ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
BANKING AND FINANCE

JULY 1, 2016, THROUGH JUNE 30, 2017

Issued on November 21, 2017

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Audit Staff Working On This Examination

Kris Kucera, CPA, CFE – Audit Manager
Brad Ashley, CPA – Auditor-in-Charge
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NEBRASKA DEPARTMENT OF BANKING AND FINANCE

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BACKGROUND

In 1895, the Legislature established the State Banking Board and, in 1976, the name was changed to the Nebraska Department of Banking and Finance (Department). The director of the Department is appointed by the Governor. The Department is a regulatory agency that enforces statutes pertaining to the banking and financial industry to ensure statutory compliance and to provide for public protection through ensuring sound financial institutions. The Department also includes the Financial Institutions Division, which supervises Nebraska's depository and non-depository institutions, and the Securities Bureau, which is responsible for the registration and regulation of securities sold in the State, as well as the entities and persons engaged in their sale. The revenue to operate the Department is derived primarily from the registration of securities, financial institution examination fees, a financial institution asset assessment, and licensing and application fees.

KEY OFFICIALS AND DEPARTMENT CONTACT INFORMATION

Nebraska Department of Banking and Finance Executive Management

Mark Quandahl	Director
Kelly Lammers	Deputy Director
Claire McHenry	Deputy Director
Patricia Herstein	Department Legal Counsel
Mike Fabry	IT Supervisor

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SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Banking and Finance (Department), we noted certain deficiencies and other operational matters that are presented here. Comment #1, "Lack of Adequate Review of Revenues," is required to be reported in accordance with *Government Auditing Standards* and is considered to be a material weakness.

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 Adequate Review of Revenues:*** The Department did not adequately review $26,207,136 of fees collected under the Nebraska Securities Act to ensure that the amounts received were correct.

2. ***Lack of Internal Control Over Revenues:*** The Department lacked adequate internal controls, as follows: a) deposits and other systems were not reconciled to the State Accounting System; b) review of significant reports was not documented; and c) only one individual was responsible for opening mail and establishing initial control over cash.

3. ***Lack of Segregation of Duties Over Payroll and Capital Assets:*** The Department lacked an adequate segregation of duties over payroll and capital assets, as one individual was able to perform all functions of the payroll or fixed asset processes without a secondary review by an independent person.

4. ***Expenditures Allocation:*** The Department did not have adequate documentation to support the allocation of expenditures and payroll costs between the Department's funds.

5. ***Payroll Time Certifications:*** There is no supervisor approval of exempt employee time certifications, which are submitted every six months.

More detailed information on the above items is provided hereinafter. 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 Department.

Draft copies of this report were furnished to the Department 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.

COMMENTS AND RECOMMENDATIONS

1. Lack of Adequate Review of Revenues

During detailed testing of revenues, it was noted that the Nebraska Department of Banking and Finance (Department) lacked procedures for ensuring that $26,207,136 of fees collected under the Nebraska Securities Act was correct.

Per Neb. Rev. Stat. § 8-1108.03 (Reissue 2012), initial notice filings must be completed whenever securities are to be offered in this State. Section 8-1108.03(1), which applies to a "fixed-amount" filing for the total amount of securities offered, provides, in relevant part, the following:

> *[T]here shall be paid to the director a filing fee of one-tenth of one percent of the aggregate offering price of the federal covered securities under section 18(b)(2) of the Securities Act of 1933 which are to be offered in this state, but the filing fee shall in no case be less than one hundred dollars. If an issuer of securities covered by section 8-1108.02 sells securities in this state in excess of the aggregate amount of securities for which a filing fee has been paid, the director may allow the issuer to amend its filing to include the excess securities sold to persons within this state if the issuer pays a filing fee of three-tenths of one percent for the difference between the initial filing fee paid and the filing fee required under this section for the total amount of securities sold.*

As an alternative to "fixed-amount" filings, § 8-1108.03(2) permits "open-end" or "indefinite" filings, as follows:

> *An open-end management company or a face-amount certificate company, as those terms are defined in the Investment Company Act of 1940, may choose to issue an indefinite amount of securities, if the following conditions are met:*
>
> *(a) The filing made pursuant to subsection (1) of section 8-1108.02 states the company intends to issue an indefinite amount of securities in this state and is accompanied by a filing fee of one thousand dollars;*
>
> *(b) Within ninety calendar days after the expiration of the notice, the company files a sales report containing the actual sales that occurred in this state for the one-year notice period just expired. During such ninety-day period, the notice filing shall be considered continuous;*
>
> *(c) If the sales report required by subdivision (b) of this subsection shows that the company sold securities in excess of the amount of securities for which the filing fee was paid, the company must pay an additional fee to be calculated as follows: One-tenth of one percent of the aggregate amount of securities sold up to the first ten million dollars; and one-twentieth of one percent of the remainder of the aggregate amount of securities sold. The initial filing fee of one thousand dollars shall be deducted from the fee required to be paid pursuant to such subdivision. If this calculation results in a negative amount, no payment shall be made and no credit or refund shall be allowed or returned for such negative amount;*

The Department received a total of $20,487,326 in notice filing fees from both "fixed" and "open-end" or "indefinite" filings during the fiscal year ending June 30, 2017. In all cases, however, the Department relied solely upon the unverified sales information provided by the issuers to support the filing fees received. No independent review of supporting sales records was performed to ensure that the fees received were based upon submitted information that reflected accurately the aggregate or excess amount of securities actually sold.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Lack of Adequate Review of Revenues** (Continued)

When the APA pointed out this apparent weakness in the notice filing fee collection process, the Department expressed doubt as to its legal authority to perform an independent review of the sales data provided by the issuers of securities. Specifically, the Department pointed to language contained in Section 18 of the Securities Act of 1933, which is codified at 15 U.S. Code § 77r ("Exemptions from State regulation of securities offerings"), as prohibiting such an inspection of securities sales records.

The Department did emphasize its ability "to recalculate notice filing fees based upon submitted sales information." It is the underlying accuracy of the information submitted, however, that the APA believes should be verified. Moreover, the APA is unconvinced that Section 18 of the Securities Act of 1933 prevents the Department from performing a limited review of sales records to ensure that the issuers of securities are paying the correct amount of notice filing fees required by State statute. For instance, the APA found the following statement in House of Representatives Report 104-622 (June 17, 1996), which addressed certain amendments to the Securities Act of 1933:

> *It is the Committee's intent that the States retain authority to take actions permitted under this section in order to enforce any filing and fee requirements permitted under this section and to calculate accurately any applicable fees. In addition, for any State that wishes to assess fees based upon the amount of sales within that State within a given period of time (e.g., true indefinite registration), this section is intended to preserve the State's right to receive the sales information necessary to compute the amount of the fee.*

(H.R. Rep. No. 104-622, at 35). While appreciative of the Department's hesitancy to engage in any activity that it fears might violate Federal law, the APA believes that the necessity of enforcing State statute, especially when more than $26 million in notice filing fee revenues are at stake, calls for the highest level of vigilance permissible. Therefore, the APA encourages the Department to consider seeking guidance from the Nebraska Attorney General by requesting a formal legal opinion regarding the authority to undertake an independent review of securities sales records to ensure the accuracy of the notice filing fees paid.

Closely related to this issue, Broker-Dealer and Investment Advisor fees are paid through the Financial Industry Regulatory Authority (FINRA) Investment Adviser Registration Depository (IARD) and Web Central Registration Depository (Web CRD) systems. During the fiscal year ending June 30, 2017, the Department received $5,719,810 of fees for Broker-Dealers and Investment Advisors. The Department lacked adequate procedures for either ensuring that the amount remitted from the IARD and Web CRD systems was correct or verifying the number of organizations and individuals registered in those systems. Although FINRA appears to be a service organization for the Department, moreover, no Service Organization Control (SOC) report was obtained to review the controls established by FINRA over the IARD and Web CRD systems.

Sound accounting procedures and good internal control require the Department to do the following: 1) take any investigative action legally permissible, preferably as authorized formally by the Nebraska Attorney General, to verify that issuers of securities are paying the correct notice filing fees based upon the amount of securities actually sold, as opposed to those merely

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Lack of Adequate Review of Revenues (Continued)

reported; and 2) ensure – through, among other things, a periodic review of SOC reports – that receipts collected on behalf of the Department by its service organization are being remitted properly and include all fees that should be submitted.

Without such sound accounting procedures and good internal control, there is an increased risk that all money due to the Department will not be received.

> We recommend the Department take any investigative action legally permissible, preferably as authorized formally by the Nebraska Attorney General, to verify that issuers of securities are paying the correct notice filing fees based upon the amount of securities actually sold, as opposed to those merely reported. We recommend also the Department ensure – through, among other things, a periodic review of SOC reports – that receipts collected on its behalf by service organization are being remitted properly and include all fees that should be submitted.

Department Response: The Department respectfully disagrees with the Auditor's determination that it lacked adequate review of revenues to ensure that the amounts received were correct. The Department is broadly preempted from regulating federal covered securities by Section 18 of the Securities Act of 1933 (15 U.S.C. § 77r). Section 18 permits the Department to receive a notice filing and sales report solely for notice purposes and the assessment of any fee, but preempts the Department from requesting additional information unless it is filed with the Securities and Exchange Commission (SEC). The Department receives the notice filing, sales report, and fee as permitted by Section 18. In order to audit the veracity of the filing, the Department would be required to obtain supporting documentation of sales made in the state, which would be in addition to the those documents filed with the SEC. Section 18 preserves state authority to investigate fraud. An interpretation that the Department may generally investigate any issuer at any time without a prior suspicion of fraud is an overly broad interpretation of that authority and contrary to the plain language of Section 18.

The preemption has been in effect since 1996, and corresponding revisions were made to the Securities Act of Nebraska in 1997. Since that time, the Department has monitored the expiration dates for these securities notice filings and has provided the Auditor with copies of orders demonstrating that the Department has consistently taken administrative action when unregistered sales occurred after expiration.

The Department will implement procedures to recalculate issuer fees for electronic filings to ensure that fees submitted are correct based on reported sales information. This procedure is already in place for manual filings. The Department will evaluate the APA's recommendation to contact the Nebraska Attorney General to request a legal opinion regarding its authority to undertake independent review of securities sales records given the restrictions placed on by Section 18 of the Securities Act of 1933.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Lack of Adequate Review of Revenues** (Concluded)

With respect to the registration and fees processed through the Financial Industry Regulatory Authority (FINRA), the Department produces, downloads, reviews, and saves several reports from FINRA on a weekly and annual basis regarding the assessment of fees to its registered persons and firms. The Department annually verifies the fee assessment utilized by FINRA. FINRA contracts directly with the North American Securities Administrators Association (NASAA), of which Nebraska is a member, for the operation of the Central Registration Depository (CRD). The Department periodically reviews reports from NASAA regarding the testing of fees through CRD, and has never found discrepancies between the fees charged and the FINRA fee schedule. The Department contacted FINRA regarding obtaining a copy of its Service Organization Control Report (SOC) report and was denied access to the report.

With respect to the registrations and fees processed through the Nationwide Mortgage Licensing System (NMLS), the Department obtained and reviewed the April 5, 2017 SOC of the State Regulatory Registry LLC (SRR) operation of the NMLS for the period January 1, 2016 to September 30, 2016. The SOC represents in all material respects the description and controls provide reasonable assurance that control objectives would be achieved.

APA Response: The APA has reviewed the guidance noted in the Department's response and would reiterate our recommendation that the Department seek guidance from the Nebraska Attorney General as to the authority of the Department to undertake an independent review of securities sales records to ensure the accuracy of the notice filing fees paid. We also recommend the Department continue to work toward obtaining a SOC report to ensure the fees received through the FINRA systems are accurate.

2. **Lack of Internal Control Over Revenues**

During our review of the Department's revenue processes, the following items were noted:

- The Department entered receipts into the State's Accounting System, EnterpriseOne (E1), when deposited. However, a separate application, CAVU, was used to issue licenses and initially record the receipts. No reconciliation was performed to ensure information recorded in E1 was accurate and complete.

- Licenses in CAVU were able to be issued without a receipt applied and noted as having an outstanding fee. Additionally, some staff were able to apply and subsequently delete the same receipt by voiding or returning it. Reports were available in CAVU to review any outstanding fees and receipts returned or voided. The Department claimed to be reviewing these reports; however, no documentation of the review was available. Additionally, the individual reviewing the reports for receipts returned or voided was able to return or void a receipt.

- One individual opened the mail and established initial control records.

- There was no reconciliation between deposit documents and the general ledger.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Lack of Internal Control Over Revenues (Concluded)

A good internal control plan over revenues requires at least two individuals to participate in opening mail, significant reports to be reviewed, and deposits and other systems to be reconciled to E1.

> We recommend the Department establish procedures to reconcile other systems and deposits to E1. We also recommend the Department implement procedures to ensure adequate internal controls are in place by having at least two individuals participate in opening mail and ensuring all significant reports have a documented review.

Department Response: The Department will review and when appropriate make changes to current procedures. The Department will limit access in CAVU and E1 to ensure adequate segregation of duties over revenues. Procedures will be established to reconcile other systems to E1. Reports will be reviewed, and the reviews will be documented.

3. Lack of Segregation of Duties Over Payroll and Capital Assets

The State's accounting system, EnterpriseOne (E1), does not have an established segregation of duties for processing either payroll or capital assets. Therefore, employees with access to process payroll are able to perform all procedures without a secondary individual required to approve transactions. Similarly, one individual was able to add assets to the inventory records, to surplus and dispose of assets, and to perform the annual inventory.

There was no secondary review of either the payroll register by an individual without payroll access or the additions and retirements report by an individual without capital asset access. The Department had three individuals who were able to perform all payroll processes and reviewed reports to ensure payroll expenditures were accurate and proper. The Department also had three individuals with access to add, delete, and change asset information in E1.

The Department had $5,496,916 in personal service expenditures and 422 assets, totaling $44,615, during the period July 1, 2016, through June 30, 2017.

A good internal control plan requires an adequate segregation of duties to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities. This would require someone without payroll or capital asset access to perform a documented review of the respective reports to ensure they are proper. Without an adequate segregation of duties, there is an increased risk of fraud, errors, or irregularities occurring and not being detected.

A similar finding was noted in our previous report.

> We recommend the Department implement procedures for an individual, without payroll or capital asset access, to perform a documented review of the respective payroll and capital asset reports for accuracy and reasonableness.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Lack of Segregation of Duties Over Payroll and Capital Assets (Concluded)

Department Response: The Department will review and when appropriate make changes to current procedures. The Department will limit access in E1 to ensure adequate segregation of duties over payroll and capital assets. Reports will be reviewed, and the reviews will be documented.

4. Expenditures Allocation

The Department established a standard percentage of time worked to allocate employee's payroll costs to the various programs worked on by the employee. This standard percentage was updated every four months. However, the Department did not have adequate documentation to support that the percentage allocations were correct. We noted 35 of the Department's 69 employees had payroll costs allocated between funds and programs. This same allocation was used for charging various other expenditures of the Department.

Neb. Rev. Stat. §§ 8-601 through 8-606 (Reissue 2012) require the Financial Institution Assessment Cash Fund to be used to pay the expenses relating to examinations. Neb. Rev. Stat. § 8-1120(7) (Cum. Supp. 2016) directs the Securities Act Cash Fund to be used to pay expenses relating to the administration and enforcement of the Securities Act of Nebraska.

A good internal control plan requires adequate supporting documentation to ensure the allocation of expenses to funds and programs is correct. Without such documentation, there is an increased risk of errors, resulting in the misallocation of expenses between funds and programs, as well as noncompliance with State statutes.

A similar finding was noted in our previous three reports.

> We recommend the Department develop documentation to ensure expenditure allocations are reasonable and accurate. If the Department continues to use payroll costs as a basis, we recommend the Department conduct and document a time study for a period of time that would be representative of how the employees' time would be charged for the entire year. This time study would need to be performed and documented periodically.

Department Response: The Department believes its expenditure allocations are reasonable and accurate based on its review and documentation of employee time allocations every four months. The Department feels that projecting the results of a time study over a one-year period would not necessarily improve the accuracy of expense allocations, as the allocation for the individuals and expenses paid from both funds will be driven by issues and events that cannot be predicted a year into the future.

APA Response: The APA would again recommend documenting the basis for all allocations and maintain sufficient support to show the allocations are accurate and reasonable based on actual work performed and ensure appropriate adjustments are made.

COMMENTS AND RECOMMENDATIONS
(Concluded)

5. Payroll Time Certification

Employees exempt from the overtime provisions of the Fair Labor Standards Act did not complete timesheets and only entered leave requests for supervisor approval. Those employees completed an Exempt Employee Certification form twice a year, affirming that they had worked 40 hours each week during the previous six-month period; however, their supervisor did not approve the time certification. As of June 30, 2017, the Department had 22 exempt employees.

Neb. Rev. Stat. § 84-1001(1) (Reissue 2014) provides the following:

> *All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur.*

Title 273 NAC 10-002 states, "Each agency shall maintain an attendance record for each employee, accounting for time worked and all absences from work."

Good internal control requires procedures to ensure an employee's time is documented and verified by a supervisor.

> We recommend the Department have a supervisor approve and sign the Exempt Employee Certification.

Department Response: The Exempt Employees Certification of 40-Hour Work Week form the Department has been using for the past several years was previously approved by the auditors of the Nebraska Auditor of Public Accounts office. To satisfy the concern brought by the auditors this year, the form will be revised to include the supervisor's signature. The revised form will be used beginning in January 2018 to certify exempt employee 40-hour work weeks for the period July 1, 2017 through December 31, 2017. The Department's exempt employees are required to certify they have worked 40-hour work weeks at the end of each six month period.

APA Response: There was no documentation provided showing the APA's approval and we believe supervisor approvals of certifications are necessary.

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NEBRASKA DEPARTMENT OF BANKING AND FINANCE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Banking and Finance
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Department of Banking and Finance (Department) for the fiscal year ended June 30, 2017. The Department's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2017, is based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services, as set forth in Note 1, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies and material weaknesses in internal control; instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. 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 opinion. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, others within the Department, 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.

C. J. Janssen

November 13, 2017

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska

NEBRASKA DEPARTMENT OF BANKING AND FINANCE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2017

	Financial Institution Assessment 21910	Securities Act Cash Fund 21920	Banking Cash Fund 21930	Banking and Finance Settlement 21932	Common School Fund 61270	**Totals (Memorandum Only)**
REVENUES:						
Taxes	2,990,468	-	-	-	-	2,990,468
Sales & Charges	2,321,688	26,524,397	-	-	-	28,846,085
Miscellaneous	98,490	367,066	4,469	(15,511)	72,750	527,264
TOTAL REVENUES	5,410,646	26,891,463	4,469	(15,511)	72,750	32,363,817
EXPENDITURES:						
Personal Services	4,367,829	1,129,087	-	-	-	5,496,916
Operating	716,687	329,345	-	4,993	-	1,051,025
Travel	283,624	6,334	-	-	-	289,958
Capital Outlay	22,256	10,828	-	-	-	33,084
TOTAL EXPENDITURES	5,390,396	1,475,594	-	4,993	-	6,870,983
Excess (Deficiency) of Revenues Over (Under) Expenditures	20,250	25,415,869	4,469	(20,504)	72,750	25,492,834
OTHER FINANCING SOURCES (USES):						
Sales of Assets	3,555	1,324	-	-	-	4,879
Deposit to Common Fund	-	-	-	-	(72,750)	(72,750)
Operating Transfers Out	-	(30,000,000)	-	-	-	(30,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	3,555	(29,998,676)	-	-	(72,750)	(30,067,871)
Net Change in Fund Balances	23,805	(4,582,807)	4,469	(20,504)	-	(4,575,037)
FUND BALANCES, July 1, 2016	2,473,423	18,356,600	210,162	20,504	-	21,060,689
FUND BALANCES, June 30, 2017	$ 2,497,228	$ 13,773,793	$ 214,631	$ -	$ -	$ 16,485,652
FUND BALANCES CONSIST OF:						
General Cash	$ 2,496,888	$ 13,771,237	$ 214,631	$ -	$ -	$ 16,482,756
Petty Cash	50	-	-	-	-	50
Deposits with Vendors	28	2,556	-	-	-	2,584
Accounts Receivable Invoiced	400	-	-	-	-	400
Due From Other Government	10	-	-	-	-	10
Due to Vendors	(148)	-	-	-	-	(148)
TOTAL FUND BALANCES	$ 2,497,228	$ 13,773,793	$ 214,631	$ -	$ -	$ 16,485,652

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2017

1. Criteria

The accounting policies of the Nebraska Department of Banking and Finance (Department) are on the basis of accounting, as prescribed by State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director 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 2014), 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 Department to record all accounts receivable and related revenues in EnterpriseOne; as such, the Department'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 payable posted in the general ledger as of June 30, 2017, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of June 30, 2017, **does not** include amounts for goods and services received before June 30, 2017, which had not been posted to the general ledger as of June 30, 2017.

The Department had accounts receivable not included in the Schedule of $27,047 from financial institution examination billings. 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 following fund types are established by the State and used by the Department:

NOTES TO THE SCHEDULE
(Continued)

1. <u>**Criteria**</u> (Continued)

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

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 following major revenue account classifications are established by State Accounting and used by the Department:

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consist of asset assessments.

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, fines, and penalties.

The following major expenditure account classifications are established by State Accounting and used by the Department:

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

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.

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

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.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

2. Reporting Entity

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

The Nebraska Department of Banking and Finance 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 Department 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.

NOTES TO THE SCHEDULE
(Concluded)

5. Capital Assets (Concluded)

For the CAFR, the State requires the Department 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 Department recorded in the State Accounting System for the fiscal year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 434,706	$ 33,084	$ 73,641	$ 394,149
Less accumulated depreciation for:				
Equipment				$ 349,534
Total capital assets, net of depreciation				$ 44,615

6. Transfers

During fiscal year 2017, the Legislature transferred $30,000,000, per LB 956 (2016), from the Securities Cash Fund 21920 to the General Fund 10000.

7. Deposits to Common Funds

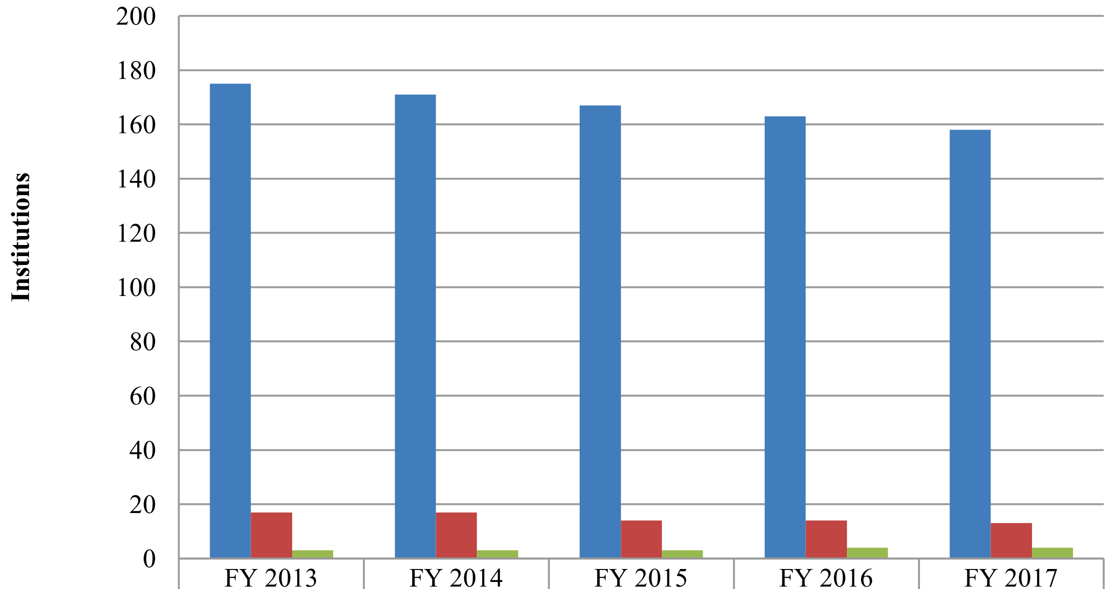
Deposits to Common Funds include the collection of fines and penalties. Per Article VII, Section 5, of the Nebraska Constitution, fines and penalties are to be deposited to the Common School Fund.

SUPPLEMENTARY INFORMATION

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

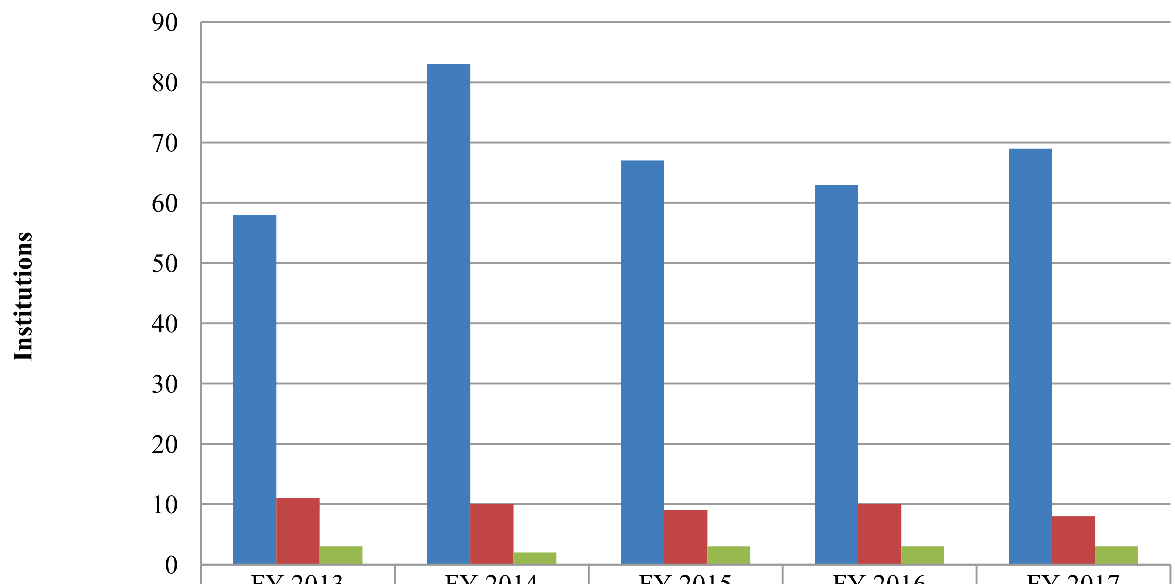
Exhibit A

Financial Institution State Charters



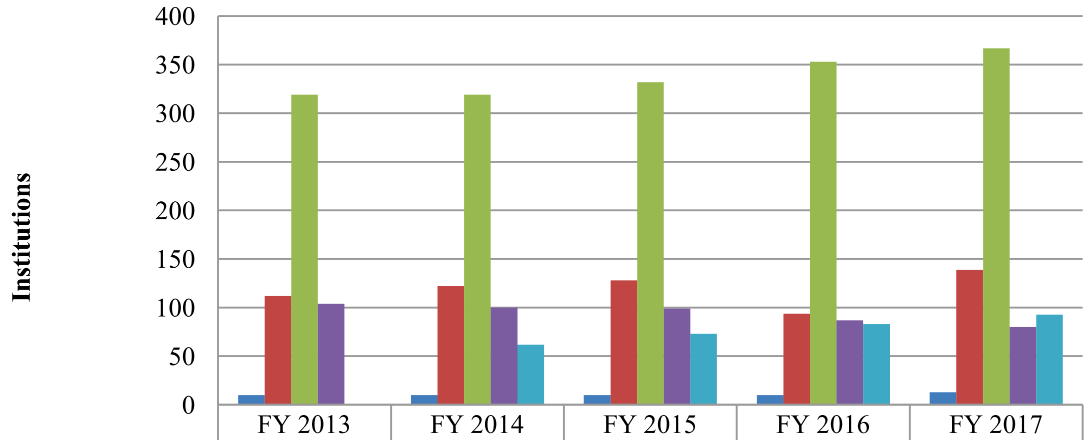
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Banks Chartered	175	171	167	163	158
Credit Unions Chartered	17	17	14	14	13
Other Charters (Trust Comp)	3	3	3	4	4

Financial Institution Examinations



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Banks Examined	58	83	67	63	69
Credit Unions Examined	11	10	9	10	8
Other Examined	3	2	3	3	3

Other Companies Licensed



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Small Loan Companies	10	10	10	10	13
Sales Finance Companies	112	122	128	94	139
Mortgage Bankers	319	319	332	353	367
Delayed Deposit	104	100	99	87	80
Money Transmitters	N/A	62	73	83	93