

**ATTESTATION REPORT
OF THE
NEBRASKA LIBRARY COMMISSION
JULY 1, 2018, THROUGH DECEMBER 31, 2019**

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Issued on August 6, 2020

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Audit Staff Working On This Examination

Krista Davis – Audit Manager

Emily Parker – Auditor-In-Charge

Connor Worden – 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 LIBRARY COMMISSION

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NEBRASKA LIBRARY COMMISSION

BACKGROUND

The Nebraska Library Commission (Commission) was established by an act of the Legislature on March 27, 1901. The Commission promotes, develops, and coordinates library and information programs and services statewide. As the State library agency, the Commission serves as an advocate for the library and information service needs of Nebraskans. The Commission:

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

The Commission's six members are appointed by the Governor to three-year terms, with members serving no more than two consecutive terms. Commissioners appoint the Agency Director. Members generally are appointed from each of the State's six areas. Commissioners meet every other month and are not paid, but are reimbursed for expenses.

Source: 2018-2019 Nebraska Blue Book

NEBRASKA LIBRARY COMMISSION

KEY OFFICIALS AND COMMISSION CONTACT INFORMATION

Nebraska Library Commission Members

Name	Title	Term Ending
Debby Whitehill Bloom	Chairperson	June 30, 2021
Arunkumar Pondicherry	Vice – Chairperson	June 30, 2021
Vernon J. Davis	Member	June 30, 2022
Lois Todd-Meyer	Member	June 30, 2021
Julia Tye	Member	June 30, 2022
Kristin Wiebe	Member	June 30, 2022

Nebraska Library Commission Executive Management

Name	Title
Rodney Wagner	Director
Jerry Breazile	Business Manager III

Nebraska Library Commission
The Atrium 1200 N Street
Suite 120
Lincoln, NE 68508
nlc.state.ne.gov

NEBRASKA LIBRARY COMMISSION

SUMMARY OF COMMENTS

During our examination of the Nebraska Library Commission (Commission), we noted certain deficiencies and other operational matters that are presented here. The following comments are required to be reported in accordance with *Government Auditing Standards*: Comments #1, "Payroll Issues," #2, "Revenue Control Issues," #3 "Internal Controls Over Capital Assets," and #4, "Aid to Libraries," which are considered significant deficiencies. Comment #1, "Payroll Issues," is also considered material noncompliance.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Payroll Issues:*** The Commission did not have an adequate segregation of duties over payroll and lacked support for time charged against Federal grants. Two Commission employees were able to approve their own timesheets in the accounting system. Three employees were not paid properly for their last paycheck, resulting in errors totaling \$149. There was an overall lack of documentation in personnel files to support payroll withholdings, salaries, etc.
2. ***Revenue Control Issues:*** The Commission did not have an adequate segregation of duties over revenues; one employee had unnecessary access to the State's accounting system to process revenues; petty cash was not reconciled consistently, and a terminated employee was still a signer on the Commission's bank account; the Commission received \$2,340 for a non-State entity; the Commission lacked procedures over amounts due to entities; and the sale of goods by libraries was not adequately monitored.
3. ***Internal Controls Over Capital Assets:*** The Commission did not have an adequate segregation of duties over capital assets; one user had unnecessary access to process capital asset transactions; there was a lack of inventory procedures for books and periodicals; the proceeds from the sale of books were improperly paid to the City of Lincoln Foundation instead of retained by the Commission; and assets were not recorded timely or properly in the accounting system.
4. ***Aid to Libraries:*** The Commission expended \$1,250,593 in State and Federal aid to the Regional Library Systems, public libraries, and the University of Nebraska during the period tested. During testing, we noted concerns regarding the calculation of aid paid, including lack of adequate monitoring procedures and adequate documentation.
5. ***Financial Coding Issues:*** The Commission had several financial schedule coding errors, of which \$167,386 was adjusted. Furthermore, the Commission lacked adequate accounting of administrative expenditures claimed against a Federal grant.
6. ***Distributive Fund:*** The fund was not used in accordance with the original purpose as outlined in the fund application with the Department of Administrative Services, and the contract with a vendor was not bid or approved as a sole source contract. Payments made to the vendor totaled \$342,273 during the period tested. Additionally, the fund balance included \$552,216 in the Due to Fund account instead of the Due to Vendor account, which was adjusted.

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 Commission.

Draft copies of this report were furnished to the Commission to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

1. **Payroll Issues**

The State’s accounting system, EnterpriseOne, 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 Commission should have compensating procedures in place, such as a documented review of the final payroll register by an individual without payroll access, to ensure no one individual is able to conceal errors or irregularities.

The Commission had five 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. The Commission’s payroll expenditures totaled \$3,928,643 during the period tested.

We also noted the following issues during testing of the related controls and expenditures:

- The Commission did not have adequate documentation to support payroll charged to Federal grants for Commission employees.
- Two employees had the ability to approve their own timesheets in EnterpriseOne, and one employee had unnecessary user access to process payroll.
- Three employees tested were not properly paid out upon termination, resulting in an overpayment of \$72 and underpayments of \$56 and \$21, respectively.
- The Commission did not maintain required payroll forms; the additional tax withholdings for one employee did not agree to the W-4 form on file; and no documentation was maintained to support the Director’s pay increase of 1.5%.

Payroll Charged to Federal Grants

Three employees tested did not have adequate documentation to support charging part or all of their time to a Federal program. The employees maintained timesheets, which listed the total hours worked each day along with the time coded to the Federal program. However, the distribution of the hours among Federal and State programs on the timesheets was set up in EnterpriseOne based upon predetermined estimates, and no review was performed by the Commission to ensure the estimates reflected the actual time spent on the Federal programs. A similar finding was noted in the past attestation of the Commission.

For the pay period tested, the three employees received gross wages, totaling \$3,606, which were paid from CFDA 45.310 – Grants to States. After further inquiry with the Commission, it was determined that 21 other Commission employees also coded time to a Federal award during the period tested, and those employees also did not have adequate documentation supporting the distribution between Federal and State programs. The following table summarizes, by grant number, the gross wages paid to the 24 staff members during the period tested:

CFDA	CFDA Description	Grant Number	Amount
45.310	Grants to States	LS-00-17-0028-17	\$ 172,295
45.310	Grants to States	LS-00-18-0028-18	\$ 570,736
45.310	Grants to States	LS-00-19-0028-19	\$ 124,402
45.312	National Leadership Grants	LG-95-17-0046-17	\$ 52,299
Total			\$ 919,732

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Payroll Issues** (Continued)

2 CFR § 200.430(i)(1) (January 1, 2019) states, as is relevant, the following:

Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

* * * *

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities . . . ;

* * * *

(vii) Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award

(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity’s written policies) are identified and entered into the records in a timely manner. . . .; and

(C) The non-Federal entity’s system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

Timesheet Approval and User Access

EnterpriseOne can be used by State agencies to track employees’ time worked and leave used. Employees submit their time worked for each pay period to a supervisor who approves the timesheet prior to payment. Each supervisor can set up delegates in the system, to approve timesheets and leave requests, should the supervisor be unavailable. During testing, we noted two employees were set up as delegates for their supervisor, which allowed the employees to approve their own timesheets.

Furthermore, one employee had access in EnterpriseOne to process payroll; however, that access was not needed for the employee’s job function. The employee changed positions during the period tested, but the access was not removed.

Terminated Employee Leave Payments

Leave payouts to three terminated employees was not properly calculated, resulting in over and underpayments, as follows:

Employee	Date Terminated	Sick Over/(Under) Paid	Vacation Over/(Under) Paid	Total
Employee #1	9/10/2018	\$ 17	\$ 55	\$ 72
Employee #2	7/31/2019	\$ (10)	\$ (46)	\$ (56)
Employee #3	9/15/2019	\$ 5	\$ (26)	\$ (21)

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Payroll Issues** (Continued)

One employee terminated in the middle of a pay period, causing the leave earned to require adjustment based on actual hours worked for the final paycheck. The Commission calculated the leave payout based on 64 hours of work; however, the employee worked only 48 hours. This resulted in an overpayment of \$17 in sick leave and \$55 in vacation leave.

One employee earned 0.73 hours of vacation and 0.53 hours of sick leave. However, she should have earned 1.69 hours of vacation and 1.21 hours of sick leave based on 17.54 hours worked on her last paycheck, resulting in an underpayment of \$10 in sick leave and \$46 in vacation leave.

The third employee had a balance of 4.49 hours of vacation, but only 2.99 hours of vacation were paid, resulting in an underpayment of \$26. Furthermore, she had a balance of 1.99 hours of sick leave and should have been paid 25 percent of the balance at retirement, or 0.5 hours. The Commission paid the employee 1.29 hours of sick leave, resulting in an overpayment of \$5.

Lack of Payroll Documentation

We tested six employees' payroll expenditures and noted the Commission lacked adequate documentation to support one employee's pay rate increase and lacked the required payroll forms for two employees, as follows:

- The Director received a 1.5% pay increase on January 1, 2019; however, no documentation was maintained to support that the Commission approved the pay increase. Furthermore, the Director's W-4 form did not agree to the additional Federal income taxes withheld in EnterpriseOne.
- A second individual tested did not have a W-4 form or I-9 Form ("Employee Verification Form") on file.

A good internal control plan requires an adequate segregation of duties to ensure that 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 payroll to ensure that it is proper. Furthermore, good internal controls require procedures to ensure the following: 1) payroll charged to Federal grants is properly documented in accordance with Federal regulations; 2) approval of timesheets is proper, including controls to ensure employees are not able to approve their own timesheets; 3) access no longer necessary for employees job functions is removed timely; 4) employee leave is properly balanced and paid upon termination; 5) salary increases are supported properly; and 6) required payroll forms are maintained for subsequent review.

Without an adequate segregation of duties, there is an increased risk of errors or irregularities occurring and not being detected. Furthermore, without adequate documentation to support Federal expenditures, termination payments, salary increases, and payroll forms, there is an increased risk for errors to occur or noncompliance with Federal regulations.

We recommend the Commission implement procedures for someone without payroll access to perform a documented review of the payroll register for accuracy and reasonableness. Furthermore, we recommend the Commission: 1) support payroll allocations; 2) ensure delegates are proper and that no employee is able to approve his or her own timesheet; 3) user access is terminated timely when no longer necessary; 4) leave payouts are proper; 5) salary increases are properly supported; and 6) payroll documentation, such as W-4 and I-9 forms, are on file and agree to withholdings in EnterpriseOne.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Payroll Issues** (Concluded)

Commission Response: We will remove any unneeded access to accounting systems, but because of limited staff availability, we have allowed some staff to retain access to some processes to provide contingency backup. The Commission will create and utilize an updated checklist for employees that terminate, to include checking that delegation is removed when employees separate. Regarding payroll charged to federal grants, we regard that as largely discretionary due to the overlapping natures of State and Federal activities. We will use certification forms to assure compliance with federal grant requirements. Per discussion, it is agreed that any employee that conducts work that meets Federal grant guidelines can be paid through general and federal funds; that is deemed appropriate according to auditors' understanding on other Federal programs.

2. **Revenue Control Issues**

In addition to receiving State and Federal funding, the Commission obtained donations and charged fees for the support of libraries statewide. During testing of the Commission's receipt and billing processes, we noted a lack of adequate segregation of duties, as one individual was able to open the mail containing cash and checks, prepare the deposits, create invoices, review outstanding invoices and send overdue notices, and apply cash received without a secondary individual being involved in the process. Furthermore, checks were not endorsed for deposit only to the State Treasurer when the mail was opened; instead, the individual preparing the deposit endorsed the checks. A similar finding was noted in past attestations of the Commission.

One employee also had access in EnterpriseOne, the State's accounting system, to perform receipting procedures, and the employee did not require the access for her job functions. We also noted the following concerns over petty cash, non-Commission related receipts, amounts due to other entities, and consumable goods.

Petty Cash Procedures

The Commission maintained petty cash of \$150, to pay for postage, interlibrary loan charges, and other minor items and charges. During testing of the petty cash, we noted the following issues:

- One employee, who terminated on December 11, 2018, was still listed as an authorized signer on the Commission's petty cash bank account.
- The Commission did not complete monthly bank reconciliations. The last reconciliation was performed for October 2019.
- One warrant was issued to the Commission to replenish the petty cash fund on November 15, 2019, in the amount of \$34. However, the warrant was not cashed; instead, it was held in a safe by the Commission as of May 12, 2020, over 179 days since the warrant was issued.

Nebraska Center for the Book

The Commission provided administrative support to the Nebraska Center for the Book (Center), a 501(c)(3) organization. Assistance included news releases or announcements on programs, the Nebraska Book Festival, book award competition, and creating a newsletter for the Center. The Commission's role in the Nebraska Book Festival was largely promotional, including posting information about the festival on both the Commission's website and the Center's website, and sending news releases. The Commission also allowed the Center to use the Commission's address to send donations, membership fees, and fees for the annual book competition. The money was received by the Commission, tracked in a spreadsheet, and then mailed to the Center's Treasurer, along with any documents received by the Commission relating to the receipt. The Commission's role in providing administrative support for the Center appears to fit within the Commission's purpose; however, the Commission should not collect the Center's receipts, as they are not State monies.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Revenue Control Issues (Continued)

According to the Commission's records for the period July 1, 2018, through December 31, 2019, the Commission collected \$1,740 in membership dues and \$600 in book award submission fees, for a total of \$2,340 collected on behalf of the Center.

Amounts Due to One Nebraska Library

To encourage and support the sharing of materials between libraries, the Commission provided quarterly compensation to Nebraska libraries that lent materials to other libraries through the Interlibrary Loan system, referred to as Lender Compensation. Payments for Lender Compensation were made to eligible libraries by direct payment or applied as a credit towards the libraries' accounts, which could be used later to reduce payments owed to the Commission for invoiced products and services.

Lender Compensation accounts were tracked using QuickBooks, a separate accounting software, and the balances were communicated to the libraries on the Commission's website. During testing, we noted that the Commission had a separate QuickBooks general ledger for One Nebraska Library Consortium (Consortium); however, balances due to the Consortium were not posted on its website and not known to exist by the Commission's Business Manager. The Consortium is made up of public libraries, which operates to promote library and information service in the State of Nebraska, and cooperation among all types of libraries and organizations concerned with library and information service. The separate ledger had a balance of \$5,956 that was not paid or communicated to the Consortium. After being identified, it was determined that only two Commission employees were aware of the ledger, only one of whom had access, increasing the risk for misappropriation of funds.

Innovation Studios Consumable Goods

The Commission was awarded a National Leadership Grant by the Institute of Museum and Library Services (IMLS) for the Nebraska Innovation Studios project. The project consists of Library Innovation Studios, which are events hosted by public libraries to support community engagement and participatory learning experiences by providing access to technology and tools not readily accessible to the public locally.

For the events, the Commission purchased consumable goods, such as button parts, heat transfer paper, and vinyl, and delivered them to a public library during their hosting period. The consumable goods could be used by the library employees, Commission staff for training purposes, or purchased by the public. The Commission provided a price list to the hosting library to use when charging the public for the goods, as well as a spreadsheet to track the sale of goods. The public library hosting the event collected the money for the sale of the goods to the public and remitted the money to the Commission during, or at the conclusion of, their hosting period, along with the sales spreadsheet. However, the Commission did not have adequate procedures to track what goods were used or sold and whether all unused goods were returned by the hosting library. As a result, the Commission could not determine if the amount was correct.

During testing, the amount remitted by one library did not agree to the amount on the library's sales spreadsheet. The library paid \$2,143 to the Commission, which was \$580 more than the amount listed on the library's sales spreadsheet. A second library did not list the product codes on its sales spreadsheet. In addition, a third library did not calculate properly the sales spreadsheet, apparently leading to an underpayment of \$121.

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 a secondary individual to review invoices, outstanding balances, and reports to ensure all monies received are appropriately deposited. Furthermore, good internal controls require procedures to ensure the following: 1) EnterpriseOne access no longer necessary for an employee's job functions is removed timely; 2) petty cash activity is deposited timely and reconciled monthly, and signers on the account are removed immediately upon termination; 3) only monies due to the State are receipted by the Commission; 4) amounts due are appropriately communicated and paid in a timely manner; and 5) sales of goods are inventoried appropriately, and procedures are in place to ensure all monies due to the State are received.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Revenue Control Issues** (Concluded)

Without an adequate segregation of duties and appropriate procedures to ensure all monies due to the State are collected and only appropriate individuals have access to process transactions, there is an increased risk of errors or irregularities occurring and not being detected.

We recommend the Commission implement procedures for an adequate segregation of duties or compensating procedures to ensure all monies due to the State are properly accounted for. Furthermore, we recommend the Commission ensure the following: 1) procedures are established to document a secondary review of invoices prior to billing, and at least two individuals review the outstanding invoices to ensure they are followed up on timely; 2) checks are endorsed for deposit when mail is opened; 3) user access and signatory authorization on bank accounts are terminated timely when no longer necessary; 4) bank reconciliations are performed monthly, and checks are cashed timely; 5) collection of monies for the Nebraska Center for the Book is ceased; 6) balances owed are communicated to entities, and payment is remitted if necessary; and 7) consumable goods are adequately monitored for items used, sold, and returned to ensure sales are remitted appropriately.

Commission Response: We will remove any unneeded access; because of limited staff availability, we have allowed some staff to retain access to some processes to provide contingency backup. Segregation of duties is necessarily limited due to staff size. The \$2,340 mentioned above was receipted but not combined with State funds; we do provide administrative support for the Nebraska Center for the Book, and we believe that support fits the Commission's purpose.

3. **Internal Controls Over Capital Assets**

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 inventory records, surplus and dispose of assets, and 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. A similar finding was noted in the previous attestation of the Commission.

As of December 31, 2019, the Commission had assets with a total purchase value of \$343,046; however, due to depreciation, the current combined book value of those assets was only \$66,370.

The Commission used a separate cataloging system to track its books and periodicals. We noted that the Commission lacked adequate controls to ensure all items purchased for the collection were properly added, deletions were properly approved, and a periodic inventory was performed. One individual had access to add, initiate the deletion, and purge or remove books from the cataloging system, and there was no independent secondary review to ensure the activity was proper. Books or periodicals that were no longer needed were sent to the City of Lincoln Public Library book sale. Proceeds of the sale are collected by the City of Lincoln Public Library and remitted to the City of Lincoln Library Foundation, which was not in accordance with Title 236 NAC 2-003.01B of the Commission's rules and regulations. A similar finding was noted in previous attestations.

During testing of capital assets, we noted the following:

- One employee had access to process capital asset transactions in EnterpriseOne, but the access was not necessary for the individual's job functions.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

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

- The Commission had six servers, totaling \$11,394, which did not have costs recorded timely in EnterpriseOne, as follows:

Cost in EnterpriseOne	Date Acquired	Date Costs Assigned	# Days Between Acquired and Assigned Costs
\$ 1,899	2/20/2010	8/12/2019	3,460
\$ 1,899	11/9/2017	8/12/2019	641
\$ 1,899	4/22/2017	8/12/2019	842
\$ 1,899	5/17/2017	8/12/2019	817
\$ 1,899	6/27/2017	8/12/2019	776
\$ 1,899	2/26/2017	8/12/2019	897
\$ 11,394	Total		

- The Commission did not have documentation to support the asset-acquired date in EnterpriseOne for five assets, totaling \$7,576. Furthermore, costs were not proper for two of the five assets. For one asset, the cost of a USB-C mobile adapter was included, and the cause of the second error is unknown.

Description	Cost in EnterpriseOne	Correct Cost	Variance	Unsupported Date Acquired
Laptop	\$ 1,966	\$ 1,966	\$ -	7/22/19
Laptop	\$ 1,625	\$ 1,540	\$ 85	7/22/19
PC	\$ 800	\$ 800	\$ -	12/21/18
PC	\$ 1,286	\$ 1,286	\$ -	7/22/19
Server	\$ 1,899	\$ 800	\$ 1,099	2/20/10
	\$ 7,576	\$ 6,392	\$ 1,184	

- The Commission sold 34 assets for \$649. One of the assets sold was originally paid from a trust fund; therefore, the proceeds from the sale should have been deposited to the same fund. However, the Commission deposited the sales to the General fund and lacked adequate support to determine how much the asset sold for, as no identifying information, such as a serial number, was included with the sales support. A similar finding was noted in the previous attestation of the Commission.

Title 236 NAC 2-003.01B states the following:

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

A good internal control plan requires an adequate segregation of duties or compensating controls to ensure no one individual is able both to perpetrate and/or to conceal errors or irregularities. Additionally, good internal controls require procedures to ensure capital asset records are accurate and complete, and all assets are assigned the correct costs when purchased, and those costs are added to the asset in a timely manner.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Internal Controls Over Capital Assets (Concluded)

Without an adequate segregation of duties or compensating controls, as well as proper internal control procedures, there is an increased risk of loss or misuse of State assets.

We recommend the Commission ensure the following: 1) an adequate segregation of duties is established or compensating controls implemented, including an independent secondary review of reports to ensure activity is proper; 2) a periodic inventory is performed to ensure all assets are accounted for; 3) capital asset records are complete and accurate, including accurate costs and acquired dates in the system; 4) the proceeds for the sale of assets are deposited to the appropriate funding source in compliance with the Commission's rules and regulations.

Commission Response: We will "clean up" any unneeded access. Segregation of duties is necessarily limited due to staff size. All books and periodicals are catalogued according to practices and processes established by the Commission.

4. Aid to Libraries

The Commission expended \$1,250,593 in State and Federal aid to the Regional Library Systems, public libraries, and the University of Nebraska during the period tested, in accordance with the duties charged to the Commission. During testing, we noted concerns regarding the calculation of aid paid, lack of adequate monitoring procedures, and lack of adequate documentation, as follows.

Aid to Regional Library Systems

The State of Nebraska is divided into four regional library systems (Systems). These Systems are non-profit entities governed by boards that are representative of libraries and citizens in the region. The Systems were established to provide access to improved library services. A significant portion of the Systems' funding comes from the Commission through both State and Federal funds. We noted that the allocation to the Systems was based on the number of libraries served and the geographic area covered therein, rather than procedures required by the Commission's own rules and regulations at Title 236 NAC 2-008.03, which directs the allocation to have two parts, including an equal base allocation for each system and an allocation based on an approved system service plan. No amount of the allocation to the Systems was equal, and the amount paid was not based on the approved system service plan.

We also noted that subrecipient monitoring procedures were inadequate. The Commission required the Systems to submit a compilation of the Systems' financial statements prepared by an independent accounting firm and an annual financial report; however, these were not audited financial statements. The Commission also stated that staff attended all Systems' board meetings. At the board meetings, a listing of System expenditures was provided and reviewed. However, the Commission did not review support for the expenditures included on the System listings to ensure they were allowable per Federal regulations. The last time the Commission reviewed support for the System's expenditures was in December 2017.

A similar finding was noted during the previous attestation of the Commission. The following amounts were paid to the Systems during the period July 1, 2018, through December 31, 2019:

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Aid to Libraries (Continued)

Funding Source	Federal Grant Number	CFDA	FFY	Amount
Federal	LS-00-17-0028-17	45.310	2017	\$ 68,325
Federal	LS-00-18-0028-18	45.310	2018	\$ 293,723
Federal	LS-00-19-0028-19	45.310	2019	\$ 28,548
State General	N/A	N/A	N/A	\$ 394,448
			Total	\$ 785,044

Lastly, the Commission entered into an agreement with the Western Library System (WLS) to reimburse compensation paid to the interim director at a rate of \$30 per hour. The library system provided paystubs and timesheets to support the amount requested for reimbursement. The Commission reimbursed WLS \$2,220 for 74 hours, but the timesheet provided supported only 73 hours worked in June 2018, resulting in an overpayment of \$30. Additionally, the timesheet provided for October 2019 was illegible, so it could not be determined if the number of hours worked by the interim director and reimbursed by the Commission, totaling \$3,390, was correct.

State Aid to Public Libraries

The Commission provides State aid to eligible public libraries annually. To be eligible, libraries must, among other things, complete a Public Library Survey online. The amount disbursed to each library is based on the library’s service area population. The library can also obtain additional funding based upon accreditation or if the library receives additional tax-based funding from another public entity. As part of the eligibility requirements, libraries report their local income. This local income is then used for the maintenance of effort (MOE) to determine if the libraries’ current local income is at least equal to the lowest annual local income from the three previous years. The funds to be included in local income are outlined in Neb. Rev. Stat. § 51-209 (Reissue 2010). If the library does not meet the MOE requirement, its State aid amount may be reduced.

The Commission did not have procedures in place to ensure the local income and additional tax-based funding from another public entity reported by the libraries was reasonable. Since the amounts are self-reported by the libraries, the annual audits could be used to determine whether the amounts reported were reasonable, but no such procedures were in place.

A similar finding was noted during the previous attestation of the Commission. State aid paid to public libraries for the period July 1, 2018, through December 31, 2019, was \$344,183.

Other Aid Issues

The Commission entered into an agreement with the University of Nebraska-Lincoln to reimburse it for services related to the Library Innovation Studios project paid with Federal funds from the ILMS National Leadership Grant. The Commission made 14 payments to the University during the period July 1, 2018, through December 31, 2019, totaling \$121,366, for the cost of personnel, benefits, travel, supplies, and indirect costs. However, the Commission did not obtain supporting documentation from the University, such as vender invoices, travel receipts, payroll records, or other detailed documentation, to support that the amount paid was for actual and allowable costs.

2 CFR § 200.403 (January 1, 2019) requires costs to be reasonable, necessary, and adequately documented.

2 CFR § 200.302(a) (January 1, 2019) requires the State to have accounting procedures sufficient to allow for “the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.”

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Aid to Libraries (Concluded)

2 CFR § 200.331(d) (January 1, 2019) requires a pass-through entity to monitor the activities of the subrecipient to ensure that Federal awards are used in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Good internal control requires procedures to ensure aid is calculated in accordance with Commission rules and regulations; adequate support is obtained for aid calculations; and adequate documentation is maintained to support expenditures.

Without such procedures, there is an increased risk of not only inaccurate payments being made but also noncompliance with Federal regulations.

We recommend the Commission: 1) follow the procedures set out in Title 236 NAC 2-008.03; 2) strengthen its monitoring procedures to ensure expenditures are allowable; 3) implement procedures for ascertaining whether the local income and additional tax-based funding reported by the libraries are reasonable; and 4) ensure expenditures are adequately documented.

Commission Response: Noted. The Commission continues to work to assure systematic calculation of State and Federal aid. We will strengthen monitoring processes and retain all documentation.

5. Financial Coding Issues

During testing, we noted several transactions that were recorded improperly in EnterpriseOne, some of which required adjustment to the financial schedule, as noted below:

- The Commission did not have adequate documentation to support administrative expenditures recorded to the IMLS Federal grant. The grant required no more than four percent of the awarded amount to be used on administrative expenses in accordance with 20 USC § 9132(a). The Commission did not have procedures to identify the administrative expenses in EnterpriseOne. Instead, a manual spreadsheet was used by the Commission to track the expenditures, and we were unable to determine if the spreadsheet was complete, accurate, and listed all administrative expenditures. For the 2018 grant, the Commission was awarded \$1,408,780, of which \$56,351 could be used for administration of the grant. The Commission reported spending \$36,663, including \$34,861 for payroll, \$1,390 for travel expenses, and \$412 for other operating expenditures.

According to 2 CFR § 200.302(a) (January 1, 2019):

Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

- The Commission entered into a subaward agreement with the University of Nebraska-Lincoln, where the Commission agreed to provide pass-through payments from the National Leadership Grant. However, the Commission recorded the \$121,366 paid to the University for the subaward as an operating expense in EnterpriseOne, instead of government aid. As a result, Federal fund operating expenditures were overstated by \$121,366, and Federal fund government aid expenditures were understated by \$121,366. The Auditor of Public Accounts (APA) proposed an adjustment to the financial schedule, which was agreed to by the Commission and corrected.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Financial Coding Issues** (Continued)

- The Commission received a grant from the University of Nebraska, referred to as the Eager Grant. The grant was a reimbursement basis award; however, when the Commission received the grant funding, it was recorded as negative expenditures, instead of intergovernmental revenue. As a result, Federal fund personal service expenditures were understated by \$24,692, expenditures for travel were understated by \$24, and intergovernmental revenues were understated by \$24,716. The APA proposed an adjustment to the financial schedule, which was agreed to by the Commission and corrected.
- The Commission was awarded a National Leadership Grant from the IMLS, referred to as the Sparks Grant. The purpose of the grant was to improve the public library’s internet speeds and technical environment to benefit the community at large and particularly disenfranchised library patrons. The Commission selected six communities to participate in the grant project. It purchased eight computers granted to the communities, totaling \$6,098, and paid two vendors to provide fixed-base wireless equipment, installation, and maintenance for \$15,230. However, these expenditures were incorrectly recorded as capital outlay in EnterpriseOne, instead of government aid and operating expenditures. As a result, capital outlay expenditures were overstated by \$21,328. The APA proposed an adjustment to the financial schedule, which was agreed to by the Commission and corrected.

Description	Fund	Proper Financial Coding	Amount
2 Computers	10000	Government Aid Expense	\$ 1,524
6 Computers	43450	Government Aid Expense	\$ 4,573
Equipment, installation, and maintenance	23400	Operating Expense	\$ 2,900
Equipment, installation, and maintenance	43450	Operating Expense	\$ 12,331
Total			\$ 21,328

- During the U.S. Federal government shutdown in December 2018, the Commission made a journal entry to move revenues from the General fund to the Federal fund for \$75,000 due to lack of funding. The original journal entry should have moved expenditures, not revenues if funding was not available. No adjustment was necessary since the revenues were subsequently moved back to the General fund in February 2019.
- During testing of eight transactions, we noted that one was recorded inappropriately as a prior period obligation; however, the expenses related to current year services, totaling \$20,532. Two of the transactions were identified incorrectly as current period obligations, but they should have been prior year expenditures, totaling \$10,473.
- One employee’s travel expenditures, totaling \$264, were incorrectly recorded to the Federal fund, instead of the Commission’s Cash fund.
- The purchase of an adapter for \$75 was incorrectly recorded as a capital outlay, instead of an operating expenditure.

A good internal control plan and sound business practices require procedures to ensure transactions are properly recorded in the State’s accounting system to ensure financial reporting is complete and accurate.

Without controls to ensure amounts reported to the Federal awarding agency are accurate and properly supported, there is an increased risk of noncompliance with the grant and Federal requirements, which could result in the loss of Federal funds. When transactions are recorded incorrectly in the State’s Accounting System, moreover, there is an increased risk of material misstatement of the financial schedule.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Financial Coding Issues** (Concluded)

We recommend the Commission implement procedures to ensure transactions are recorded properly in the State's accounting system, and related financial information is presented accurately.

Commission Response: The coding errors as described during the audit were based upon subjective interpretation of transactions. Although I don't completely disagree with the points that were brought forward, I believe that we coded transactions in manners that matched the natures of those transactions. We will emphasize the importance of thorough documentation of all transactions relating to federal grants.

6. **Distributive Fund**

We noted the fund application for the Commission's Distributive Fund had not been updated since 1988, but the use of the fund listed on the application had since changed. The fund application submitted by the Commission listed the use of the fund as the "Receipt and disbursement for NEBASE libraries using automated library services operation (OCLC)." However, the Commission actually used this fund for two different purposes: (1) to record the receipt and disbursement of funds for Nebraska public libraries and schools for annual participation and membership fees to OverDrive, and (2) to record the receipt and disbursement of online database services provided to Nebraska public libraries and schools.

Additionally, it appears splitting these activities into two separate funds or tracking the activity in separate account codes within the fund would allow for improved accounting, as the amount of funds going out of the fund to pay vendors for online database services should equal the amount being receipted from libraries and schools. However, this would not be the case for the OverDrive, as the receipts from the libraries and schools are membership fees set by the Commission for participation in the OverDrive Libraries Group. Membership fees are used to pay OverDrive and for the purchase of eBooks and audio books from OverDrive for use by all members in the Overdrive Libraries Group. Separating these two distinct activities would allow the Commission to ensure all funds are being receipted properly and disbursed, and to assist in calculating the amount overspent or underspent on eBooks and audio books during the year.

Furthermore, the Commission used OverDrive as the vendor to provide eBooks and audio books to the libraries that participated in the OverDrive Libraries Group. The Commission used both member fees along with its own funds to purchase eBooks and audio books and to pay any applicable fees and costs charged by OverDrive. According to the Commission, when this group started, OverDrive was the only vendor able to provide this service; however, there are now other vendors who offer similar services. The Commission has been paying OverDrive for these services for over 10 years and has not bid the contract, as the Commission would lose access to its collection of eBooks and audio books. Therefore, in order to continue to use OverDrive, the Commission should have requested a sole source deviation approval by the Department of Administrative Services (DAS) in accordance with Neb. Rev. Stat. § 73-508 (Reissue 2018); however, no such request was made. Commission payments to OverDrive for the period July 1, 2018, through December 31, 2019, totaled \$342,273.

Lastly, we noted the Distributive Fund included a balance of \$552,216 as of December 31, 2019, held as a Due to Fund. This balance consisted of accumulated interest income earned on the balance held. The Commission was apparently unaware of the balance and had not determined how to use the income, by either providing additional services and/or reducing fees charged to the libraries. Because this balance was not due to another fund, the APA proposed an adjustment to the financial schedule, reflecting the balance as a Due to Vendor. The Commission agreed with the adjustment and the financial schedule was corrected.

NEBRASKA LIBRARY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Concluded)

6. Distributive Fund (Concluded)

A good internal control plan requires procedures to ensure funds are used in accordance with their original approved purpose. A good internal control plan and sound business practices also require procedures to ensure distinct activities can be identified in the accounting system to ensure all receipts and disbursements are correct and proper, and balances are properly recorded to reduce the risk of material misstatement of the financial schedule.

We recommend the Commission work with the DAS – State Accounting Division to establish a separate fund for the activities of the OverDrive group, or work to account separately for the activity in different account codes within the fund. We also recommend the Commission request a sole source deviation approval from DAS for the OverDrive contract. Lastly, we recommend the Commission properly record activity in the fund as a Due to Vendor and determine an appropriate use for the income earnings.

Commission Response: The libraries, through the Commission, continue to use OverDrive to avoid losing access to its large collection of eBooks and audio books. The contract with OverDrive is actually between the vendor and the libraries that are included, so the Commission does not consider its relationship with OverDrive as typically contractual. The Commission will use the \$552,216 in the Due to Fund Account to enhance services and access to material that we currently provide to libraries, or reduce costs to libraries.

APA Response: With regard to the OverDrive contract, the Commission paid the OverDrive invoices and was reimbursed by the local libraries for the services provided. Furthermore, the Commission incurred expenditures in excess of \$50,000 during the period tested, which would require compliance with State laws regarding either public bidding or a sole source deviation. Therefore, we continue to recommend the Commission ensure compliance and establish such documentation.



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
auditors.nebraska.gov

NEBRASKA LIBRARY COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Library Commission
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Library Commission (Commission) for the period July 1, 2018, through December 31, 2019. The Commission'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, 2018, through December 31, 2019, is based on the accounting system and procedures prescribed by 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.

A handwritten signature in black ink, appearing to read "C. J. Janssen", with a long horizontal flourish extending to the right.

July 14, 2020

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska

NEBRASKA LIBRARY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2018, through December 31, 2019

	General Fund Fund 10000	Library Commission Cash Fund Fund 23400	Financial Industry Regulatory Authority Cash Fund Fund 23405	Federal Funds Fund 43450	Library Commission Trust Fund Fund 68340	Library Commission Distributive Fund Fund 73410	Totals (Memorandum Only)
REVENUES:							
Appropriations	\$ 5,545,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,545,066
Intergovernmental	-	-	-	2,357,719	-	-	2,357,719
Sales & Charges	-	9,363	-	23,327	-	-	32,690
Miscellaneous	2,669	1,654	4,824	44	8,570	-	17,761
TOTAL REVENUES	5,547,735	11,017	4,824	2,381,090	8,570	-	7,953,236
EXPENDITURES:							
Personal Services	2,668,195	-	-	1,260,448	-	-	3,928,643
Operating	1,106,134	6,796	-	101,178	4,681	-	1,218,789
Travel	33,223	95	-	34,399	(6)	-	67,711
Capital Outlay	33,433	168	4,824	6,855	-	-	45,280
Government Aid	1,704,081	-	-	993,108	-	-	2,697,189
TOTAL EXPENDITURES	5,545,066	7,059	4,824	2,395,988	4,675	-	7,957,612
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,669	3,958	-	(14,898)	3,895	-	(4,376)
OTHER FINANCING SOURCES (USES):							
Sales of Assets	649	-	-	-	-	-	649
Deposit to General Fund	(3,318)	-	-	-	-	-	(3,318)
TOTAL OTHER FINANCING SOURCES (USES)	(2,669)	-	-	-	-	-	(2,669)
Net Change in Fund Balances	(0)	3,958	-	(14,898)	3,895	-	(7,045)
FUND BALANCES, JULY 1, 2018	2,380	48,326	-	114,102	134,853	-	299,661
FUND BALANCES, DECEMBER 31, 2019	\$ 2,380	\$ 52,284	\$ -	\$ 99,204	\$ 138,748	\$ -	\$ 292,616
FUND BALANCES CONSIST OF:							
General Cash	\$ -	\$ 49,685	\$ -	\$ 116,008	\$ 138,748	\$ 706,723	1,011,164
Petty Cash	150	-	-	-	-	-	150
Deposits with Vendors	2,230	2,599	-	-	-	-	4,829
Accounts Receivable Invoiced	-	-	-	-	-	58,655	58,655
Due From Other Government	-	-	-	11	-	-	11
Due to Vendors	-	-	-	(16,815)	-	(765,378)	(782,193)
TOTAL FUND BALANCES	\$ 2,380	\$ 52,284	\$ -	\$ 99,204	\$ 138,748	\$ -	\$ 292,616

The accompanying notes are an integral part of the schedule.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

For the Period July 1, 2018, through December 31, 2019

1. Criteria

The accounting policies of the Nebraska Library Commission (Commission) are on the basis of accounting, as prescribed by Nebraska's Director of Administrative Services.

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) include:

The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes[.]

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 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 Commission to record all accounts receivable and related revenues in EnterpriseOne; as such, the Commission's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of December 31, 2019, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2019, **does not** include amounts for goods and services received before December 31, 2019, which had not been posted to the general ledger as of December 31, 2019.

Other liabilities (primarily in the Distributive Fund Type) are recorded in the account entitled Due to Vendor for the Commission. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity. For further information of the activity recorded to this account for the period July 1, 2018, through December 31, 2019, see Note 6.

The Commission had accounts receivable not included in the Schedule of \$13,061 from invoice billings to Nebraska schools and libraries. State Accounting did not require the Commission to record its receivables on the general ledger, and these amounts are not reflected in revenues or fund balances on the Schedule. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The following fund types are established by the State and used by the Commission:

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

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

40000 – Federal Funds – account for the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

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

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

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

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

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

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

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

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

Operating – Expenditures directly related to a program's primary service activities.

Travel – All travel expenses for any State officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay – Expenditures that result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Concluded)

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

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

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Commission’s funds at December 31, 2019, included amounts recorded in Due to Vendor. The activity of the account is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The activity processed on the general ledger through the account is summarized in Note 6.

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

2. **Reporting Entity**

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

The Commission is part of the primary government for the State of Nebraska.

3. **Totals**

The Totals “Memorandum Only” column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. **General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State’s Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. **Capital Assets**

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Continued)

5. **Capital Assets** (Concluded)

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Commission takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$500 or more at the date of acquisition, and all computers.

For the CAFR, the State requires the Commission to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of 3 to 10 years. Capital asset activity of the Commission recorded in the State Accounting System for the period July 1, 2018, through December 31, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	\$ 353,101	\$ 43,314	\$ 53,369	\$ 343,046
Less accumulated depreciation for:				
Equipment				276,676
Total capital assets, net of depreciation				\$ 66,370

6. **Distributive Fund**

The Library Commission Distributive Fund is used to record two different types of Commission activity. The first activity included in this fund is receipt of participation fees and payment for eBooks and audio books for the Nebraska OverDrive Libraries Group. This group enables Nebraska libraries to share eBooks and audio books purchased by the Commission with the participation fees collected. The intent of this group is to make these types of digital media available to Nebraska libraries that might not otherwise be able to afford them. At December 31, 2019, there were approximately 171 libraries participating in this group.

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

The Commission recorded both types of activity to the Due to Vendors account. Activity for the period tested was as follows:

Balance July 1, 2018	In	Out	Balance December 31, 2019
\$ 261,496	\$ 4,845,513	\$ 4,341,631	\$ 765,378

NEBRASKA LIBRARY COMMISSION

NOTES TO THE SCHEDULE

(Concluded)

7. Library Regional Systems

The four library regional systems, including the Western Library System, Central Plains Library System, Three Rivers Library System, and Southeast Library System, are component units of the Commission, as defined by the Government Accounting Standards Board (GASB). Financial information for these component units was not included in the financial schedule of the Commission. Additional information on the component units is available from the Commission. During the period July 1, 2018, through December 31, 2019, the Commission paid \$785,044 in State and Federal funds, which includes both aid and non-aid expenditures of the Commission.

NEBRASKA LIBRARY COMMISSION

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

NEBRASKA LIBRARY COMMISSION
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2018, through June 30, 2019

Exhibit A

	General Fund Fund 10000	Library Commission Cash Fund Fund 23400	Financial Industry Regulatory Authority Cash Fund Fund 23405	Federal Funds Fund 43450	Library Commission Trust Fund Fund 68340	Library Commission Distributive Fund Fund 73410	Totals (Memorandum Only)
REVENUES:							
Appropriations	\$ 3,745,542	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,745,542
Intergovernmental	-	-	-	1,575,112	-	-	1,575,112
Sales & Charges	-	5,543	-	12,759	-	-	18,302
Miscellaneous	-	5,911	-	44	5,652	-	11,607
TOTAL REVENUES	3,745,542	11,454	-	1,587,915	5,652	-	5,350,563
EXPENDITURES:							
Personal Services	1,746,557	-	-	830,268	-	-	2,576,825
Operating	726,531	5,127	-	61,688	4,202	-	797,548
Travel	17,698	-	-	24,240	(6)	-	41,932
Capital Outlay	9,957	4,824	-	6,774	-	-	21,555
Government Aid	1,244,799	-	-	582,518	-	-	1,827,317
TOTAL EXPENDITURES	3,745,542	9,951	-	1,505,488	4,196	-	5,265,177
Excess of Revenues Over Expenditures	-	1,503	-	82,427	1,456	-	85,386
OTHER FINANCING SOURCES (USES):							
Sales of Assets	649	-	-	-	-	-	649
Deposit to General Fund	(649)	-	-	-	-	-	(649)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-	-
Net Change in Fund Balances	-	1,503	-	82,427	1,456	-	85,386
FUND BALANCES, JULY 1, 2018	2,380	48,326	-	114,102	134,853	-	299,661
FUND BALANCES, JUNE 30, 2019	\$ 2,380	\$ 49,829	\$ -	\$ 196,529	\$ 136,309	\$ -	\$ 385,047
FUND BALANCES CONSIST OF:							
General Cash	\$ -	\$ 47,230	\$ -	\$ 184,383	\$ 136,309	\$ 217,794	585,716
Petty Cash	150	-	-	-	-	-	150
Deposits with Vendors	2,230	2,599	-	-	-	-	4,829
Accounts Receivable Invoiced	-	-	-	12,135	-	74,244	86,379
Due From Other Government	-	-	-	11	-	-	11
Due to Vendors	-	-	-	-	-	(292,038)	(292,038)
TOTAL FUND BALANCES	\$ 2,380	\$ 49,829	\$ -	\$ 196,529	\$ 136,309	\$ -	\$ 385,047

NEBRASKA LIBRARY COMMISSION
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2019, through December 31, 2019

Exhibit B

	General Fund Fund 10000	Library Commission Cash Fund Fund 23400	Financial Industry Regulatory Authority Cash Fund Fund 23405	Federal Funds Fund 43450	Library Commission Trust Fund Fund 68340	Library Commission Distributive Fund Fund 73410	Totals (Memorandum Only)
REVENUES:							
Appropriations	\$ 1,799,524	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,799,524
Intergovernmental	-	-	-	782,607	-	-	782,607
Sales & Charges	-	3,820	-	10,568	-	-	14,388
Miscellaneous	2,669	(4,257)	4,824	-	2,918	-	6,154
TOTAL REVENUES	1,802,193	(437)	4,824	793,175	2,918	-	2,602,673
EXPENDITURES:							
Personal Services	921,638	-	-	430,180	-	-	1,351,818
Operating	379,603	1,669	-	39,490	479	-	421,241
Travel	15,525	95	-	10,159	-	-	25,779
Capital Outlay	23,476	(4,656)	4,824	81	-	-	23,725
Government Aid	459,282	-	-	410,590	-	-	869,872
TOTAL EXPENDITURES	1,799,524	(2,892)	4,824	890,500	479	-	2,692,435
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,669	2,455	-	(97,325)	2,439	-	(89,762)
OTHER FINANCING USES:							
Deposit to General Fund	(2,669)	-	-	-	-	-	(2,669)
TOTAL OTHER FINANCING USES	(2,669)	-	-	-	-	-	(2,669)
Net Change in Fund Balances	-	2,455	-	(97,325)	2,439	-	(92,431)
FUND BALANCES, JULY 1, 2019	2,380	49,829	-	196,529	136,309	-	385,047
FUND BALANCES, DECEMBER 31, 2019	<u>\$ 2,380</u>	<u>\$ 52,284</u>	<u>\$ -</u>	<u>\$ 99,204</u>	<u>\$ 138,748</u>	<u>\$ -</u>	<u>\$ 292,616</u>
FUND BALANCES CONSIST OF:							
General Cash	\$ -	\$ 49,685	\$ -	\$ 116,008	\$ 138,748	\$ 706,723	\$ 1,011,164
Petty Cash	150	-	-	-	-	-	150
Deposits with Vendors	2,230	2,599	-	-	-	-	4,829
Accounts Receivable Invoiced	-	-	-	-	-	58,655	58,655
Due From Other Government	-	-	-	11	-	-	11
Due to Vendors	-	-	-	(16,815)	-	(765,378)	(782,193)
TOTAL FUND BALANCES	<u>\$ 2,380</u>	<u>\$ 52,284</u>	<u>\$ -</u>	<u>\$ 99,204</u>	<u>\$ 138,748</u>	<u>\$ -</u>	<u>\$ 292,616</u>