ATTESTATION REPORT
OF THE
NEBRASKA BRAND COMMITTEE

JULY 1, 2017, THROUGH DECEMBER 31, 2018

Issued on May 17, 2019

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Audit Staff Working On This Examination

Krista Davis – Audit Manager
Cody Guillot – Auditor
Jigme Rinchen – Auditor

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Nebraska Auditor of Public Accounts
State Capitol, Suite 2303
P.O. Box 98917
Lincoln, Nebraska 68509
Phone: 402-471-2111

NEBRASKA BRAND COMMITTEE

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BACKGROUND

The Nebraska Brand Committee (Committee) was created in 1941 to protect livestock owners through brand recording, brand inspection, and theft investigation. Per the Livestock Brand Act, which is set out at Neb. Rev. Stat. §§ 54-170 to 54-1,131 (Reissue 2010, Cum. Supp. 2018), the Committee is composed of five members appointed by the Governor to four-year terms. Three members must be active cattlepersons and at least one member must be an active cattle feeder. The Secretary of State and the Director of Agriculture, or their designees, are also nonvoting, ex-officio members of the Committee.

The following are the primary duties of the Brand Committee:

- Maintain records of all brand transactions;
- Investigate thefts or missing livestock; and
- Inspect cattle moved outside the brand area or that change ownership.

The Committee is self-supporting, operating on the proceeds collected from the inspection of cattle and recording of brands.

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Nebraska Brand Committee Board Members

Name	Title
John Widdowson	Chairperson
Terry Cone	Vice-Chairperson
Christopher Gentry	Committee Member
Jay Martindale	Committee Member
Adam Sawyer	Committee Member
Honorable John Gale	Ex-Officio (Secretary of State)
Steve Wellman	Ex-Officio (Director, Department of Agriculture)

Nebraska Brand Committee Executive Management

Name	Title
Dave Horton	Interim Executive Director

Nebraska Brand Committee
411 Niobrara Avenue
P.O. Box 1
Alliance, NE 69301
https://nbc.nebraska.gov

NEBRASKA BRAND COMMITTEE

SUMMARY OF COMMENTS

During our examination of the Nebraska Brand Committee (Committee), we noted certain deficiencies and other operational matters that are presented here. The following comments are required to be reported in accordance with *Government Auditing Standards*: Comments #1, "Lack of Controls Over Revenues," and #2, "Lack of Segregation of Duties Over Payroll," which are considered to be significant deficiencies.

By using qualifying words such as "alleged" or "allegedly" in comments to describe certain incidents or activities, the Auditor of Public Accounts (APA) seeks to avoid the possibility that a report comment might be mistaken as containing an imputation of criminality. However, utilization of such modifying terms is not meant to indicate a lack of supporting documentation for the report comment or any insufficiency or other shortcoming relating thereto.

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:*** We noted a lack of controls over the revenue process and the issuance of inspection certificates, various brand certificates, and permits. Furthermore, during early 2018, there was an alleged theft of $1,103. The Nebraska State Patrol is in the process of an ongoing investigation of the suspected crime.

2. ***Lack of Segregation of Duties Over Payroll:*** One individual was able to process payroll and review reports without a secondary individual involved in the process. Personnel expenditures totaled $5,993,989 during the period tested.

3. ***Terminated Employee Overpayments and Other Issues:*** The gross wages for six of seven terminated employees were overpaid by a total of $13,473 on their final paychecks. The seventh employee's vacation balance was underpaid by $365.

4. ***Other Payroll Issues:*** The Committee did not ensure timesheets were reviewed and approved by supervisors; and documentation was not on file for approval of vacation, sick, or compensatory time used and earned. Likewise, there was an overall lack of adequate supporting documentation.

5. ***Travel Issues:*** The Committee lacked adequate documentation and review procedures to ensure mileage reimbursements were proper. We noted an underpayment of $22 and overpayment of $93. There was a lack of adequate documentation on file, and no analysis of personal vehicle mileage was performed to assess whether providing State vehicles would be a cost benefit.

6. ***Expenditure Issues:*** One refund was overpaid by $165, and there was a lack of documentation to support expenditures. One employee was paid $8,100 for cleaning services. Furthermore, taxes, financing charges, and late fees were paid.

7. ***Estray Cases:*** The Committee did not adequately monitor estray cases to ensure they were remitted to the Permanent School fund timely. Eighty-two of 101 cases reviewed were over the one-year requirements, the largest being 683 days, or nearly two years, over the requirement. One case tested had an overpayment of $86, and administrative expenditures were overcharged for a second case.

SUMMARY OF COMMENTS
(Concluded)

8. ***Revenue Issues:*** We noted a net amount owed to the Committee of $8,536 from Nebraska Interactive for revenues not remitted as of December 31, 2018. Several revenue transactions lacked adequate supporting documentation to ensure they were reasonable and proper.

9. ***Capital Asset Issues:*** We noted one individual was able to perform all procedures related to capital assets without a secondary review. Integrity reports were not being reviewed and followed up on timely. Assets were not valued properly in the accounting system, and two computers, costing $4,417, could not be located.

10. ***Intermittent Brand Inspector Benefits:*** The Committee did not perform an analysis of intermittent brand inspectors to ensure compliance with both the Federal Affordable Care Act and State laws pertaining to retirement participation.

11. ***Longevity Pay:*** The Committee lacked an adequate policy outlining whether longevity pay should be considered wages or other cash awards for purposes of determining proper retirement contributions. Two employees were not paid the correct longevity payments during the period.

12. ***Statement of Financial Interests Filing:*** One Committee member did not file with the Nebraska Accountability and Disclosure Commission by March 1, 2019, for calendar year 2018.

13. ***Reciprocal Agreement:*** The Committee entered into a reciprocal agreement with the South Dakota State Brand Board to perform inspections for Nebraska cattle. It is not clear if such an agreement is in compliance with State law.

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 Committee.

Draft copies of this report were furnished to the Committee 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 Controls Over Revenues

The Nebraska Brand Committee (Committee) carries out the following duties: 1) performs livestock inspections at various locations across the State; 2) processes brand applications and permits; 3) collects fees provided by State law in order to maintain branding records; 4) investigates thefts or missing livestock; and 5) inspects the movement of livestock outside the brand area or changes of ownership.

During testing, we noted the Committee lacked an adequate segregation of duties over both the revenue process and the issuance of inspection certificates, various brand certificates, and permits.

During discussions with Committee staff, we learned of a suspected theft of approximately $1,103 in Committee funds in early 2018. According to the Committee, applications and corresponding fees are believed to have been stolen from a staff person's desk while she was out of the office. Upon return, the staff person reported the missing funds to the interim Director. An active State Patrol investigation is currently under way. Three of the six Alliance office staff members were present during the alleged theft, and five of the six were still employed by the Committee during this examination. It is unknown whether additional monies were missing and unreported due to the insufficient policies and procedures established by the Committee, as detailed below.

Committee revenues recorded in the State's accounting system for the period July 1, 2017, through December 31, 2018, totaled $8,189,737.

Inspection Fees

An inspection certificate was issued for every inspection performed, and inspection fees were typically paid directly to the inspectors in the field. The inspectors mailed a copy of each inspection certification, along with the corresponding cash and checks received, to the Committee's office in Alliance, Nebraska. The staff at that location deposited the funds to the bank and processed the receipts in the Committee's recordkeeping system (Win system) and the State's accounting system.

The Committee lacked adequate procedures to ensure the amount of inspection fees, as well as the accompanying number of certificates, received were correct. When monies were received at the Alliance office, one individual opened the mail without a second staff member being present. The inspection certificates, along with the monies, were given to a second staff person to prepare the daily deposit and enter the inspections into the Win system. According to the Committee, a detailed report was generated from the Win system, verifying to the daily deposit to ensure all monies entered were deposited. However, during testing of 11 deposits from the State accounting system, we noted the following:

- We were able to observe only four of the Win reports run at the time of the deposit; the remaining seven could not be located.

- Win system records could be changed without documentation to substantiate the change. The Committee reran Win system reports for four deposits tested. We compared the reports run during the time of the deposit to the newly generated reports and noted that they did not agree. Variances ranged from $19 to $1,180, and the Committee was unable to explain why. The Committee had no policies and procedures in place to ensure the Win system reports agreed to the deposit.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Lack of Controls Over Revenues (Continued)

- We also selected a sample of inspection certificates; the Committee was unable to provide the certificates for four of the deposits, totaling $174,721.

The individual who prepared the deposit and entered the inspection certificates into the Win system also reconciled the inspection certificate booklets. Each inspector was provided a booklet of inspection certificates with sequential numbers assigned. When the booklet was issued in full, it was sent to the Alliance office. The individual performed a reconciliation to ensure all inspections issued in the booklet agreed to the Win system. However, upon review, we noted that the reconciliations were performed for only 42% of the booklets issued during the period tested.

This same individual was also assigned to invoice, on a monthly basis, customers that were billed for inspections. This individual tracked the inspection fees, created and mailed the invoice, applied cash received to the invoice, and performed the deposit entry. A secondary individual was not involved in the process to ensure billings and deposits were correct.

Furthermore, the Win system did not track surcharges of $10 on each inspection. It is unknown how, or even if, the Committee tracked the charges to ensure all monies collected were deposited properly.

Inspection fees and surcharges collected and deposited manually totaled $6,153,175 for the period tested.

Brand Certificates and Permits
In addition to inspection fees, the Committee collected fees for brand certificates, leases, permits, etc. One individual opened the mail without a second staff member being present, and the applications, along with the accompanying monies, were then given to a second staff person to prepare the daily deposit and process the applications. The individuals who processed applications were solely responsible for the entire process, including approving the applications, issuing the certificates or permits, and preparing the deposit. A secondary staff person was not involved in the process to ensure all monies received were deposited. Per discussion with staff, a certificate or permit could be issued, and the monies received might not be deposited, without detection.

Fees processed manually and deposited by the Alliance office totaled $679,331 for the period tested.

Untimely Deposits
During testing of 11 deposit documents, we also noted that the Alliance office was not processing deposits timely in accordance with Neb. Rev. Stat. § 84-710 (Reissue 2014), which requires deposits of $500 or more to be deposited within three business days and within seven calendar days for deposits less than $500. For 10 of 11 deposits tested, $347,058 was not deposited timely, up to 18 calendar days late.

Similar issues to those noted above were also noted in the prior report.

A good internal control plan requires proper administrative procedures to ensure an adequate segregation of duties or compensating measures, so no one individual is in a position both to perpetrate and to conceal errors or irregularities when issuing inspections, certificates, or permits, and preparing deposits, including preparation of an initial listing of monies received and a review of changes to transactions. Such procedures should also require compliance with State law to ensure that deposits are made timely.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Lack of Controls Over Revenues (Concluded)

A lack of the appropriate administrative procedures increases the risk of loss, misuse, or theft of State funds. Also increased is the risk of an inspection, certificate, or permit being issued without the fee being collected, or a fee paid by an applicant not being deposited. Furthermore, without the proper procedures in place, there is an increased risk of deposits being held and not deposited timely, which heightens the possibility of theft or loss of State funds.

> We recommend the Committee implement procedures to ensure a proper segregation of duties or compensating measures for the handling of receipts and the issuance of inspections, certificates, and permits, as well as the timely deposit of monies received.

Committee Response: The theft of funds is an ongoing investigation. Many procedures have changed since this has happened including documenting all cash on a register tape or in a receipt book. Cash is then verified by a second party prior to it going through the deposit process. Once it goes through the verification and deposit process, cash is being taken to the bank on a daily basis.

Procedure changes have been implemented and all funds are being deposited within the statute requirements. The electronic brand recording system now provides all needed accurate reports to coincide with deposits.

2. Lack of Segregation of Duties Over Payroll

The State's accounting system does not have an established segregation of duties for payroll processing. Therefore, employees with access to process payroll are able to perform all procedures without a secondary individual being required to approve transactions.

Accordingly, the Committee should have compensating procedures in place, such as a documented review of the payroll register by an individual without payroll access, to ensure no one individual is able to conceal errors or irregularities. The Committee had three individuals who were able to perform all payroll processes and reviewed reports to ensure expenditures were accurate and proper. There was no secondary review by an individual without payroll access.

Furthermore, the individual who certified payroll to be processed by the Department of Administrative Services (DAS) did not review the payroll register to ensure the amounts being certified were proper in accordance with DAS certification policies. Instead, the individual merely relied on the staff person who processed the payroll to assert that the payroll was proper.

The Committee had $5,993,989 in personal service expenditures during the period July 1, 2017, through December 31, 2018.

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 access to perform a documented review of the payroll to ensure that it is proper. Without an adequate segregation of duties, there is an increased risk of errors or irregularities occurring and not being detected.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Lack of Segregation of Duties Over Payroll (Concluded)

We recommend the Committee implement procedures for someone without payroll access to perform a documented review of the payroll register for accuracy and reasonableness. We also recommend the individual certifying payroll to DAS perform a proper review to ensure payroll expenditures are proper.

Committee Response: There are 5 full time employees in the office performing different roles. Effective March 11, 2019 the agency established a role of Business Operations Manager to define lines and segregate roles within the office. The Business Operations Manager is now certifying payroll and acting as the verifier on all payrolls.

3. Terminated Employee Overpayments and Other Issues

We tested the final paychecks for 7 of 34 terminated employees for the period July 1, 2017, through December 31, 2018. We noted all seven employees were paid incorrect amounts. Six of the seven were overpaid $13,473 in gross wages, and one was underpaid for eight hours of vacation totaling $365.

During the period December 2017 through February 2018, DAS-Human Resources provided payroll support and processed payroll expenditures for the Committee. One of the seven terminated employees tested were processed by DAS and the remaining six were processed by the Committee.

The majority of the errors were due to the timing by which the Committee was paying the employees' final leave balances, including sick, vacation, and compensatory time. Typically, the final payouts occurred the month following the employees' final day of work. Instead of reducing the employees' leave balances by the leave used during the final month worked, the employees were paid for the leave used, causing significant overpayments.

For example, one employee terminated employment effective September 30, 2018. His final paycheck was paid on October 31, 2018. In September, he recorded 144 hours of compensatory time, 8 hours of holiday pay, and the remaining time was recorded as vacation on his timesheet. He worked no regular hours during his final month of employment. The leave balances should have been reduced and any remaining balances should have been paid out. Instead, in October, the Committee paid the individual for the leave used in September, causing an overpayment of $4,276.

We also noted two of the seven employees had regular hours paid, when no hours were worked during the month paid. The final paycheck should have included only leave balance payouts. The excessive hours paid in error caused overpayments of $2,611 and $2,644, respectively.

In addition to the issues noted above, leave balance payouts were not calculated properly. One employee, over the age of 55, did not receive one-fourth of the sick leave she was entitled to upon termination. One individual was paid longevity pay of $145 on the final paycheck; however, the individual did not work during the month and was not entitled to the pay. One individual had health and other medical benefit deductions included on the final paycheck; however, the employee terminated the month prior and, therefore, was not entitled to the benefits.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Terminated Employee Overpayments and Other Issues</u> (Continued)

The Committee also failed to terminate four of seven employees' system access in a timely manner.

In addition to the seven terminated employees tested, we also reviewed two terminated employees who had vacation balances improperly remaining in the accounting system. Upon termination, any vacation not used should be paid to the employee. However, the employees had 12 and 36 hours in their leave accounts. The employees appear to have been underpaid by $196 and $572, respectively.

Good internal controls require adequate procedures to ensure employees' final paychecks are proper, including appropriate payout of leave balances, hours worked, and benefits received. Such procedures should also require timely communication with DAS to ensure the terminated employees' system access is removed. Without those procedures, there is an increased risk of not only erroneous payments to terminated employees but also improper system access.

> We recommend the Committee implement procedures to ensure final paychecks are proper, leave balances are adjusted and paid properly, and benefits cease upon termination. We recommend also that the Committee review all employees terminated during the period tested to ensure their payouts were proper, attempt to recoup any overpayments noted, and consider paying out any remaining leave balances as necessary. Finally, we recommend that the Committee's procedures contain provisions for ensuring that DAS is informed timely of terminated employees, so their system access can be removed without delay.

Committee Response: Effective November 13, 2017, the Department of Administrative Services (DAS) entered into contract with the Nebraska Brand Committee to process all payroll for the agency between the dates of November 13, 2017 and December 31, 2018. Within this time frame several over payments were made to terminated Nebraska Brand Committee Employees due to DAS errors. Over payments totaling over $2,644 showed in the said audit finding. DAS was responsible at the time for re-collecting over payment for these mistakes. When DAS terminated the contract early, on February 28, 2018, agency efforts were made to recollect funds with no response from the terminated employees.

The agency has a procedure in place in regards to sick leave. Sick leave is only payable at ¼ the accrued amount upon resignation or retirement. The employee whom the audit finding is referencing was terminated so the sick leave was not paid. The remainder of the overpaid funds in the finding is agency error and recollection efforts have and will be made to recollect any over payments

On September 12, 2018 a structural reorganization was made for all positions within the agency, and an Office Manager/HR and Payroll Specialist position was developed to help define roles and segregate duties. This position has since been working with State Personnel and receiving as needed and scheduled monthly payroll trainings to become more familiar with processes. A procedure manual is also in place to help in process and procedure.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Terminated Employee Overpayments and Other Issues</u> (Concluded)

APA Response: According to the contract between the Committee and DAS, DAS was to provide payroll support through shared services, the Committee was to provide feedback to DAS about payroll progress, and services provided and present any issues or concerns to DAS to be resolved. It is our understanding that DAS and the Committee worked together to ensure payroll was processed properly. Furthermore, the Committee did not have a policy in place to support, not paying out ¼ of the sick leave balance, of the terminated employee questioned.

4. <u>Other Payroll Issues</u>

During testing of payroll-related expenditures and employee leave balances, we noted the following issues:

- For 9 of 12 employees tested, the timesheet tested did not have supervisory approval to ensure hours reported were proper for payment and compensatory time earned was proper to be included in their balance of available hours. A similar finding was noted in the prior report.

- For all eight permanent employees tested, no documentation was on file to support supervisory pre-approval of vacation, sick, or compensatory time used and compensatory time earned. The employees recorded leave used and compensatory time earned on their timesheets; however, Committee policies require the pre-approval of such leave usage/earnings. As noted above, the timesheets were not approved by a supervisor for several employees tested.

  The Committee's Employee Handbook, effective for the period July 1, 2017, through June 11, 2018, contains the following:

  > *[A]n absence by an employee not authorized by the employee's supervisor will be considered an unauthorized leave and could result in loss of pay.*
  >
  > *Vacation requests should be submitted far enough in advance of the beginning date so you receive an approved copy before you leave.*
  >
  > *Sick leave appointments for medical, surgical, dental or optical examinations and treatments require approved leave forms. . . . If possible, these should be approved in advance; however, in some cases it will be necessary to approve the forms after the fact.*
  >
  > *An excess of forty hours per week will not be worked <u>unless prior approval</u> has been given by the area investigator or immediate supervisor. Non-approved overtime hours will not be compensated. Such authorization may be written or oral, but will be made a matter of written record.*

  Committee policies in the subsequent version of the Employee Handbook, effective beginning June 12, 2018, are as follows:

  > *Non-exempt employees shall record their time worked in the timekeeping system or process as designated by the Nebraska Brand Committee. Employees shall request exceptions to their regular schedules in the timekeeping system (e.g., vacation or sick leave).*

4. Other Payroll Issues (Continued)

Absences during working time are not paid unless covered by paid leave (vacation, sick, etc.) and approved by your supervisor.

Non-exempt employees are responsible to obtain their supervisor's approval prior to working any overtime and/or accruing compensatory time hours.

Vacation requests, when possible, should be approved at least five days in advance of the starting vacation date. Last minute requests due to extenuating circumstances will be considered on a case by case basis by your supervisor.

- Three of four Intermittent Brand Inspectors tested did not have adequate support for inspections performed at sales barns. The individuals recorded 208, 416, and 1,008 head inspected, which calculated to $767 in wages paid for working at sales barns. The Committee was unable to provide the sales barn documentation. Also, for one of the three inspectors, there was an additional overpayment of $9 due to an error in the calculation of wages payable.

- We selected four separate pay periods for the 12 employees tested and noted two of the pay periods had no documentation that the Committee certified payroll to DAS for processing. The additional two pay periods did not certify the amount for payroll in accordance with DAS procedures.

- For one of two employees tested with sick leave in excess of five days, the Committee did not have documentation to substantiate the leave used. The employee used 7 consecutive days of sick leave in February 2018 and 21 consecutive days of sick leave in June 2018. However, no physician's note was obtained in accordance with the Committee's policies requiring "a completed physician's certificate" when sick leave exceeds five days. Furthermore, we noted the current Employee Handbook, effective June 2018, does not contain language regarding when documentation may be required to substantiate sick leave. According to Committee staff, it is at their discretion.

- During testing, we noted one employee with a negative 35-hour compensatory time balance. The Committee had no documentation for why, upon hire, the negative balance was entered. The Committee stated that the balance needed to be corrected.

- During review of year-end leave balancing, there was one employee with vacation leave in excess of the maximum 280 hours. The individual had a balance of 307.01 hours at the year ended December 31, 2018, which was 27.01 hours in excess of allowable.

- During testing of payroll expenditures, we noted the Committee did not follow its policy regarding hours worked on paid holidays. The Committee appeared to be following DAS policies and procedures, as employees were able to accrue compensatory time and one-half for hours worked on a holiday and two times for hours worked in excess of eight hours. Written policies established by the Committee should state clearly the practice being utilized. Currently, the policy provides the following:

Holidays worked are not subject to compensatory time and one-half unless those hours put you over forty hours for that week.

4. Other Payroll Issues (Concluded)

Good internal controls require adequate policies and procedures to ensure supervisory approval of time worked, leave used, and leave earned so that payroll expenditures and leave balances will be proper. Good internal controls also require adequate documentation to be on file, as well as proper adherence to the policies and procedures implemented by the Committee.

Without good internal controls, along with the related policies and procedures, there is an increased risk of employees not being compensated properly for time worked, leading to incorrect payments. Furthermore, inadequate policies and procedures increase the risk of the Committee acting inconsistently, which could prove problematic for a variety of reasons.

> We recommend the Committee ensure timesheets are reviewed and approved by supervisors prior to payroll being processed; leave be approved and documented as such, in accordance with policies; and documentation be kept on file to support payroll expenditures, leave balances, leave usage, and the proper certification of payroll to DAS.

Committee Response: The agency pays all full time employees monthly with a one-month lag on all leave accruals and holidays. On January 28, 2019 the agency implemented a temporary weekly time card/reimbursement document to try to manage hours more effectively. At the same time that the temporary card was placed into effect, the agency also contracted with an outside source to develop an electronic time keeping application that all full time and part time inspectors will use. This new application will allow supervisors to approve or deny any hours documented as well as leave requests prior to time cards being submitted to HR.

On March 11, 2019, the agency also developed a policy where the Executive Director or Office Manager can act as final approver on all documents.

5. Travel Issues

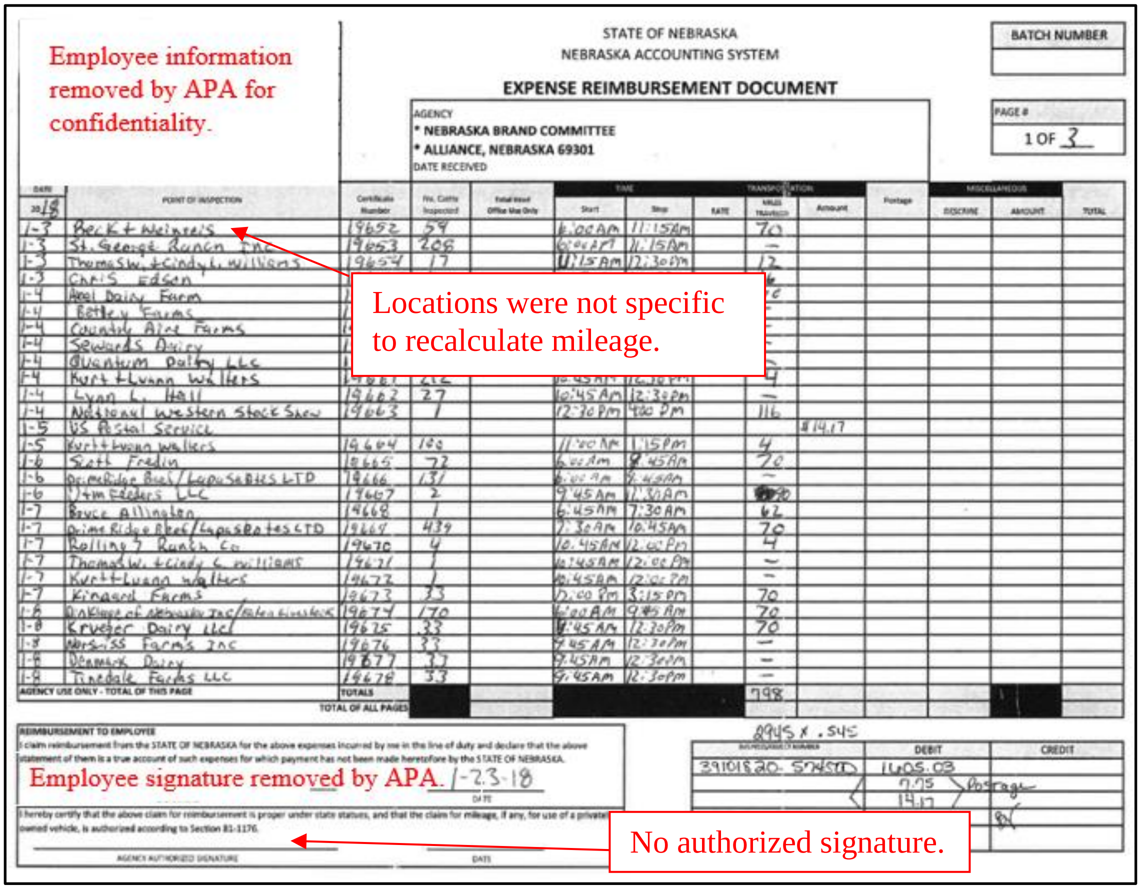
When traveling, the Committee's inspectors are supposed to complete a mileage log that includes employee information, dates, points of inspection, certificate numbers, start and stop times, and miles traveled.

The Committee's review of mileage reimbursements for its inspectors was inadequate. The reimbursements were reviewed for mathematical accuracy, but there was no documentation that the Committee ensured mileage claimed was reasonable based on the locations visited or inspections performed. The Committee stated that mileage claimed was based on an "honor system."

Below is an example of an expense reimbursement document for one inspector tested.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. <u>Travel Issues</u> (Continued)



Travel expenditures totaled $794,206 during the period tested. We selected 11 travel expenditure documents for testing and noted several issues, including the following:

<u>Signatures and Approvals</u>

Eight of nine expense reimbursement documents tested did not have an agency-authorized signature approving the reimbursement. Two of nine expense reimbursement documents were not approved by an individual who would have had adequate knowledge of the travel being reimbursed. Three of nine expense reimbursement documents were submitted electronically and, therefore, not signed by the employee. No documentation was on file substantiating that the employee submitted the expense reimbursement document or certifying that the expenditures were proper. A similar finding was noted in our prior report.

<u>Mileage Reimbursements</u>

Two of nine expense reimbursement documents were not paid properly for actual costs incurred. One employee was underpaid $22, and the second employee was overpaid $93. For nine documents tested with mileage expenditures, we noted that all nine lacked points of destinations sufficient to allow for verification that the mileage was proper. A similar finding was noted in our prior report.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Travel Issues (Continued)

We selected five lines of travel from nine mileage logs. The Committee provided inspections related to the trips. For eight of nine mileage-related expense documents, we were unable to determine that mileage was reasonable, based on the most direct route of travel, using Google Maps, as noted below:

	Miles per Expense Reimbursement	APA Recalculation of Mileage	Variance	GSA Rate	Total
Employee 1	692	560.78	131.22	$ 0.545	$ 71.51
Employee 2	401	238.59	162.41	$ 0.545	$ 88.51
Employee 3	501	279.29	221.71	$ 0.545	$ 120.83
Employee 4	599	444.51	154.49	$ 0.545	$ 84.20
Employee 5	115	33.22	81.78	$ 0.545	$ 44.57
Employee 6	102	46.86	55.14	$ 0.545	$ 30.05
Employee 7	390	155.87	234.13	$ 0.545	$ 127.60
Employee 8	140	14.96	125.04	$ 0.535	$ 66.90
				Total	$ 634.17

Neb. Rev. Stat. § 81-1174 (Reissue 2014), states, in relevant part, the following:

> *When reimbursement is requested for mileage by automobile. . . the points between which such travel occurred, the times of arrival and departure, and the necessity and purpose of such travel shall be state on such request.*

Other Travel Issues

The Committee had travel policies specifically related to brand inspections, but there was no policy regarding approvals or authorizations for travel not related to inspections. In addition, there is no policy regarding approval for out-of-state travel. A similar finding was noted in our prior report.

The Committee paid the lodging expenses for four employees to attend an out-of-state conference. One of the individuals did not attend; however, the Committee was not refunded for the cost of the room, totaling $411. Furthermore, one of the employee's spouses also attended, and the Committee paid an increased room rate of $68 for the spouse.

The Committee was unable to provide documentation supporting the purpose of lodging costs, totaling $1,246, for two employees in Nebraska.

One employee was reimbursed for a $22 meal that did not have a detailed receipt.

One employee's expense reimbursement document included a lodging expense in Nebraska that was not direct billed, causing taxes to be paid and subsequently reimbursed for $18. Per Neb. Rev. Stat. § 77-2704.15(1)(a) (Reissue 2018), sales taxes are not to be paid on State purchases.

One employee's expense reimbursement document did not include meals on the request. Instead, receipts were provided and paid. The State Accounting Manual, AM-005, "Travel Policies," Section 5, "Substantiation of Expense," requires a log for each meal.

5. <u>Travel Issues</u> (Continued)

<u>Lack of Analysis of Personal Vehicle Mileage</u>
The Committee had not recently analyzed or compared the cost of providing State vehicles to employees who are driving a significant number of miles with their personal vehicles. A similar finding was noted in our prior report. During the period tested, from July 1, 2017, through December 31, 2018, the Committee reimbursed its employees a total of $246,415 in personal vehicle mileage.

Several employees had significant reimbursements not only during the period tested but also over the most recent five fiscal years. The following table provides a summary of the top 10 employees' mileage reimbursements by fiscal year.

Employee	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Total
Employee 1	$ 6,927	$ 12,431	$ 17,131	$ 19,571	$ 9,080	**$ 65,140**
Employee 2	$ 15,200	$ 15,060	$ 13,976	$ 14,111	$ 1,824	**$ 60,171**
Employee 3	$ 10,537	$ 11,252	$ 12,036	$ 12,751	$ 7,354	**$ 53,930**
Employee 4	$ 13,345	$ 11,831	$ 10,872	$ 11,892	$ 5,174	**$ 53,114**
Employee 5	$ 10,710	$ 10,804	$ 11,065	$ 12,141	$ 7,049	**$ 51,769**
Employee 6	$ 12,308	$ 11,718	$ 10,349	$ 9,934	$ 5,245	**$ 49,554**
Employee 7	$ 9,093	$ 9,621	$ 11,662	$ 12,247	$ 5,955	**$ 48,578**
Employee 8	$ 8,058	$ 11,545	$ 8,325	$ 12,394	$ 7,698	**$ 48,020**
Employee 9	$ 11,991	$ 13,599	$ 11,559	$ 10,043	$ 0	**$ 47,192**
Employee 10	$ 10,096	$ 8,759	$ 11,593	$ 10,847	$ 4,325	**$ 45,620**
Totals	**$ 108,265**	**$ 116,620**	**$ 118,568**	**$ 125,931**	**$ 53,704**	**$ 523,088**
All other mileage reimbursements during last five fiscal years						**$ 1,666,805**
Total from July 1, 2014, through December 31, 2018						**$ 2,189,893**

***Note**: The fiscal year 2019 amounts only go through December 31, 2018.*

While assorted fixed and variable costs, including gas and insurance, would need to be considered, the Committee should compare the expense of reimbursing personal vehicle mileage to that of providing employees with State vehicles to determine the most economical method of employee transportation.

<u>Approval for Permanently Assigned Vehicle</u>
The Committee did not have approval from DAS-Transportation Services Bureau (TSB) for an employee who was permanently assigned a vehicle on a twenty-four hour basis, as required by Neb. Rev. Stat. § 81-1020 (Reissue 2014). That statute states the following:

> *Any agency which has permanently assigned bureau fleet vehicle shall, prior to assigning such vehicle to an employee on a twenty-four-hour basis, obtain written approval from the chief of the transportation service bureau.*

A good internal control plan requires procedures for properly monitoring, documenting, and administering employee travel. Those procedures should ensure the following: 1) expense reimbursement documents are signed by a supervisor with adequate knowledge of the travel being reimbursed, are adequately reviewed to confirm that only proper costs are reimbursed, and provide points of destination sufficient to allow for verification of the mileage claimed; 2) guidelines are established for both travel not related to inspections and out-of-state travel; 3) comprehensive lodging and meal expense protocols are

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Travel Issues (Concluded)

implemented to avoid, among other things, paying for rooms not used or a spouse's accommodations, accepting insufficient supporting documentation for costs claimed, and allowing for the improper inclusion of taxes on hotel billings; 4) a formal determination is made regarding when it is more economical to authorize an employee to use his or her own vehicle for travel than to use a State vehicle; and 5) TSB approval is obtained prior to assigning a vehicle to an employee on a permanent, 24-hour basis.

Without such procedures, there is an increased risk for the loss or misuse of State funds.

> We recommend the Committee implement procedures to ensure expense reimbursement documents are properly submitted and approved by authorized personnel, as well as reviewed to ensure mileage is reasonable based upon points of destination. Additionally, those procedures should include specific travel policies for non-inspection-related and out-of-state travel, ensure travel expenses are reasonable and adequately supported, and require direct billing for in-state lodging. Finally, the procedures should provide for analyzing the cost of personal vehicle mileage and require TSB approval prior to assigning a vehicle to an employee for permanent, 24-hour use.

Committee Response: The agency is in the process of implementing an electronic time keeping application as well as an electronic brand reporting system. These two resources together should provide adequate documentation for all mileage payouts requested. The Committee also analyzes the pros and cons of owning vehicles versus paying mileage periodically, upon the last review it was deemed to not be feasible for the agency.

6. Expenditure Issues

During testing of various expenditure transactions, including payments to vendors, other State agencies, and journal entries to correct account coding, we noted the following issues:

- During testing of two feedlot permit refunds, we noted the Committee did not have formal procedures for calculating refunds consistently when permits were cancelled during the year. One refund was calculated on a monthly basis, and the second was calculated to the day. This led to significant differences in the amounts refunded, as follows:

	Monthly Refund	Daily Refund	Difference
Permit #1	$ 1,648	$ 1,720	$ 72
Permit #2	$ 1,313	$ 1,604	$ 291

  Furthermore, the refund for the first permit included reimbursement for an additional month in excess of what was actually due, for an overpayment of $165.

6. Expenditure Issues (Continued)

- For one estray refund to an owner, there was no documentation for the original deposit of the sales proceeds to ensure the amount deposited agreed to the amount being refunded. The refund totaled $1,130.

- The Committee paid for moving services on behalf of an employee who was relocated in July 2018. According to the Committee, two bids were obtained; however, it was unable to provide the second bid. The moving expenses totaled $4,998. The Committee's current Employee Handbook had no policies regarding multiple bids. However, the State Accounting Manual, AM-005, "General Policies," Section 10, "Moving Expenses," requires a minimum of two commercial carrier bids.

  A similar finding was noted in the prior report.

- The Committee entered into a contract with one of its full-time employees to provide cleaning services to the Committee at $450 per month. The contractual payments were paid directly to the employee outside of the payroll process; therefore, no taxes or retirement was withheld from the payment. However, according to IRS guidelines, it did not appear that the individual should be considered a contractor since the Committee dictated how, when, and where to do the work, and the Committee purchased all of the cleaning supplies. Additionally, the individual could not incur a loss in performing the cleaning work. The individual was paid $8,100 during the period tested. A similar finding was noted in our prior report.

  Under the heading "Employee or Independent Contractor," IRS Publication 15-A, Employer's Supplemental Tax Guide (2018), provides the following guidance regarding how to distinguish between an employee and an independent contractor:

  > *Facts that provide evidence of the degree of control and independence fall into three categories: behavior control, financial control, and types of relationship of the parties.*
  >
  > * * * *
  >
  > ***Behavior control****. Facts that show whether the business has a right to direct and control how the worker does the task for which the worker is hired include the type and degree of:*
  >
  > ***Instructions that the business gives to the worker.*** *An employee is generally subject to the business' instructions about when, where, and how to work.*
  >
  > * * * *
  >
  > ***Financial control.*** *Facts that show whether the business has a right to control the business aspects of the worker's job include:*
  >
  > ***The extent to which the worker has unreimbursed business expenses.*** *Independent contractors are more likely to have unreimbursed expenses than are employees. Fixed ongoing costs that are incurred regardless of whether work is currently being performed are especially important. However, employees may also incur unreimbursed expenses in connection with the services that they perform for their employer.*
  >
  > * * * *
  >
  > ***The extent to which the worker can realize a profit or loss.*** *An independent contractor can make a profit or loss.*

6. <u>Expenditure Issues</u> (Continued)

- During testing of vehicle-related expenditures, we noted there was no documentation of approval for non-routine maintenance of vehicles from the Interim Executive Director. Tires were purchased for two vehicles at a total cost of $1,432 – including, contrary to Neb. Rev. Stat. § 77-2704.15(1)(a) (Reissue 2018), sales tax for $55 and a tire repair was bought for $339. Furthermore, there were four instances tested where oil changes were performed one month and two months after the previous changes; the vehicles had not been driven 4,000 miles or more since that prior work had been performed. There were also two purchases for $75 and $66 that had illegible receipts; therefore, we were unable to determine if the purchases were reasonable. Because the Committee did not have adequate policies regarding vehicle maintenance, we used DAS-Transportation Services Bureau – Policies and Procedures, Section 12, "Preventive Maintenance Program," which says that changes for oil, filters, and lube chassis should be performed at "4,000 miles or 4 months."

- The Committee purchased a keyboard through Office Depot; however, the Committee did not utilize the State's contract for the purchase and, in turn, paid tax of $4. The Unrestricted Open Market Purchase Authority FY 2018-19, states, in relevant part, the following:

  > *1. Office Supply Items – Pursuant to Statute § 81-1118(1) the Materiel Division of the Department of Administrative Services has the responsibility for providing office supply items, paper, to using agencies. Agencies must purchase office supply items from the statewide contract with Office Depot.*

- The Committee was unable to provide documentation for purchase card transactions totaling $3,374. We ran a purchase card detail report, and the expenses appear to have been for uniforms costing $2,260, airline tickets costing $1,056, and an unknown expense of $58. Due to a lack of invoices, we were unable to determine if the purchases were reasonable and necessary.

- One payment to the DAS-Office of Chief Information Officer (OCIO) for information technology services included charges of $16,308 for a contractor used by the Committee to implement a new inspection system for the month of February 2018. The Committee was unable to provide documentation that the charges were reviewed in detail to confirm that the time worked and charged was proper.

- Three inspector mileage reimbursements were recorded in the accounting system as postage expenses instead of travel-personal vehicle mileage. The expenditures totaled $2,399.

- The Committee purchased new computers and monitors for $12,882. The Committee did not use a State contract for the purchase and did not obtain approval through the OCIO for the purchases. The computers appeared to have been obtained at the highest-bid price and, the Committee paid taxes of $843. The Unrestricted Open Market Purchase Authority FY 2018-19, Section E – IT Equipment, states, in relevant part, the following:

  > *2. $500 and over: When completing a one-time purchase of a non-contract item over $500, the Agency must use an (O6) purchase order generated from an (ON) requisition for Goods in order to route through the OCIO for approval.*

6. Expenditure Issues (Concluded)

- One invoice for legal services, totaling $2,180, did not have documentation for the previously billed balance of $2,140. Therefore, it was unknown if the charges were proper. Furthermore, the agreement with the legal firm was not recorded on the State's accounting system or, contrary to Neb. Rev. Stat. § 84-602.04 (Cum. Supp. 2018), on the State's contract database.

- One expense for what appeared to be postage, totaling $4,032, had no support for the charges. Furthermore, $3,932 was a past due balance that incurred $60 in financing charges and a $39 late fee.

A good internal control plan requires documentation to be kept on file to support expenditures of the Committee. Furthermore, good internal controls require expenditures to be reasonable, necessary, and properly recorded in the State's accounting system. Without such procedures, there is an increased risk for the loss or misuse of State funds.

> We recommend the Committee implement adequate policies and procedures to ensure refunds are consistently calculated; supporting documentation is on file; bids are documented; expenses are reasonable, necessary, and properly recorded; the cleaning contract is reviewed for compliance with the IRS tax guide; DAS policies and procedures are followed; and late fees, finance charges, and taxes are not incurred and paid.

Committee Response: With newly defined roles and segregated duties, the agency has offered developmental and required trainings to the Business Operations Manager including Pre-Audit, Procurement and one on one trainings with State Accounting in regards to Fixed Assets and Risk Management. The agency will continue to develop employees as opportunities arise.

The Brand Committee Legal Council has reviewed and provided an updated cleaning contract that was implemented January 4, 2019.

7. Estray Cases

The Committee lacked adequate controls over the handling of estray cases to ensure money received was remitted timely to the Permanent School fund in accordance with Neb. Rev. Stat. § 54-415 (Cum. Supp. 2018). When an animal is determined to be an estray, the sale proceeds are supposed to be turned over to the Committee until the owner can provide proper documentation of ownership, or the proceeds are remitted to the Permanent School fund, less administrative expenditures incurred by the Committee, after one year.

The Committee was unable to provide a detailed listing of the estray cases held in the Estray Fund, totaling $82,773 at December 31, 2018. Therefore, we ran a general ledger detail report from the accounting system for the period July 1, 2015, through December 31, 2018, to analyze the deposits and determine when the monies were paid to the rightful owner or remitted to the Permanent School Fund. We noted 82 of 101 deposits reviewed were not paid out or remitted timely (within one year) in accordance with State law. The 82 deposits totaled $93,510, and the largest number of days over the one-year requirement was 683 days or nearly two years.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Estray Cases (Continued)

There were also 12 estray cases for which administrative expenditures appear to have been double charged, totaling $2,166, as the case balance was negative. One case had a payment to the owner, and the case was remitted to the Permanent School fund, causing an overpayment of $1,293.

We tested two of the estray cases in detail and noted one case was overpaid by $86. Two separate estray cases were set up with the same case number. When the owner was found, the incorrect amount was paid, causing the overpayment. The second transaction remitted funds to the Permanent School Fund approximately one and a half years late, and the administrative expenditures were overcharged by $11. The Committee did not have policies and procedures for the calculation of administrative expenditures.

Section 54-415 provides, as is relevant, the following:

> *If the animal is determined to be an estray by a representative of the Nebraska Brand Committee or the county sheriff, as the case may be, such animal shall, as promptly as may be practicable, be sold through the most convenient livestock auction market. The proceeds of such sale, after deducting the selling expenses, shall be paid over to the Nebraska Brand Committee to be placed in the estray fund identified in section 54-1,118, if such estray was taken up within the brand inspection area or brand inspection service area, and otherwise to the treasurer of the county in which such estray was taken up. . . When the estray is taken up within the brand inspection area or brand inspection service area, such proceeds shall be impounded for one year, unless ownership is determined sooner by the Nebraska Brand Committee, and if ownership is not determined within such one-year period, the proceeds shall be paid into the permanent school fund, less the actual expenses incurred in the investigation and processing of the estray fund. Any amount deducted as actual expenses incurred shall be deposited in the Nebraska Brand Inspection and Theft Prevention Fund.*

Neb. Rev. Stat. § 54-1,118 (Reissue 2010) states the following, in relevant part:

> *The shipper or seller of the livestock is required to establish ownership of such livestock within sixty days after its sale. If such shipper or seller establishes ownership of such livestock, the Nebraska Brand Committee shall order the selling agent of such livestock to pay the proceeds of sale to the shipper or seller. If such shipper or seller fails to establish ownership within the sixty days, such livestock shall be considered an estray and the Nebraska Brand Committee shall order the selling agent to pay the proceeds of sale over to the brand committee. All funds that the brand committee receives from the sale of any estray shall be placed in a separate custodial fund known as the estray fund. The brand committee shall determine the ownership of estrays that originate within the brand inspection area. Such funds shall be disposed of in the manner provided in section 54-415.*

Good internal controls require procedures to ensure estray cases are recorded accurately and examined according to State laws.

Without such procedures, there is an increased risk of not only inaccurate estray balances and payments but also noncompliance with State law. A similar finding was noted in the prior report.

> We recommend the Committee implement procedures for maintaining a detailed listing of the estray cases that encompass the balance in the Estray Fund to ensure all cases are paid out timely in accordance with State law. Furthermore, those procedures should ensure administrative expenditures are properly supported, and refunds to owners are calculated correctly. Finally, we recommend the Committee attempt to recoup any overpayments.

7. Estray Cases (Concluded)

Committee Response: Upon standard operating procedure review and implementation of the new SOP, current wages were used to figure expenses for the administration, inspectors and investigators. Due to lack of staff and segregation of duties during the testing period, estray cases were not being completed per policy and statute. Since this time, all estray cases are current and appropriate funds have been transferred to the Permanent School Fund. The over payment in question is in the process of being refunded by the producer.

8. Revenue Issues

During testing of various revenue transactions, we noted an $8,536 amount due from Nebraska Interactive (NI), journal entries with no documentation to support the transactions, and a lack of procedures over collections for insufficient funds items, as follows:

- The Committee allowed customers to set up subscription accounts through the new system (NBC Admin). These customers were billed monthly through NBC Admin, and fees collected were deposited into the Committee's cash fund. Due to timing issues, the monthly revenues deposited did not agree to the system; therefore, the Committee worked with NI to reconcile the activity for the period January 1, 2018, through December 31, 2018. The Committee and NI determined that NI had overpaid the Committee $5,683, which the Committee reimbursed NI in January 2019. During the examination, we reconciled the activity for the same period, comparing the subscription revenues in the accounting system to the NBC Admin invoices and determined that NI had actually underpaid the Committee $2,853 as of December 31, 2018. NI had not remitted Sales Barn revenues during the month of December. This issue was not resolved until March 2019, when NI remitted the revenues and corrected the underpayment of revenues. The payment of $5,683 was not due as of December 31, 2018, causing a net payment due to the Committee of $8,536 ($5,683 overpayment and $2,853 revenues still owed by NI). It is unknown why this was not identified by the Committee and NI at the time of their reconciliation.

- Two of 10 revenue journal entries tested lacked adequate documentation to verify that the transactions were proper. The Committee deposited credit card receipts into a miscellaneous credit card clearing account. A journal entry was then performed to record the receipts to the proper sales and charge accounts. The credit card details were shredded after three months; consequently, no documentation was on file to permit a determination as to which applications related to specific receipts. The credit card transactions totaled $636 and $485, respectively.

- We tested six journal entries relating to inspection and surcharge fees processed through the NBC Admin. NBC Admin allowed checks and credit card payments to be collected electronically on-site by the inspectors. The transactions were deposited into the miscellaneous credit card clearing account, for which the Committee then performed journal entries to record to the proper sales and charge accounts. For three of the six entries, the Committee was unable to provide documentation for the journal entry, including the original deposit documentation, in order to ascertain that the transaction was properly recorded. Additionally, for four of six entries, there were duplicate

8. Revenue Issues (Concluded)

receipts in NBC Admin, as well as receipts and refunds in the initial deposit that were not recorded in the system. According to the Committee, when NBC Admin was implemented, there were glitches that had to be worked out. Due to the lack of documentation for transactions tested, we performed a reconciliation of NBC Admin to the accounting system for the period July 1, 2017, through December 31, 2018, for credit card transactions, and they materially agreed.

- Furthermore, three of the journal entries were not performed timely. The initial deposits were made to the credit card clearing account in March 2018, July 2018, and August 2018; however, the journal entries were not recorded until late April 2018, November 2018, and December 2018, respectively.

- The Committee did not have procedures in place for the timely review and collection of payments that were returned as insufficient fund items. As of December 31, 2018, there was $1,489 in the accounting system that had not been followed up on. Furthermore, there was $3,887 in returned payments through NBC Admin for inspection payments that were insufficient and still needed to be researched.

A good internal control plan requires procedures to ensure payments made to vendors are proper, including the timely reconciliation of revenues received to ensure amounts are appropriate. Furthermore, those procedures should ensure not only that adequate documentation is maintained to support transactions but also that insufficient funds items are pursued timely.

Without such procedures, there is an increased risk for the loss or misuse of funds.

> We recommend the Committee implement procedures for performing timely reconciliations of monthly deposits to NBC Admin reports to ensure all monies due to the State are collected. We also recommend such procedures ensure not only that documentation is on file to support all transactions but also that there is timely follow up on and collection of returned payments.

Committee Response: At the end of the testing period, the Brand Committee implemented the electronic roll out of sale barn inspections, along with a significant increase in other invoice accounts. These accounts are on a month lag being deposited to the Brand Committee, thus creating the appearance that the Brand Committee was underpaid. As of March 31, 2019, all accounts are balanced and true.

APA Response: The APA did account for the one-month time lag when calculating the $8,536 owed to the Committee. The APA reconciliation included activity in the NBC Admin system through December 31, 2018, compared to revenues recorded in the State's accounting system through January 31, 2019. It was not until March 2019, when the Committee and NI had fully reconciled the revenues between the NBC Admin system and the State's accounting system.

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Capital Asset Issues

During our review of capital assets, we noted a lack of segregation of duties over the processing of capital assets in the accounting system. One individual was able to add assets to the inventory records, to surplus and dispose of assets, and to perform the annual inventory. Additionally, no documented secondary review of capital asset reports was performed by an independent person without capital asset access to ensure that the additions and retirements were appropriate and accurate.

As of December 31, 2018, the Board had assets with a total purchase value of $240,186 but, due to depreciation, a current combined book value of only $42,140.

During testing of capital assets, we noted the following:

- The capital asset integrity reports, including unposted assets, assets with no costs assigned, and passed transactions, were not reviewed.
  - The Unposted Asset Report had two vehicles and computer equipment that were purchased in October and November 2018, but still not posted to the capital asset ledger as of March 2019.
  - There were assets, totaling $6,715, on the Passed Transaction Report, which needed to be corrected in the accounting system.
  - There were four assets, including a pickup, on the No Cost Report that had an estimated value of $33,065, which had not been added to the capital asset ledger.
- One asset had a negative cost of $580 in the accounting system, causing negative depreciation of $261 as of June 30, 2018.
- Land associated with the headquarter office was valued at $1 instead of the historical cost or estimated fair market value at the time of acquisition in accordance with Governmental Accounting Standards Board, Statement No. 34.
- We tested 10 assets from the Committee's capital asset records. Two computers could not be located. One was said to have been surplused, and the second was missing. The assets cost $1,200 and $3,217, respectively. Three assets were not properly tagged as "Property of the State of Nebraska" in accordance with Neb. Rev. Stat. § 81-1118.02(3) (Reissue 2014).
- The Committee could not provide documentation that it had completed the annual inventory filings for 2018 in accordance with § 81-1118.02(1), which requires the following:

  > *Each executive, department, 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.*

9. Capital Asset Issues (Concluded)

A good internal control plan requires procedures for ensuring an adequate segregation of duties, so no one person is able both to perpetrate and to conceal errors or irregularities. Additionally, those procedures should ensure that capital asset reports are reviewed, and capital assets are properly recorded and tagged. The procedures should ensure also that annual inventory filings are completed and reviewed for exceptions, and all assets are in the custody of the Commission.

Without such procedures, there is an increased risk for not only the loss, misuse, or theft of State property but also noncompliance with State statute.

A similar finding was noted in our prior report.

> We recommend the Committee implement procedures for an adequate segregation of duties, so no one person is able to perpetrate and/or conceal errors and irregularities. This would include a documented secondary review of capital asset reports by someone without accounting system access to maintain capital assets. Additionally, such procedures should ensure the integrity reports are reviewed, and exceptions are followed up on in a timely manner. Those same procedures should ensure also that assets are properly valued in the accounting system, annual inventory filings are submitted and reviewed, and all capital assets are accounted for and tagged in accordance with State law.

Committee Response: Due to office staff size and lack of adequate training during the testing period, capital assets were not being recorded, reviewed or processed correctly. Since this time the Business Operations Manager has had one on one training with several staff at State Accounting and has implemented new procedures and SOPs.

10. Intermittent Brand Inspector Benefits

As of December 31, 2018, the Committee employed 45 intermittent brand inspectors. These inspectors are paid according to the number of cattle inspected, not by the hour – although certain start and stop times are recorded on their expense reimbursement documents. For the period tested, the intermittent brand inspectors did not receive any benefits, including health insurance or retirement, through the Committee.

Intermittent brand inspectors are paid $0.47 per head of cattle inspected, but they are to receive a minimum of 65 head ($30.55) and a maximum of 256 head ($120.32) per day. When working a sale barn, however, intermittent brand inspectors are paid 32 head ($15.04) per hour.

For the period tested, the APA identified a number of intermittent brand inspectors who appear to have been working a significant number of hours. For two of those employees, the APA requested their expense reimbursement documents for fiscal year 2018 to recalculate the hours worked each week. However, the Committee was unable to locate all of the documentation. One inspector was missing 15 weeks of documentation, and the second was missing 9 weeks of documentation. Therefore, we were unable to determine with certainty the number of hours worked by the two inspectors; however, we did observe multiple weeks during which each employee worked more than 30 hours.

COMMENTS AND RECOMMENDATIONS
(Continued)

10. <u>Intermittent Brand Inspector Benefits</u> (Continued)

The significant number of hours worked may impact whether intermittent brand inspectors are entitled to receive certain benefits, as outlined below.

<u>Patient Protection and Affordable Care Act</u>
The Committee lacked adequate procedures for monitoring the status of its intermittent brand inspectors to determine whether they should be receiving insurance coverage under the "employer mandate" of the Federal Patient Protection and Affordable Care Act (Affordable Care Act). Depending on the average number of hours they work, certain intermittent brand inspectors could be designated as full-time employees under the Affordable Care Act.

Under 26 USC § 4980H(a) of the Internal Revenue Code, certain employers who do not offer their employees the appropriate insurance may be penalized with an "assessable payment," as follows:

> *Large employers not offering health coverage If –*
>
> > *(1) any applicable large employer fails to offer to its full-time employees (and their dependents) the opportunity to enroll in minimum essential coverage under an eligible employer-sponsored plan (as defined in section 5000A(f)(2)) for any month, and*
> >
> > *(2) at least one full-time employee of the applicable large employer has been certified to the employer under section 1411 of the Patient Protection and Affordable Care Act as having enrolled for such month in a qualified health plan with respect to which an applicable premium tax credit or cost-sharing reduction is allowed or paid with respect to the employee, then there is hereby imposed on the employer an assessable payment equal to the product of the applicable payment amount and the number of individuals employed by the employer as full-time employees during such month.*

Per 26 USC § 4980H(c)(2)(a), "The term 'applicable large employer' means, with respect to a calendar year, an employer who employed an average of at least 50 full-time employees on business days during the preceding calendar year."

According to 26 USC § 4980H(c)(4)(a), "The term 'full-time employee' means, with respect to any month, an employee who is employed on average at least 30 hours of service per week."

<u>Nebraska Public Employees Retirement</u>
Intermittent brand inspectors were not offered the opportunity to participate in the State's retirement plan because the Committee classified them as "per diem" employees. However, State statute does not specifically exempt intermittent brand inspectors from participation in the retirement plan. As noted above, the two employees reviewed had several weeks in which they worked over 20 hours per week.

Neb. Rev. Stat. § 84-1307 (Cum. Supp. 2018) states, in relevant part, the following:

> *(2) The following employees of the State of Nebraska are authorized to participate in the retirement system: (a) All permanent full-time employees shall begin participation in the retirement system upon employment; and (b) all permanent part-time employees who have attained the age of eighteen years may exercise the option to begin participation in the retirement system within the first thirty days of employment.*
>
> * * * *
>
> *(7) State agencies shall ensure that employees authorized to participate in the retirement system pursuant to this section shall enroll and make required contributions to the retirement system immediately upon becoming an employee.*

COMMENTS AND RECOMMENDATIONS
(Continued)

10. <u>Intermittent Brand Inspector Benefits</u> (Concluded)

A good internal control plan requires procedures for conducting an analysis of intermittent brand inspector work hours to ensure compliance with both the Affordable Care Act and applicable State law. Those procedures should facilitate the Committee's cooperation with the Nebraska Public Employees Retirement Systems (NPERS) in working toward a resolution of this issue – including the pursuit of legislation, if determined necessary, to clarify the status of intermittent brand inspectors with regarding to qualifying for retirement benefits.

Without such procedures, there is an increased risk for not only the loss of State funds by incurring penalties for noncompliance with Federal law but also the Committee's intermittent brand inspectors being excluded from participating in the State's retirement plan in violation of Nebraska law.

A similar finding was noted in our prior report.

> We recommend the Committee implement procedures for carrying out an analysis of intermittent brand inspector work hours to ensure compliance with Federal and State law alike. In addition, we recommend that such procedures provide for the Committee's collaboration with NPERS to resolve this issue, whether through legislative action or otherwise.

Committee Response: All Intermittent Inspectors work on an on call basis without agency mandates to perform the request of inspections if the intermittent inspectors personal schedule prohibit. Intermittent inspectors are paid by the piece rate not by the hour. Due to fluctuation in work load, numbers of cattle inspected, and lack of requirement by the agency for inspectors to carry out duties it is impossible to offer continual benefits.

11. <u>Longevity Pay</u>

The Committee provided longevity pay to permanent full-time employees at the beginning of the fourth year of employment. Each employee received $60 per year, paid at $5 per month, compounding each year of additional service, as follows:

Longevity Amount Paid Per Year	Year of Employment
$ -	1-3
$ 60	4
$ 120	5
$ 180	6
$ 240	7
---	---
$ 2,520	45

The Committee included the longevity pay as wages when processing employees' payroll. In August 2018, however, the pay was designated instead as an "award." When included as wages, the pay was used in the calculation of retirement contributions. After being designated instead as awards, however, these longevity payments were no longer included in the retirement contribution calculations.

COMMENTS AND RECOMMENDATIONS
(Continued)

11. Longevity Pay (Continued)

Despite this change, the Committee's policy did not specify whether longevity payments should be treated as wages or awards for purposes of calculating retirement contributions.

For purposes of determining State retirement contributions, Neb. Rev. Stat. § 84-1301(5)(a) (Cum. Supp. 2018) defines "compensation" as "gross wages or salaries payable to the member for personal services performed during the plan year." That definitional language also excludes such things as "fringe benefits, per diems, or bonuses for services not actually rendered, including, but not limited to, early retirement inducements, cash awards, and severance pay . . . ."

The longevity pay at issue does not appear to constitute compensation "for personal services performed during the plan year." Rather, such payments are more properly designated as "awards" and, therefore, omitted from wages used to calculate retirement contributions. Prior to August 2018, however, employee retirement calculations included these longevity payments.

Due to this inconsistency, the Committee should work with NPERS to determine whether adjustments need to be made to employee retirement accounts for any prior amounts contributed thereto in error.

Furthermore, during testing of employees' payroll expenditures, we noted the Committee was not making proper longevity payments to two employees. One employee was receiving longevity pay of $140 per month, but he should have been receiving $145 per month. The second employee, now terminated, was receiving longevity pay of $145 per month, but he should have been receiving $160 per month.

It is unknown why these errors occurred, but remedial action should be pursued to correct these past mistakes and make the employees whole.

A similar finding was noted in the prior report.

Good internal controls require procedures to ensure that pay types, including longevity payments, are defined accurately and consistently as either wages, which are included in retirement calculations, or awards, which are excluded from them. Those same procedures should ensure also that longevity payments are calculated and paid out correctly.

Without such procedures, there is an increased risk of not only improper contributions towards employee retirement accounts but also incorrect longevity payments to employees.

> We recommend the Committee implement procedures for defining – preferably in a formal policy – longevity payments as either wages or awards for purposes of calculating retirement contributions. Additionally, the Committee should work with NPERS to ensure retirement contributions are appropriate, and any needed adjustments are made to employee accounts. The Committee's procedures should also ensure that longevity payments are made properly, and necessary action is taken to compensate for past errors.

COMMENTS AND RECOMMENDATIONS
(Continued)

11. <u>Longevity Pay</u> (Concluded)

Committee Response: Effective August 2018, the agency requested that the longevity pay will be made as an award not a wage. Prior to this all Longevity payments were added to regular wages, thus causing retirement contributions to be made on longevity pay. This issue will be addressed at the Nebraska Brand Committee meeting on June 11, 2019. The agency will clarify the Longevity policy so it reads clearly that Longevity pay will be an award. Agency legal counsel and NPERS will be communicated with and an agency decision will be made as how to resolve any longevity retirement contributions made prior to August of 2018.

12. <u>Statement of Financial Interests Filing</u>

Neb. Rev. Stat. § 49-1493(7) (Cum. Supp. 2018) requires the following individuals to file a statement of financial interest with the Nebraska Accountability and Disclosure Commission (NADC):

> *A member of any board or commission of the state or any county which examines or licenses a business or which determines rates for or otherwise regulates a business[.]*

That same statute says the filings are to be made "for the preceding calendar year on or before March 1 of each year in which such individual holds such a position."

Title 4 NAC 2-002.07 expands upon the language in § 49-1493(7), specifying that members of the Committee are among those who must file a statement of financial interest with the NADC.

The APA's review of the NADC files revealed that one Committee member did not file the mandatory statement of financial interest for calendar year 2018.

A similar finding was noted in the prior report.

A good internal control plan and sound business practices require procedures to ensure that each Committee member files the requisite statement of financial interest with the NADC.

Without such procedures, there is an increased risk for not only an actual or perceived lack of transparency and accountability but also the violation of law.

> We recommend the Committee implement procedures to ensure that each of its members files a statement of financial interest with the NADC, as required by law.

Committee Response: The Brand Committee has implemented procedures to ensure that each of its members files a statement of financial interest with the NADC, as required by law.

13. <u>Reciprocal Agreement</u>

The Committee entered into a reciprocal agreement for livestock inspections with the South Dakota State Brand Board starting in 2014. The agreement designated four livestock markets and two slaughter plants in South Dakota as inspection points for Nebraska cattle. Similarly, the agreement designated eight livestock markets and four slaughter plants in Nebraska as inspection points for South Dakota cattle. The fees collected at the inspection points were to be retained by the respective states at their established fee rates.

COMMENTS AND RECOMMENDATIONS
(Concluded)

13. <u>Reciprocal Agreement</u> (Concluded)

The Department of Administrative Services (DAS) has questioned the underlying legality of the agreement, doubting the Committee's authority to enter into such a compact. The Committee has yet to respond to those concerns, however.

Neb. Rev. Stat. § 54-186 (Reissue 2010) of the Livestock Brand Act (Act) provides the following:

> *Open market means a sales barn, market agency, stockyard, packing plant, or terminal market located outside of the brand inspection area or located outside of this state where brand inspection is maintained either by employees of the Nebraska Brand Committee or <u>by some other state under a reciprocal agreement as allowed under the federal Packers and Stockyards Act, 1921, 7 U.S.C. 181 et seq., as amended.</u>*

(Emphasis added.) Furthermore, 9 CFR § 201.86(c), one of many Federal regulations under the Act, states the following:

> *Any authorized agency or association may make arrangements with an association or associations in the same or in another State, where branding or marking livestock prevails by custom or statute, to perform inspection service at stockyards on such terms and conditions as may be approved by the Administrator: Provided, that such arrangements will tend to further the purpose of the Act and will not result in duplication of charges or services.*

Nevertheless, the question raised by DAS regarding the Committee's authority to enter into the agreement at issue remains unresolved.

> We recommend the Committee work with the Attorney General and its own legal counsel to determine whether the reciprocal agreement is allowable.

Committee Response: The agency's legal council is reviewing the Brand Committees' authority to enter-in with the South Dakota State Brand Board a reciprocal inspection agreement. According to letters from the Nebraska Attorney General's office dated February 3, 1986, and December 10, 1991, the Brand Committee does have authority to enter into such agreements.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

NEBRASKA BRAND COMMITTEE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Brand Committee
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Brand Committee (Committee) for the period July 1, 2017, through December 31, 2018. The Committee'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 period July 1, 2017, through December 31, 2018, is based on the accounting system and procedures prescribed by the State of Nebraska's 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 all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Schedule of Revenues, Expenditures, and Changes in Fund Balances; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, 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 and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. 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.

The purpose of this report is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances, as described in paragraph one above. Accordingly, this report is not suitable for any other purpose. This report is a matter of public record, and its distribution is not limited.

C. J. Janssen

May 13, 2019

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska

NEBRASKA BRAND COMMITTEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Period July 1, 2017, through December 31, 2018

	Adjusted Inspection and Theft Prevention Fund 23910	Adjusted Estray Fund Fund 73910	**Totals (Memorandum Only)**
REVENUES:			
Sales & Charges	$ 8,079,222	$ -	$ 8,079,222
Miscellaneous	110,515	-	110,515
TOTAL REVENUES	8,189,737	-	8,189,737
EXPENDITURES:			
Personal Services	5,993,989	-	5,993,989
Operating	722,387	-	722,387
Travel	794,206	-	794,206
Capital Outlay	87,877	-	87,877
TOTAL EXPENDITURES	7,598,459	-	7,598,459
Excess (Deficiency) of Revenues Over (Under) Expenditures	591,278	-	591,278
OTHER FINANCING SOURCES (USES):			
Sales of Assets	23,186	-	23,186
TOTAL OTHER FINANCING SOURCES (USES)	23,186	-	23,186
Net Change in Fund Balances	614,464	-	614,464
FUND BALANCES, JULY 1, 2017	$ 1,915,312	$ -	$ 1,915,312
FUND BALANCES, DECEMBER 31, 2018	$ 2,529,776	$ -	$ 2,529,776
FUND BALANCES CONSIST OF:			
General Cash	$ 2,579,920	$ 82,773	2,662,693
Insufficient Fund Items	1,489	-	1,489
Deposits with Vendors	637	-	637
Due to Vendors	(52,203)	-	(52,203)
Due to Fund	(67)	(82,773)	(82,840)
TOTAL FUND BALANCES	$ 2,529,776	$ -	$ 2,529,776

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Period July 1, 2017, through December 31, 2018

1. Criteria

The accounting policies of the Nebraska Brand Committee (Committee) 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 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 Committee to record all accounts receivable and related revenues in EnterpriseOne; as such, the Committee'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 December 31, 2018, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2018, **does not** include amounts for goods and services received before December 31, 2018, which had not been posted to the general ledger as of December 31, 2018.

Other liabilities are recorded in the accounts entitled Due to Fund for the Committee. 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 Committee had no accounts receivable as of December 31, 2018. 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 Committee:

> **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.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

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

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

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees. Inspection fees are collected for the performance of brand inspections and brand recording fees are collected for recording brands.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income. Beef Council Contract fees are collected as a result of an agreement with the Nebraska Beef Council. The Committee receives a collection fee for collecting the Nebraska Beef Council's beef check-off assessments.

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

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

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 Committee include the following:

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 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 Committee's funds at December 31, 2018, included amounts recorded in 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 capital asset dispositions.

NOTES TO THE SCHEDULE
(Continued)

2. Reporting Entity

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

The Committee 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 Committee 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 Committee 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. Substantially, all initial building costs, land, and land improvements are capitalized. Building improvements and renovations are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. 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.

NOTES TO THE SCHEDULE
(Concluded)

5. Capital Assets (Concluded)

Buildings and Equipment are depreciated in the CAFR using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3-10 years

Capital asset activity of the Committee recorded in the State Accounting System for the period ending December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Land	$ 5,001	$ -	$ -	$ 5,001
Buildings	85,531	-	-	85,531
Equipment	193,360	18,237	61,943	149,654
Total	283,892	18,237	61,943	240,186
Less accumulated depreciation for:				
Buildings				85,531
Equipment				112,515
Total				198,046
Total capital assets, net of depreciation				$ 42,140

Note: The accumulated depreciation noted in the table above was calculated in the accounting system through June 30, 2018.

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 BRAND COMMITTEE **Exhibit A**

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Period July 1, 2017, through June 30, 2018

	Brand Inspection & Theft Prevention Fund Fund 23910	Estray Fund Fund 73910	**Totals (Memorandum Only)**
REVENUES:			
Sales & Charges	$ 5,404,773	$ -	$ 5,404,773
Miscellaneous	68,885	-	68,885
TOTAL REVENUES	5,473,658	-	5,473,658
EXPENDITURES:			
Personal Services	3,977,295	-	3,977,295
Operating	393,209	-	393,209
Travel	535,962	-	535,962
Capital Outlay	24,951	-	24,951
TOTAL EXPENDITURES	4,931,417	-	4,931,417
Excess (Deficiency) of Revenues Over (Under) Expenditures	542,241	-	542,241
OTHER FINANCING SOURCES (USES):			
Sales of Assets	7,103	-	7,103
TOTAL OTHER FINANCING SOURCES (USES)	7,103	-	7,103
Net Change in Fund Balances	549,344	-	549,344
BEGINNING FUND BALANCES, JULY 1, 2017	1,915,312	-	1,915,312
ENDING FUND BALANCES, JUNE 30, 2018	$ 2,464,656	$ -	$ 2,464,656
FUND BALANCES CONSIST OF:			
General Cash	$ 2,464,198	$ 58,056	$ 2,522,254
NSF Items	952	-	952
Deposits with Vendors	637	-	637
Due to Vendors	(1,099)	-	(1,099)
Due to Fund	(32)	(58,056)	(58,088)
TOTAL FUND BALANCES	$ 2,464,656	$ -	$ 2,464,656

NEBRASKA BRAND COMMITTEE **Exhibit B**

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Period July 1, 2018, through December 31, 2018

	Brand Inspection & Theft Prevention Fund Fund 23910	Estray Fund Fund 73910	**Totals (Memorandum Only)**
REVENUES:			
Sales & Charges	$ 2,674,449	$ -	$ 2,674,449
Miscellaneous	41,630	-	41,630
TOTAL REVENUES	2,716,079	-	2,716,079
EXPENDITURES:			
Personal Services	2,016,694	-	2,016,694
Operating	329,178	-	329,178
Travel	258,244	-	258,244
Capital Outlay	62,926	-	62,926
TOTAL EXPENDITURES	2,667,042	-	2,667,042
Excess (Deficiency) of Revenues Over (Under) Expenditures	49,037	-	49,037
OTHER FINANCING SOURCES (USES):			
Sales of Assets	16,083	-	16,083
TOTAL OTHER FINANCING SOURCES (USES)	16,083	-	16,083
Net Change in Fund Balances	65,120	-	65,120
BEGINNING FUND BALANCES, JULY 1, 2018	2,464,656	-	2,464,656
ENDING FUND BALANCES, DECEMBER 31, 2018	$ 2,529,776	$ -	$ 2,529,776
FUND BALANCES CONSIST OF:			
General Cash	$ 2,579,920	$ 82,773	$ 2,662,693
NSF Items	1,489	-	1,489
Deposits with Vendors	637	-	637
Due to Vendors	(52,203)	-	(52,203)
Due to Fund	(67)	(82,773)	(82,840)
TOTAL FUND BALANCES	$ 2,529,776	$ -	$ 2,529,776