

**ATTESTATION REPORT
OF THE
NEBRASKA STATE FIRE MARSHAL**

JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

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Issued on June 21, 2013

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NEBRASKA STATE FIRE MARSHAL

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NEBRASKA STATE FIRE MARSHAL

BACKGROUND

The Nebraska State Fire Marshal's office was created by a Legislative Act in 1909 which was known as the "Fire Commission Law." The State Fire Marshal is responsible for reviewing blueprints of all buildings constructed and remodeled in the State for compliance with fire safety and accessibility codes; conducting fire safety inspections of buildings, pipelines, and storage tanks; investigating fires and explosions; regulating fireworks; and providing training to the State's emergency responders. A nine-member Nebraska Fire Safety Appeals Board assists the Fire Marshal and hears appeals of Fire Marshal orders.

NEBRASKA STATE FIRE MARSHAL

EXIT CONFERENCE

An exit conference was held June 12, 2013, with the Agency to discuss the results of our examination. Those in attendance for the Nebraska State Fire Marshal were:

NAME	TITLE
Jim Heine	State Fire Marshal
Cathy Wann	Business Manager
Deb Hostetler	Accountant I
Don Fritz	Assistant Fire Marshal
Curtis Youngman	DAS-Financial Reports Coordinator

NEBRASKA STATE FIRE MARSHAL

SUMMARY OF COMMENTS

During our examination of the Nebraska State Fire Marshal (Agency), we noted certain deficiencies and other operational matters that are presented here.

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

1. ***Vehicle Accident Repairs:*** The Agency paid an auto body shop \$2,031 for a vehicle damaged in 2010. The Agency did not report the accident to the State's insurance company until August 2012. Because the claim was not filed within the required time, insurance did not cover the damage and the Agency had to pay for the entire repair cost.
2. ***Capital Asset Procedures:*** We noted a lack of controls over capital assets as one individual was responsible for the entire capital asset process.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Nebraska State Fire Marshal.

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

NEBRASKA STATE FIRE MARSHAL

COMMENTS AND RECOMMENDATIONS

1. Vehicle Accident Repairs

The Agency did not file an insurance claim to cover damage an Agency employee incurred while driving a State vehicle. During our testing we noted one of the eleven vehicle accidents repaired during the calendar year resulted in the Agency paying an auto body shop \$2,031 for a vehicle damaged in 2010. The Agency did not report the accident to the insurance company until August 2012. Because the claim was not filed within the required timeframe, insurance did not cover the damage and the Agency paid the entire repair cost.

State of Nebraska Motor Vehicle Policy-Fiscal Year 2011-2012 section II states:

If a State vehicle or any vehicle used on State business ... is involved in an accident, report the accident to the agency motor vehicle coordinator and file a Motor Vehicle Accident Report Form ... within 24 hours of the accident.

Since the State insures its vehicles with a \$500 deductible, by not filing the insurance claim in a timely manner, the Agency paid an additional \$1,531 to repair the vehicle.

We recommend the Agency review its procedures to ensure insurance claims are filed in a timely manner.

Agency's Response: The Agency has a practice of sending out monthly emails to all staff driving State vehicles reminding them to check their vehicles for damage and if any has occurred to report it immediately.

2. Capital Asset Procedures

Neb. Rev. Stat. § 81-1118.02(3) (Cum. Supp. 2012) states:

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

A good internal control plan requires an adequate segregation of duties over capital assets to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities.

During the testing of capital assets we noted the following:

- One individual performed all capital asset transactions, including maintenance of records, recording additions, creating the Surplus Property Notification forms, and performing the annual physical inventory.
- Capital asset integrity reports were not reviewed and documented.

NEBRASKA STATE FIRE MARSHAL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Capital Asset Procedures** (Concluded)

- Current follow-up on a computer not located at the Agency in the prior report disclosed the computer still could not be located and had not been reported as lost or stolen.

For one of ten capital assets tested, the asset was not properly tagged with “Property of the State of Nebraska.”

Without an adequate segregation of duties and a review of capital asset reports, there is an increased risk of loss or misuse of State funds.

We recommend the Agency implement procedures to ensure an adequate segregation of duties exists over capital assets. These procedures should include a documented review of all capital asset reports by a second individual. We also recommend the Agency develop procedures to ensure all assets are appropriately tagged “Property of the State of Nebraska.” Finally, we recommend the Agency report the missing computer as lost or stolen and remove it from the capital asset listing.

Agency’s Response: We appreciate the recommendations and will implement procedures to ensure an adequate segregation of duties exists over capital assets and all assets will be tagged appropriately. Appropriate steps were taken for the missing computer and it was removed from the capital asset listing on 5/7/13.



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NEBRASKA STATE FIRE MARSHAL

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Fire Marshal
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska State Fire Marshal (Agency) for the calendar year ended December 31, 2012. The Agency's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Schedule of Revenues, Expenditures, and Changes in Fund Balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, revenues, expenditures, and changes in fund balances of the Nebraska State Fire Marshal for the calendar year ended December 31, 2012, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed a certain finding that is required to be reported under *Government Auditing Standards*, and the finding along with the views of management, is described in the Comments Section of the report.

This report is intended solely for the information and use of management, the State Fire Marshal, others within the Agency, and the appropriate Federal and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

June 19, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA STATE FIRE MARSHAL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2012

	State General Fund 10000	Pipeline Safety Fund 21230	State Fire Marshal Fund 21250	Underground Storage Tank Fund 22110
REVENUES:				
Appropriations	\$ 4,051,351	\$ -	\$ -	\$ -
Intergovernmental	40,698	189,802	179,241	-
Sales & Charges	-	116,978	371,087	151,098
Miscellaneous	-	11,788	21,720	19,431
TOTAL REVENUES	4,092,049	318,568	572,048	170,529
EXPENDITURES:				
Personal Services	3,143,869	242,263	376,289	90,368
Operating	493,643	9,500	9,283	24,865
Travel	288,437	33,058	2,767	11,972
Capital Outlay	125,402	-	-	200
Government Aid	-	(7,513)	-	46,075
TOTAL EXPENDITURES	4,051,351	277,308	388,339	173,480
Excess (Deficiency) of Revenues Over (Under) Expenditures	40,698	41,260	183,709	(2,951)
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	-	410	-
Deposit to General Fund	(40,698)	-	-	-
Deposit to Common Fund	-	-	-	-
Operating Transfers In	-	-	-	50,000
TOTAL OTHER FINANCING SOURCES (USES)	(40,698)	-	410	50,000
Net Change in Fund Balances	-	41,260	184,119	47,049
FUND BALANCES, DECEMBER 31, 2011	-	449,647	838,874	783,448
FUND BALANCES, DECEMBER 31, 2012	\$ -	\$ 490,907	\$ 1,022,993	\$ 830,497
FUND BALANCES CONSIST OF:				
General Cash	\$ -	\$ 490,953	\$ 958,413	\$ 828,847
Petty Cash	-	-	50	-
NSF Items	-	-	1,398	-
Deposits with Vendors	-	-	4,120	-
Accounts Receivable Invoiced	-	-	21,630	1,680
Due From Other Funds	-	-	37,500	-
Due To Other Government	-	-	(111)	-
Due to Vendors	-	(46)	(8)	(30)
Due to Fund	-	-	-	-
TOTAL FUND BALANCES	\$ -	\$ 490,907	\$ 1,022,993	\$ 830,497

(Continued)

The accompanying notes are an integral part of the schedule.

NEBRASKA STATE FIRE MARSHAL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2012

	Reduced Cig Ignition Propensity Fund 22120	Petroleum Release Fund 28490	Fire Marshal Federal Fund 41210	Totals (Memorandum Only)
REVENUES:				
Appropriations	\$ -	\$ -	\$ -	\$ 4,051,351
Intergovernmental	-	-	542,730	952,471
Sales & Charges	4,000	425,375	-	1,068,538
Miscellaneous	1,070	-	1,595	55,604
TOTAL REVENUES	5,070	425,375	544,325	6,127,964
EXPENDITURES:				
Personal Services	31,836	-	400,797	4,285,422
Operating	2,204	-	40,020	579,515
Travel	-	-	47,842	384,076
Capital Outlay	-	-	18,154	143,756
Government Aid	-	-	53,204	91,766
TOTAL EXPENDITURES	34,040	-	560,017	5,484,535
Excess (Deficiency) of Revenues Over (Under) Expenditures	(28,970)	425,375	(15,692)	643,429
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	-	-	410
Deposit to General Fund	-	-	-	(40,698)
Deposit to Common Fund	-	(425,375)	-	(425,375)
Operating Transfers In	-	-	-	50,000
TOTAL OTHER FINANCING SOURCES (USES)	-	(425,375)	-	(415,663)
Net Change in Fund Balances	(28,970)	-	(15,692)	227,766
FUND BALANCES, DECEMBER 31, 2011	52,568	-	71,475	2,196,012
FUND BALANCES, DECEMBER 31, 2012	\$ 23,598	\$ -	\$ 55,783	\$ 2,423,778
FUND BALANCES CONSIST OF:				
General Cash	\$ 23,598	\$ -	\$ 89,833	\$ 2,391,644
Petty Cash	-	-	-	50
NSF Items	-	-	-	1,398
Deposits with Vendors	-	-	-	4,120
Accounts Receivable Invoiced	-	-	4,408	27,718
Due From Other Funds	-	-	-	37,500
Due To Other Government	-	-	-	(111)
Due to Vendors	-	-	(958)	(1,042)
Due to Fund	-	-	(37,500)	(37,500)
TOTAL FUND BALANCES	\$ 23,598	\$ -	\$ 55,783	\$ 2,423,778

(Concluded)

The accompanying notes are an integral part of the schedule.

NEBRASKA STATE FIRE MARSHAL

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2012

1. Criteria

The accounting policies of the Nebraska State Fire Marshal (Agency) are on the basis of accounting, as prescribed by the State of Nebraska's Director of the Department of Administrative Services.

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) include:

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

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivable and accounts payable in the general ledger. As such, certain revenues are recorded when earned, and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payable recorded in the general ledger, as of December 31, 2012, include only those payables posted in the general ledger before December 31, 2012, and not yet paid as of that date. The amount recorded as expenditures, as of December 31, 2012, **does not** include amounts for goods and services received before December 31, 2012, which had not been posted to the general ledger as of December 31, 2012.

Other liabilities are recorded in accounts entitled Due to Fund and Due to Government for the Agency. 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 Agency had accounts receivable not included in the Schedule of \$16,515 from tank registration fees and inspection fees. State Accounting did not require the Agency 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.

NEBRASKA STATE FIRE MARSHAL

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

The fund types established by the State that are used by the Agency are:

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

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

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

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

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

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

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

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

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

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

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

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

NEBRASKA STATE FIRE MARSHAL

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

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

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

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

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to the fund balance. Other liabilities recorded in the general ledger for the Agency's funds at December 31, 2012, included amounts recorded in Due to Fund, Due to Vendors, and Due to Government. The activity of these accounts is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

Other Financing Sources – Operating transfers, proceeds of capital asset dispositions, deposits to general fund, and deposits to common fund.

2. Reporting Entity

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

The Nebraska State Fire Marshal 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.

NEBRASKA STATE FIRE MARSHAL

NOTES TO THE SCHEDULE

(Continued)

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 Agency takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$500 or more at the date of acquisition.

For the CAFR, the State requires the Agency 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 two to ten years.

(Continued on Next Page)

NEBRASKA STATE FIRE MARSHAL

NOTES TO THE SCHEDULE

(Continued)

5. Capital Assets (Concluded)

Capital asset activity of the Agency recorded in the State Accounting System for the calendar year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	\$ 1,972,162	\$ 66,594	\$ 4,345	\$ 2,034,411
Less accumulated depreciation* for:				
Equipment				1,753,619
Total capital assets, net of depreciation				\$ 280,792

**Note: The accumulated depreciation noted in the table above was calculated in the accounting system through June 30, 2012. Depreciation for July through December 2012 was not run in the accounting system until the beginning of calendar year 2013.*

6. Transfers

Transfers include \$50,000 from the Petroleum Release Remedial Action Fund to the Underground Storage Tank Fund per 2011 Neb. Laws LB 374.

7. Deposits to Common Fund

Neb. Rev. Stat. § 66-1520 (Reissue 2009) requires the Nebraska State Fire Marshal to collect a \$90 petroleum release remedial action fee from the owners of operating petroleum tanks. The fees collected are remitted to the State Treasurer for deposit into the Petroleum Release Remedial Action Fund. The collections are reflected as Sales and Charges and as Deposits to Common Fund. The Nebraska Department of Environmental Quality maintains the cash balance and is responsible for this Fund.

NEBRASKA STATE FIRE MARSHAL

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 STATE FIRE MARSHAL
STATE FIRE MARSHAL FUND 21250 SALES AND CHARGES**

