reissue 2010) states, in relevant part:

[T]he State Treasurer shall distribute license fees received by the commission for licenses issued pertaining to alcoholic liquor, including beer, in accordance with Article VII, Section 5, of the Constitution of Nebraska.

Article VII, Section 5, of the Constitution of Nebraska states, as is relevant:

[A]ll fines, penalties, and license money arising under the general laws of the state . . . shall belong and be paid over to the counties respectively where the same may be levied or imposed, and all fines, penalties, and license money arising under the rules, bylaws, or ordinances of cities, villages, precincts, or other municipal subdivision less than a county shall belong and be paid over to the same respectively. All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions

License fees collected in accordance with State statute are to be deposited into the Common School fund in accordance with the Nebraska Constitution. During the calendar year, the Commission deposited \$178,358 to the Temporary School fund. As noted in Comment Number 3 (Common School Fund), the deposit should have been made to the Common School fund.

NEBRASKA LIQUOR CONTROL COMMISSION

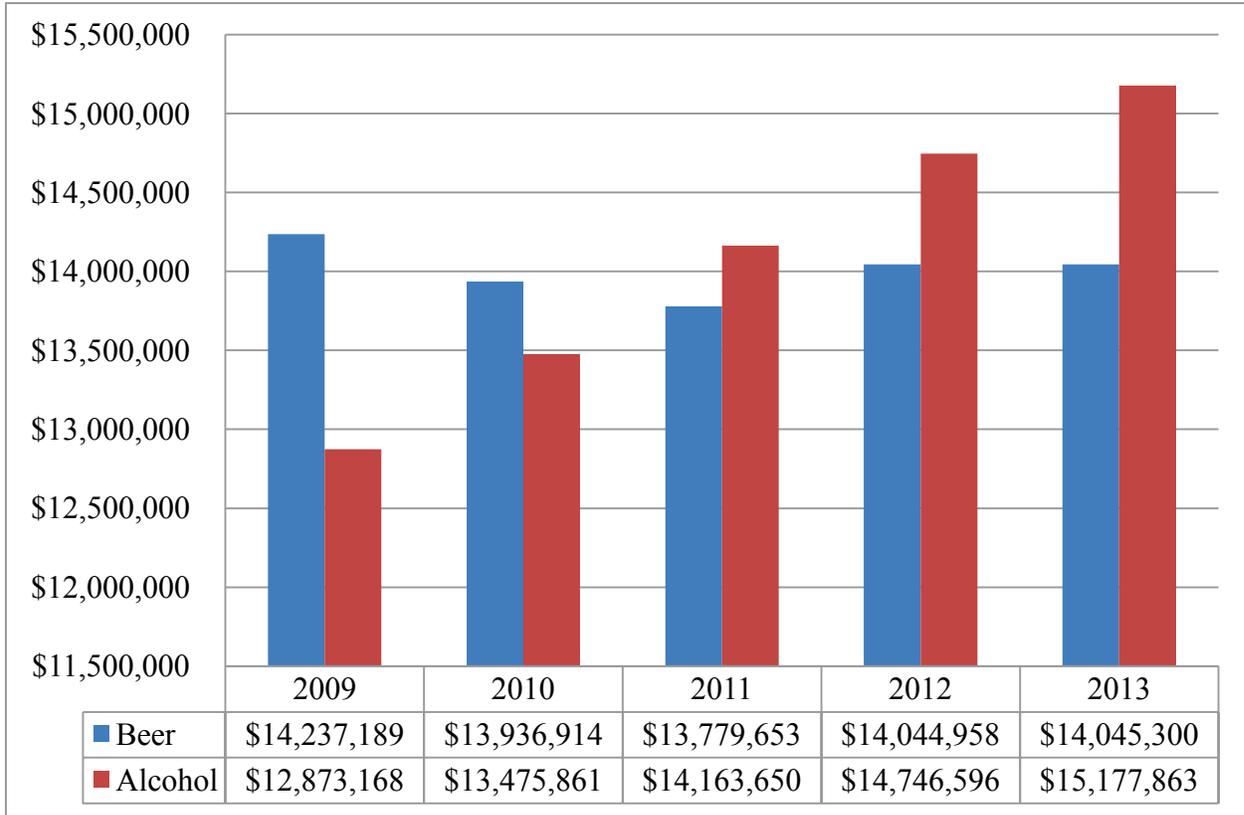
SUPPLEMENTARY INFORMATION

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

NEBRASKA LIQUOR CONTROL COMMISSION

BEER AND ALCOHOL TAX REVENUE

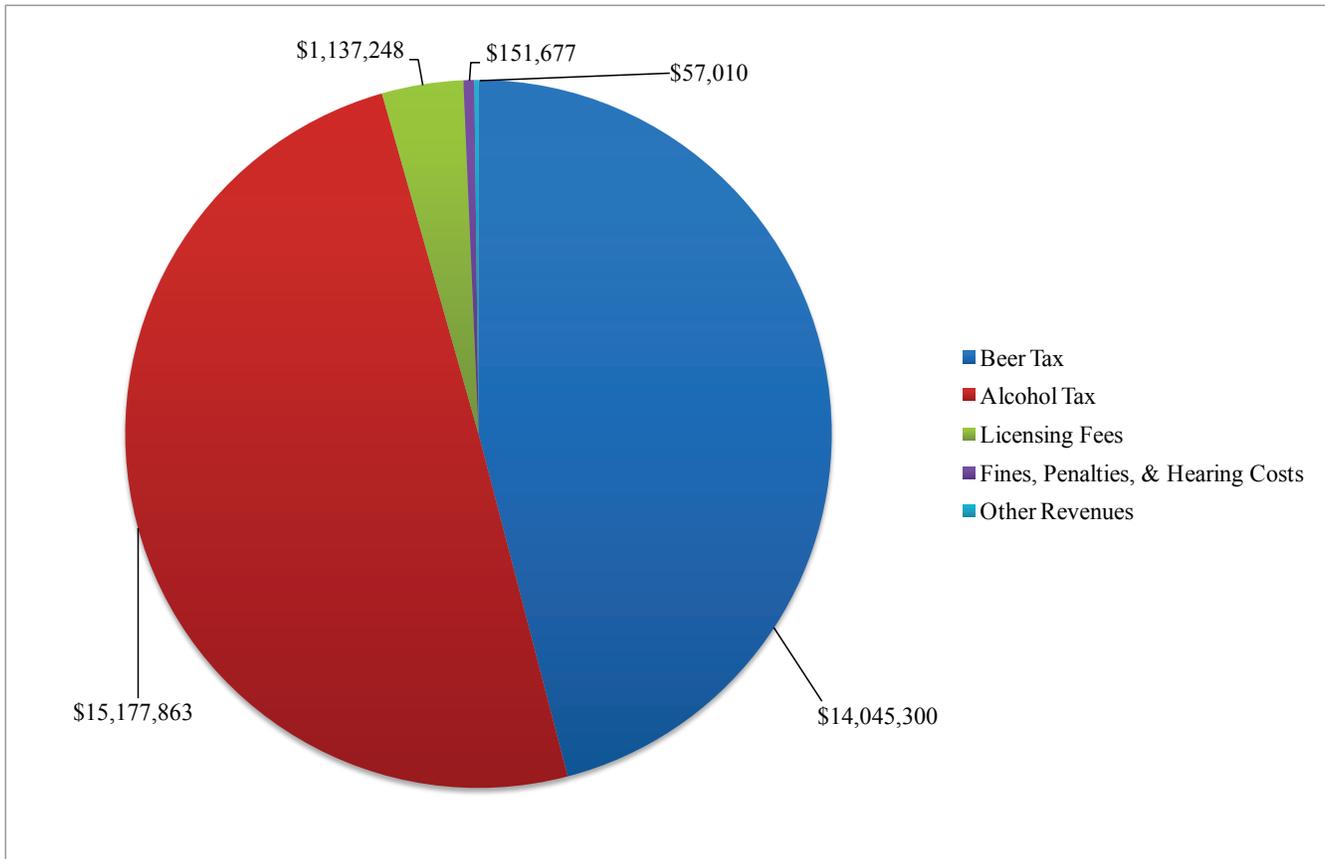
For Calendar Years Ended December 31, 2009, through December 31, 2013



Source: State Accounting System; EnterpriseOne

NEBRASKA LIQUOR CONTROL COMMISSION

REVENUES BY CATEGORY
For Calendar Year Ended December 31, 2013

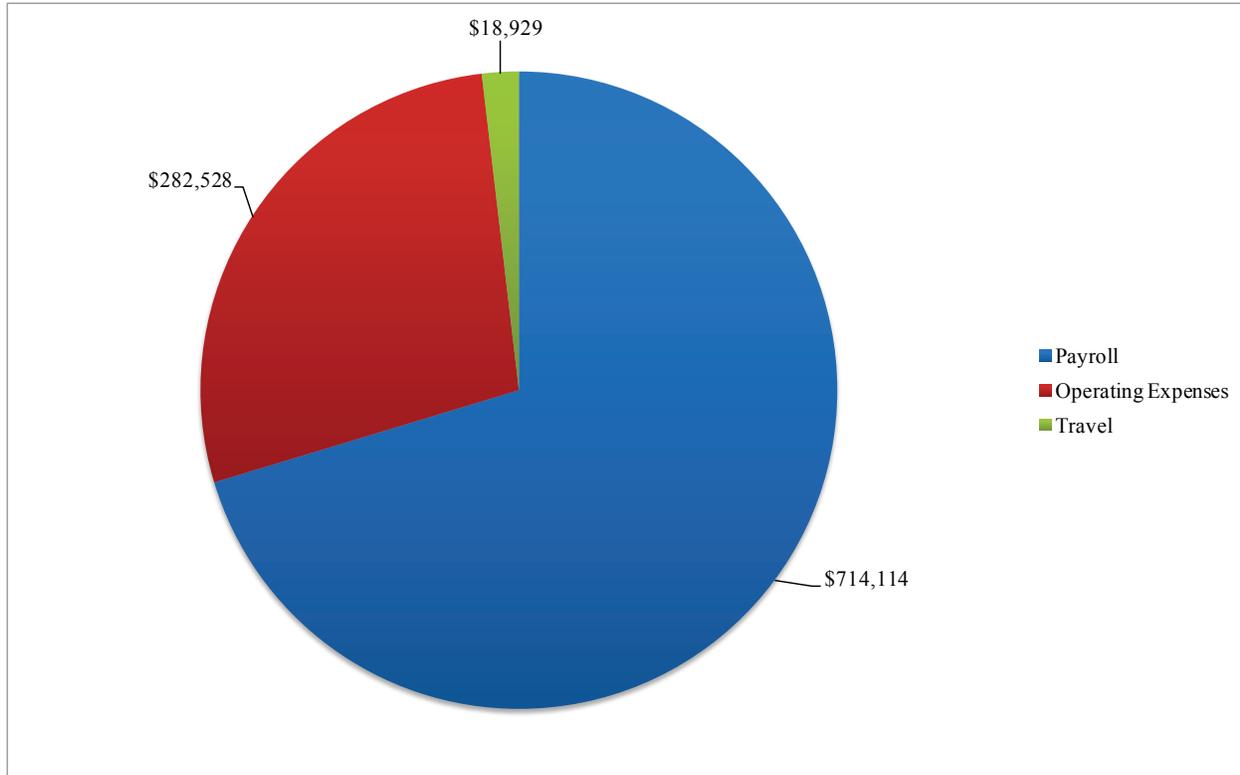


Source: State Accounting System; EnterpriseOne

Note: Other Revenues consists of license publication, alcohol server training, keg registration, investment income, etc. Appropriations were not included.

NEBRASKA LIQUOR CONTROL COMMISSION

EXPENDITURES BY CATEGORY
For Calendar Year Ended December 31, 2013



Source: State Accounting System; EnterpriseOne

NEBRASKA LIQUOR CONTROL COMMISSION

BEER AND ALCOHOL TAX REVENUE FEES

For Calendar Year Ended December 31, 2013

Beer Wholesaler Tax Rate	\$ 0.31 per gallon
Spirits Wholesaler Tax Rate	\$ 3.75 per gallon
Wine Wholesaler Tax Rate	\$ 0.95 per gallon
Farm Wineries Tax Rate	\$ 0.06 per gallon
Craft Breweries Tax Rate	\$ 0.31 per gallon
Direct Shippers:	
Beer Tax Rate	\$ 0.31 per gallon
Spirits Tax Rate	\$ 3.75 per gallon
Wine Tax Rate	\$ 0.95 per gallon

Note: Tax rates noted above are in accordance with Neb. Rev. Stat. § 53-160 (Cum. Supp. 2012).