

**ATTESTATION REPORT
OF THE
NEBRASKA STATE ELECTRICAL DIVISION
JULY 1, 2005 THROUGH JUNE 30, 2006**

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on March 12, 2007

NEBRASKA STATE ELECTRICAL DIVISION

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Organizational Chart	2
Comments Section	
Exit Conference	3
Summary of Comments	4 - 5
Comments and Recommendations	6 - 15
Financial Section	
Independent Accountant's Report	16 - 17
Schedule of Revenues, Expenditures, and Changes in Fund Balance	18
Notes to the Schedule	19 - 22
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balance Performed in Accordance with <i>Government Auditing Standards</i>	23 - 24
Statistical Section	25
Examination Statistics	26 - 27
Number of Inspections	28

NEBRASKA STATE ELECTRICAL DIVISION

BACKGROUND

The Nebraska State Electrical Division (Division) includes a State Electrical Board, which directs the Division's Executive Director and sets Division policy. The State Electrical Board (Board), established in 1969, is a seven-member regulatory board which enforces the State Electrical Act. Members are appointed by the Governor to five-year terms. Members include a journeyman electrician, an electrical contractor or master electrician, a certified electrical inspector, a registered professional engineer, a State rural electric system representative, a State municipal electric system representative, and a seventh member who may represent any of the above groups.

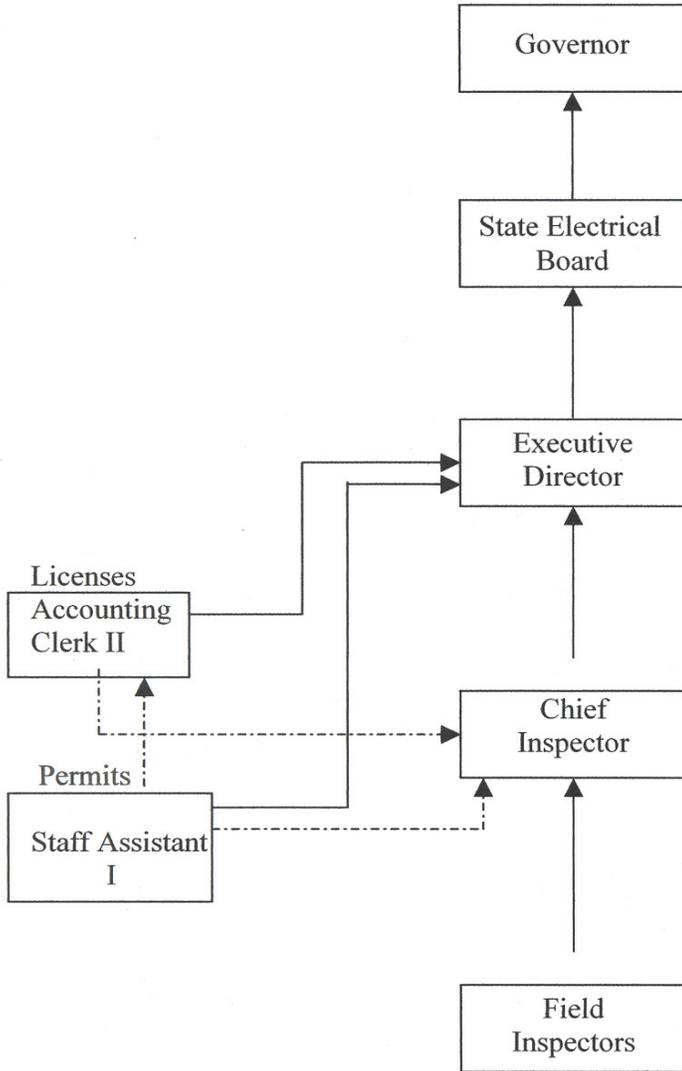
The Division is responsible for the inspection of new electrical wiring and electrical systems installed in buildings for compliance with the adopted electrical code. Existing residential and rural electrical facilities are inspected upon request. Electrical accidents and fatalities are investigated where possible. Practicing electricians and electrical contractors are tested, and, if qualified, are licensed by the Division. The Division is funded with cash funds received from occupational license fees and inspection fees.

MISSION STATEMENT

The mission of the State Electrical Division is to protect the public from hazardous electrical installations by enforcing the electrical licensing and inspection laws created by the Nebraska Legislature.

NEBRASKA STATE ELECTRICAL DIVISION

ORGANIZATIONAL CHART



NEBRASKA STATE ELECTRICAL DIVISION

EXIT CONFERENCE

An exit conference was held February 8, 2007, with the Division to discuss the results of our examination. Those in attendance for the Nebraska State Electrical Division were:

NAME	TITLE
Edwin Bergstraesser	Board President
Randy Anderson	Executive Director
Melissa Hamilton	Accounting Clerk II
Lynda Roesler	Internal Control – State Accounting

NEBRASKA STATE ELECTRICAL DIVISION

SUMMARY OF COMMENTS

During our examination of the Nebraska State Electrical Division, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Internal Control Over Receipts:*** The individuals handling cash and checks were also involved in processing and approving applications for permits and licenses. There was a period during the fiscal year when the Division was short staffed and one employee handled all phases of the receipting process.
2. ***Increasing Fund Balance:*** The Division's fund balance increased by \$1,065,188 from June 30, 2004, to December 31, 2006. A significant increase in fees charged, including approximate increases of 67 percent for licenses and examinations and 176 percent for inspections caused the fund balance increase.
3. ***Support for Fees Charged:*** The Division charged fees for licenses, permits, exams, and other miscellaneous charges. The Division did not have documentation on file to support whether the fees charged were sufficient to cover the costs incurred or whether they could be excessive.
4. ***Receipts Returns:*** Money received with incomplete or improper applications was not deposited with the State Treasurer.
5. ***Receipts Testing:*** The daily log, which was used to prepare the deposit document, was not signed by the deposit approver for 8 of 35 receipts tested. Receipt numbers, entered on the daily log to ensure all receipts are accounted for, were not listed on the daily log for 1 of 30 receipts tested. Supporting documentation could not be located for 1 of 40 receipts tested.
6. ***Internal Control Over Expenditures:*** The Department of Administrative Services (DAS) State Accounting Division approved and posted most expenditure transactions for the examination period. However, the Division was not reviewing the General Ledger Detail Report to ensure all transactions processed were authorized and accurate.
7. ***Payroll Process:*** Exempt employees did not complete timesheets. Compensatory time was not recorded on NIS. One employee's Federal income tax withholdings did not agree to the W-4 form on file. One employee's service date was incorrectly adjusted. Negative leave use was not properly approved. Leave earnings for one termination tested were not properly adjusted and the employee had a negative vacation leave balance on NIS after the final payout. Review of the payroll register was not consistently documented. Pre-payroll registers were not compared to final payroll registers and changes made to the Employee Master File on NIS were not reviewed.

NEBRASKA STATE ELECTRICAL DIVISION

SUMMARY OF COMMENTS

(Continued)

8. ***Retirement Not Withheld:*** Retirement was not withheld from two employees' payroll for a portion of calendar year 2005 and a portion of calendar year 2006.
9. ***Internal Control Over Capital Assets:*** Three employees and one Board member had the ability to add and remove assets from NIS. One individual was responsible for processing all phases of a transaction from beginning to end, and there was no review of reports available from NIS to ensure all assets were added and removed only as authorized.
10. ***Incorrect Coding:*** A payment to Nebraska.gov was incorrectly coded to a revenue object account. The payment should have been coded to an expenditure object account.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature as it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Division to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The formal responses received have been incorporated into this report. The responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

1. Internal Control Over Receipts

Good internal control requires procedures be in place which ensure no one individual is in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires all receipts be adequately tracked to ensure all monies received are deposited.

The individuals handling cash and checks were not completely independent of the function of processing and approving applications for permits and licenses. One individual created an initial record of money received and also processed permit applications. The money was then given to the Secretary II who created the deposit document and also processed the license applications. Additionally, there was a period during the fiscal year when the Division was short staffed and one employee handled all phases of the receipting process.

During the fiscal year, the Division was not reviewing the General Ledger Detail Report to ensure all monies received were properly deposited. A similar comment was noted in a prior report.

License renewals are received every two years, and were not processed during the examination period. However, license renewal procedures were reviewed for adequacy as it is a significant process during license renewal years. During this review, we noted renewals were not issued in sequential order, and were not adequately tracked to ensure all monies received were deposited.

There is an increased risk for fraud when the individuals that handle cash received also issue permits and licenses. Additionally, there is an increased risk for errors and fraud when one person handles the receipting process from beginning to end, with no independent review of the General Ledger Detail Report.

An additional risk of fraud exists in the license renewal process as the Division did not have procedures in place to determine if money received for all licenses renewed was deposited.

We recommend the Division implement procedures to ensure a proper segregation of duties exists between the handling of cash and the issuance of the licenses and permits. If this is not possible due to limited staff, other controls should be implemented to compensate for the lack of segregation of duties such as a detailed review of the General Ledger Detail Report. Additionally, procedures should be implemented to compare all license renewals per the system to money deposited for license renewals.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Internal Control Over Receipts (Concluded)

Division's Response: The Secretary II position is now Accounting Clerk II. In a small office segregation is difficult since one person does not have the required time to enter both permits and licenses, we check this by internal, software, numerical sequence, which can't be altered, and any missing numbers must be accounted for on the daily log. New licenses are sequential however license renewals are not sequential therefore we check each individual document for accuracy, and to be sure the license was issued to the applicant.

2. Increasing Fund Balance

Good fiscal policy requires fund balances to be periodically reviewed.

The Division's fund balance increased by \$1,065,188 from June 30, 2004, to December 31, 2006. This increase was due to the fact there was a significant increase in fees charged. Fees charged for licenses and examinations increased by approximately 67 percent effective May 1, 2003, and fees charged for inspections increased by approximately 176 percent effective July 1, 2004.

In December of even numbered years, license renewals are due. The license renewal process brought in \$655,215 during the fiscal year ended June 30, 2005. During the fiscal year ended June 30, 2006, the Division also received revenue for inspection fees, new license fees, and exam fees of \$1,098,501. The Division's expenditures for the fiscal year ended June 30, 2006, were \$1,213,638. Before the fee increase, the fund balance would fluctuate between license renewal years and non-license renewal years. License renewals would boost the fund balance which would then be spent down over the following two years. It appears the Division is not spending down the fund balance between renewal years because other revenues received are nearly covering the Division's expenditures.

As of December 31, 2006, the Division had approximately 13 months of expenditures on hand; however, the Division will continue to collect almost as much money as they spend each month. Therefore, the fund balance will not be spent down, but will remain fairly consistent until the next license renewal period in December 2008. We predict the fund balance will again increase significantly during this period.

Without adequate procedures for the review of the fund balance, the Division cannot determine if fees charged are excessive. The fund balance appeared to be excessive.

We recommend the Division implement procedures for the review of the fund balance to ensure fees charged are reasonable. We further recommend the Division take the steps necessary to ensure the fund balance is not excessive.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Increasing Fund Balance (Concluded)

Division's Response: The Division is in the process of calculating the exact expense incurred, this is difficult because as the economy rises and falls income and expense can change dramatically. The economy has been strong for some time and this accounts for the increasing fund balance. The Division is working on tracking the fees to be sure they are not excessive. The Board discussed a possible decrease in fees, however we must be cautious to not lower them and then have the economy fall into a slump and we deplete the fund balance. If needed the Board will seek legislation to allow the Division to lower fees per the Nebraska State Electrical Act and Board Rules 81-2118 & 81-2135.

3. Support for Fees Charged

Good business practice requires documented analysis of the costs incurred to provide services to determine the fees charged are appropriate.

The Division charged fees for licenses, permits, exams, and other miscellaneous charges.

The Division did not have documentation on file to support whether the fees charged were sufficient to cover the costs incurred or whether they could be excessive. This was also noted in a prior examination.

Without adequate documentation to support the fees charged, there is an increased risk of charges being set too high or too low to support the operations of the Division.

We recommend the Division ensure costs incurred are covered by the fees charged and not excessive based on costs. This analysis should be documented.

Division's Response: The fees are governed by the economy and we never know when this will fluctuate, therefore income can rise and fall on very short notice. We do concentrate on the annual cost of operation through our budget status reports. We have a system in place to track income on exams and code classes. We are in the process of tracking the fees now to be sure they are not excessive.

4. Receipts Returns

Good internal control requires procedures to ensure all money received by the Division is properly deposited.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Receipts Returns (Concluded)

It is the Division's policy to return all receipts which have incomplete or improper applications by copying the check and application and sending it back to the customer. The money received with incomplete or improper applications was not deposited with the State Treasurer. Of 25 returned checks tested, 14 did not have supporting documentation on file to support the return.

When receipts are not deposited with the State Treasurer there is an increased risk for loss, misuse, or theft of State funds.

We recommend the Division ensure all monies received are properly deposited into the Division's fund, and all returns be handled through the Nebraska Information System (NIS).

Division's Response: Depositing money for incomplete or improper applications would cause many problems and upset citizens. If the check is deposited and a refund is issued we have the problem of the original check being non-sufficient funds and the State would incur additional fees to collect the money. We also have had complaints from citizens that they did not have the funds to go to another agency for their permit when it is not ours because they have to file the proper request for refund and wait for the warrant to be issued. We have implemented a system to track all returns; they will be in a three ring binder and in date order. This should solve the problem of not being able to track a return.

5. Receipts Testing

Good internal control requires a documented review of supporting documentation for deposits, an accurate accounting of all receipts, and the maintenance of supporting documentation for receipt transactions.

We noted the following:

- For 6 of 30 receipts tested, the daily log was not signed by the deposit approver. The daily log is used to prepare the deposit document and compared to the deposit document to ensure accuracy when performing a review of the deposit for appropriateness.
- For 2 of 5 license renewal receipts tested, the daily log was not signed by the deposit approver. (License renewal receipts were not received in our examination period, but were tested to determine adequate procedures were in place.)

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Receipts Testing (Concluded)

- For 1 of 30 receipts tested, the receipt number was not listed on the daily log. Receipt numbers are entered on the daily log to ensure all receipts are accounted for.
- For 1 of 40 receipts tested, the Division was unable to locate supporting documentation.

Without adequate review and approval of deposits, adequate procedures to ensure all receipts are accounted for, and adequate supporting documentation there is an increased risk for errors and fraudulent activity.

We recommend the Division implement procedures which ensure all deposits are compared to the daily logs and that this comparison be documented by the signature of the deposit approver. Additionally, the Division should ensure all receipt numbers are entered and accounted for on the daily logs, and all supporting documentation for receipts be maintained.

Division's Response: Policy Number 23 was implemented September 6, 2006 and three staff members review the daily log to ensure receipt numbers are recorded and in sequence. January 2007 we began verifying accuracy of the daily log to database on each individual license renewal since they are not sequential.

6. Internal Control Over Expenditures

Good internal control and sound business practice requires procedures be in place which ensure all expenditures are authorized and accurate.

Due to staff absences, the Division had the Department of Administrative Services (DAS) State Accounting Division approve and post most expenditure transactions for the examination period. However, the Division was not reviewing the General Ledger Detail Report to ensure all transactions processed were authorized and accurate.

Without a review of transactions posted to the Division's fund, there is an increased risk for the possible loss of Division funds.

We recommend the Division implement procedures which ensure the General Ledger Detail Report is reviewed monthly to make sure no unauthorized transactions were posted to the Division's fund. Additionally, this review should be documented.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Internal Control Over Expenditures (Concluded)

Division's Response: Since December of 2006 we have been reviewing the General Ledger Detail Report.

7. Payroll Process

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." Good internal control requires procedures to ensure adequate documentation is on file indicating all full time employees completed forty hours of work each week, particularly when employees will receive a payment for unused sick and vacation leave upon termination. Additionally, compensatory time should be recorded on NIS to accurately reflect all time worked and leave used.

Per 26 U.S.C. Section 3402 (f) an exemption certificate (W-4 form) must be provided at time of hire and shall continue in effect until an updated W-4 form is received.

The labor contract between the State of Nebraska and the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE-AFSCME) Article 14.21.4 states: "The employee's service date shall be adjusted for non-pay absences in excess of fourteen calendar days."

The State Electrical Division's Policy Number 3 – Employee Leave states "Any advancement for vacation leave or sick leave should be submitted in writing to the Director." Good internal control requires approval for negative leave be documented.

Good internal control requires a review of leave payouts for terminations to ensure the proper manual adjustments and calculations were made.

Good internal control requires a documented review of the final payroll register, as well as a comparison of pre-payroll to final payroll to ensure no unauthorized changes were made. Good internal control also requires an independent review of changes made to the employee master file to ensure the changes were correctly made.

We noted the following weaknesses in the payroll process:

- The Director, the only exempt employee for the Division, did not complete a timesheet to indicate forty hours per week were worked or approved leave was taken.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. **Payroll Process** (Continued)

- Compensatory time earned and used for non-exempt employees was not recorded on NIS.
- For one of four employees tested, Federal income tax withholdings did not agree to the W-4 form on file.
- One employee's service date was incorrectly adjusted. This employee transferred from another State agency. The original hire date was August 13, 2001; employment with the other agency ended on May 12, 2006, and they began at the Division on May 15, 2006. Therefore, the break in service with the State was less than 14 days and the service date should not have been adjusted. However, the service date was adjusted to May 15, 2006, causing the employee to earn leave at an incorrect rate.
- One employee with negative leave did not have specific approval to use more leave than they had earned.
- For one of two terminations tested, earnings for the month terminated were not adjusted so that leave was not earned for the entire month. One terminated employee had a negative vacation leave balance on NIS after the final payout.
- Review of the payroll register was not consistently documented.
- There was no comparison of the pre-payroll to the final payroll register.
- There was no independent review of changes to the Employee Master File on NIS to ensure changes were correctly entered.

Without adequate controls and procedures over the payroll process there is an increased risk of fraud, abuse, or loss of State funds.

We recommend all Division employees report actual hours worked or include a statement on each timesheet that certifies the employee worked or was on approved leave for at least forty hours each week. All compensatory time earned should be recorded on NIS as it is the State's official record keeping system.

We recommend the Division ensure income tax withholdings agree to the W-4 forms on file.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Payroll Process (Concluded)

We recommend the Division correct the employees' adjusted service date and adjust leave balances for the leave that would have been earned if the service date had not been adjusted.

We recommend the Division ensure all leave advancements are approved and documented as required by Division policy.

We recommend leave balances remaining on NIS after leave has been paid should be adjusted to zero.

We recommend the Division document the review of the payroll register and compare pre-payroll with final payroll to ensure there were no unauthorized changes. We also recommend the Division review all changes to the Employee Master File on NIS. This review should be done by someone other than the person who made the changes on NIS.

Division's Response: 1. In May 2006, State Personnel was contacted to get a list of what needs to be in employees personnel file. We then contacted employees and asked them to submit the missing documents for the file. It was the offices oversight for not comparing the new documentation to the NIS system. 2. The Director has filled out time sheets since entering the office in March of 2006. 3. Compensatory time has been entered into NIS since August of 2006. 4. The issue with one employee's W-4 not agreeing with the file has been resolved. 5. The employee's incorrect service date issue has been resolved. 6. The Division is now putting documentation of negative leave balances on file. 7. The negative leave balance for one terminated employee is in the process of being resolved. 8. The Division is now documenting the review of the payroll register and comparing pre-payroll to final payroll. An employee other than the person who made the changes on NIS is doing the review of changes to the Employee Master File.

8. Retirement Not Withheld

Neb Rev. Stat. Section 84-1308 R.S.Supp., 2006 requires retirement to be withheld for all compensation paid to members of the retirement system.

Retirement was not correctly withheld from two employees' payroll for a portion of calendar year 2005 and a portion of calendar year 2006.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Retirement Not Withheld (Concluded)

Because the Deduction Benefit Account (DBA) codes for retirement withheld at 4.8 percent were not set up for these two employees, the employees' contributions were not adequate and the State match was not correct. At the point the employees' earnings reached the maximum withholdings at 4.33 percent, no more retirement contributions were withheld for the rest of the calendar year at the required rate of 4.8 percent and no more State match was made. One employees' withholdings were short \$1,249 and the other was short \$393. The State matching contributions were short by \$1,949 and \$613 respectively.

The employees did not pay in the required amount for retirement and the Division match was incorrect.

We recommend the Division work with the Public Employees Retirement System and the employees involved so the employees can make up the missed retirement contributions.

Division's Response: The Public Employees Retirement System has been contacted and the issue is resolved and the withholding will begin to appear on pay period BW 06 pay date March 14, 2007.

9. Internal Control Over Capital Assets

Good internal control requires an adequate segregation of duties to ensure one individual is not in a position to both perpetrate and conceal errors or irregularities in the capital asset process. Good internal control also requires adequate monitoring procedures to ensure controls are operating as intended.

Three employees and one Board member had the ability to add and remove assets from NIS. There was no review of any reports available from NIS to ensure all assets were added and removed only as authorized. Additionally, one individual was responsible for processing all phases of a transaction from beginning to end. This condition was noted in a prior examination.

Without adequate procedures in place to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities, there is an increased risk for fraud, abuse, or misuse of State funds and assets.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

9. Internal Control Over Capital Assets (Concluded)

We recommend the Division implement procedures which ensure an adequate system of internal control is established, including a proper segregation of duties. An adequate system of internal control would also include a documented, independent review of NIS reports to ensure all transactions are appropriate.

Division's Response: The Division set up three employees and one board member with the same control options so that in the absence of an employee there would be someone who could continue the process, we will look into this matter and decide whom to remove from this area.

10. Incorrect Coding

Good internal control and sound accounting practice requires payments be coded to the correct object accounts.

A payment to Nebraska.gov was coded to object account 475118 (Inspection Fees), but should have been coded to object account 559100 (Other Operating Expense).

When expenditures are coded to a revenue account, it understates revenues and expenditures.

We recommend the Division ensure all expenses are coded to the appropriate object accounts.

Division's Response: The Division has since added two accounts to better track our expenditures associated with the online system. The appropriate employees have trained on the proper coding of accounts.

STATE OF NEBRASKA
Auditor of Public Accounts



Mike Foley
State Auditor
Mike.Foley@apa.ne.gov

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA STATE ELECTRICAL DIVISION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Electrical Division
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska State Electrical Division (Division) for the fiscal year ended June 30, 2006. The Division's management is responsible for the schedule of revenues, expenditures, and changes in fund balance. 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 balance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balance of the Nebraska State Electrical Division for the fiscal year ended June 30, 2006, 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 have also issued our report dated February 8, 2007, on our consideration of the Nebraska State Electrical Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Division and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

February 8, 2007

**NEBRASKA STATE ELECTRICAL DIVISION
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE**

For the Fiscal Year Ended June 30, 2006

	<u>State Electrical Board Cash Fund 21210</u>
REVENUES:	
Sales & Charges	\$ 1,125,101
Miscellaneous	35,620
TOTAL REVENUES	<u>1,160,721</u>
 EXPENDITURES:	
Personal Services	929,082
Operating	130,144
Travel	129,456
Capital Outlay	24,956
TOTAL EXPENDITURES	<u>1,213,638</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(52,917)</u>
 OTHER FINANCING SOURCES:	
Sales of Assets	360
TOTAL OTHER FINANCING SOURCES	<u>360</u>
Net Change in Fund Balance	(52,557)
 FUND BALANCE, JULY 1, 2005	<u>865,417</u>
 FUND BALANCE, JUNE 30, 2006	<u><u>\$ 812,860</u></u>
 FUND BALANCE CONSIST OF:	
General Cash	\$ 809,975
NSF Items	20
Deposits with Vendors	1,549
Accounts Receivable Invoiced	1,316
TOTAL FUND BALANCE	<u><u>\$ 812,860</u></u>

The accompanying notes are an integral part of the schedule.

NEBRASKA STATE ELECTRICAL DIVISION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2006

1. Criteria

The accounting policies of the Nebraska State Electrical Division (Division) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2006, the State of Nebraska Director of Administrative Services duties 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.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS – Accounting Division and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balance for the Division was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. 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 accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2006, includes only those payables posted to NIS before June 30, 2006, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2006, **does not** include amounts for goods and services received before June 30, 2006, which had not been posted to NIS as of June 30, 2006.

The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund type established by NIS that is used by the Division is:

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.

The major revenue object account codes established by NIS used by the Division are:

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.

NEBRASKA STATE ELECTRICAL DIVISION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

The major expenditure object account titles established by NIS used by the Division are:

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

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

Other significant object account codes established by NIS and used by the Division include:

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 and 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 on NIS.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance.

Other Financing Sources – Proceeds of fixed asset dispositions.

2. State Agency

The Nebraska State Electrical Division is a State agency established under and governed by the laws of the State of Nebraska. As such, the Division is exempt from State and Federal income taxes. The schedule includes all funds of the Division.

The Nebraska State Electrical Division is part of the primary government for the State of Nebraska.

NEBRASKA STATE ELECTRICAL DIVISION

NOTES TO THE SCHEDULE

(Continued)

3. 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 that 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.

4. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Division values 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 \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Additionally, all computers are capitalized. Depreciation expenses would be 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 using the straight-line method with estimated useful lives of three years.

Capital asset activity of the Division for the fiscal year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 42,279	\$ 24,956	\$ -	\$ 67,235
Less accumulated depreciation for:				
Equipment				<u>49,891</u>
Total capital assets, net of depreciation				<u>\$ 17,344</u>

NEBRASKA STATE ELECTRICAL DIVISION

NOTES TO THE SCHEDULE

(Continued)

5. Reconciliation of Bank Records to the Nebraska Information System

Through their bank reconciliation procedures, DAS State Accounting Division (State Accounting) has identified a large unknown state-wide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Division. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Division's balances; however, State Accounting believes it will not have a material impact on the Division's operations.

STATE OF NEBRASKA
Auditor of Public Accounts



Mike Foley
State Auditor
Mike.Foley@apa.ne.gov

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA STATE ELECTRICAL DIVISION
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Nebraska State Electrical Division
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska State Electrical Division for the fiscal year ended June 30, 2006, and have issued our report thereon dated February 8, 2007. We conducted our examination 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.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska State Electrical Division's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balance, and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska State Electrical Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Internal Control Over Receipts) and Comment Number 9 (Internal Control Over Capital Assets).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Comment Number 1 (Internal Control Over Receipts) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska State Electrical Division's schedule of revenues, expenditures, and changes in fund balance, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we reported to management of the Nebraska State Electrical Division in the Comments Section of this report as Comment Number 3 (Support for Fees Charged), Comment Number 4 (Receipts Returns), Comment Number 5 (Receipts Testing), Comment Number 6 (Internal Control Over Expenditures), Comment Number 7 (Payroll Process), Comment Number 8 (Retirement Not Withheld), and Comment Number 10 (Incorrect Coding).

This report is intended solely for the information and use of the Division and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.



Assistant Deputy Auditor

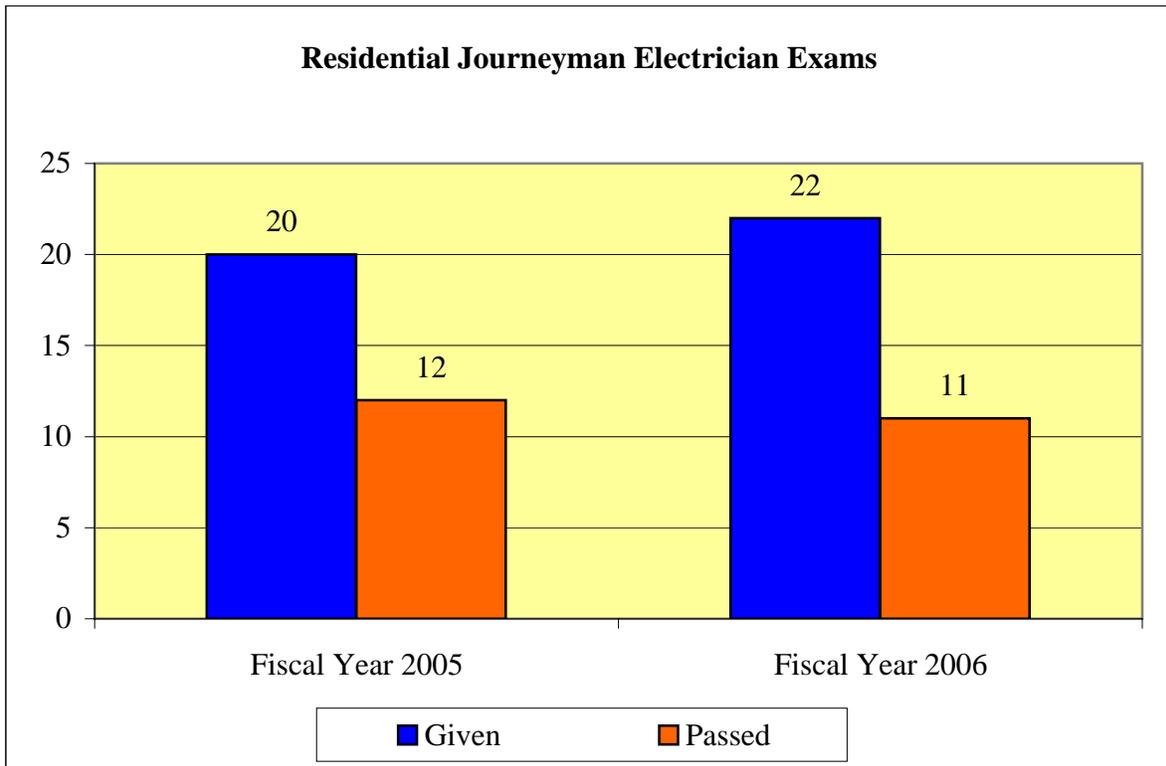
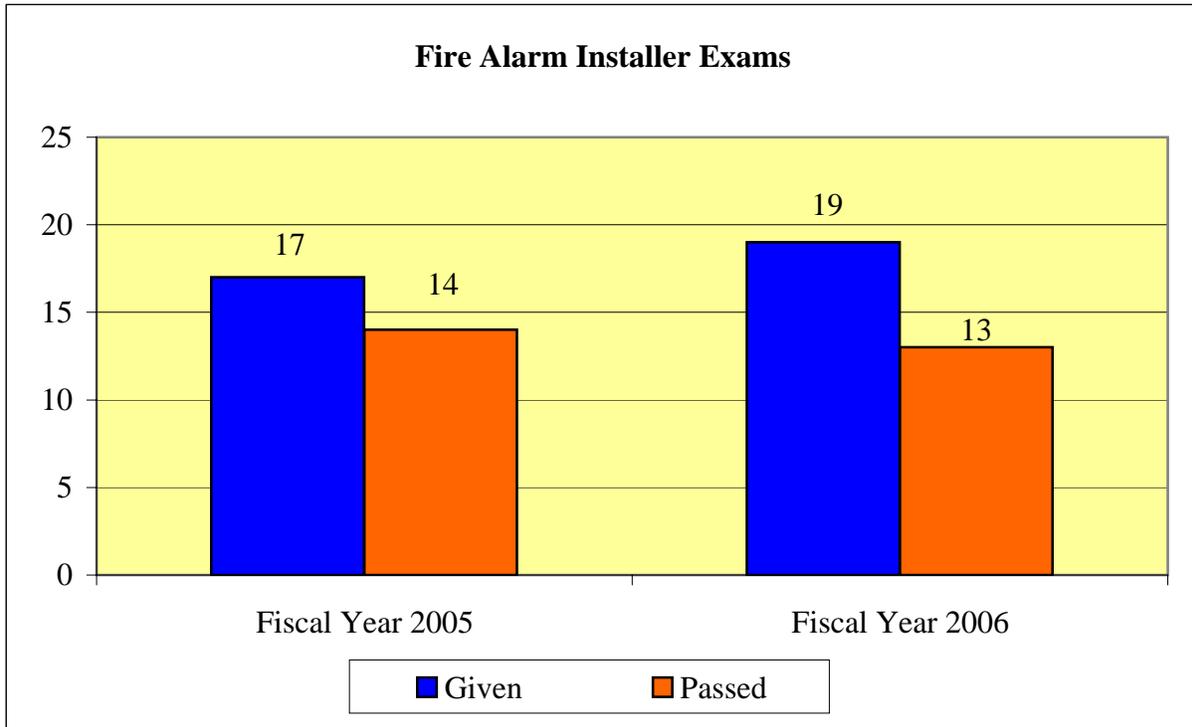
February 8, 2007

NEBRASKA STATE ELECTRICAL DIVISION

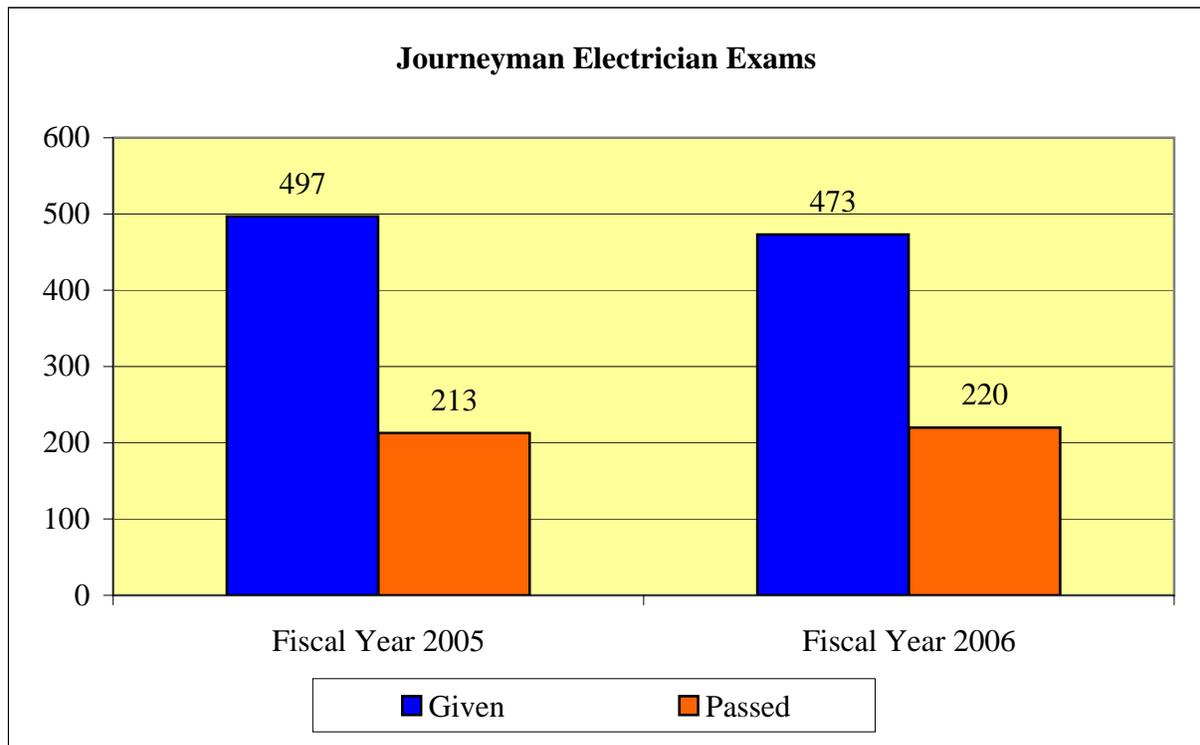
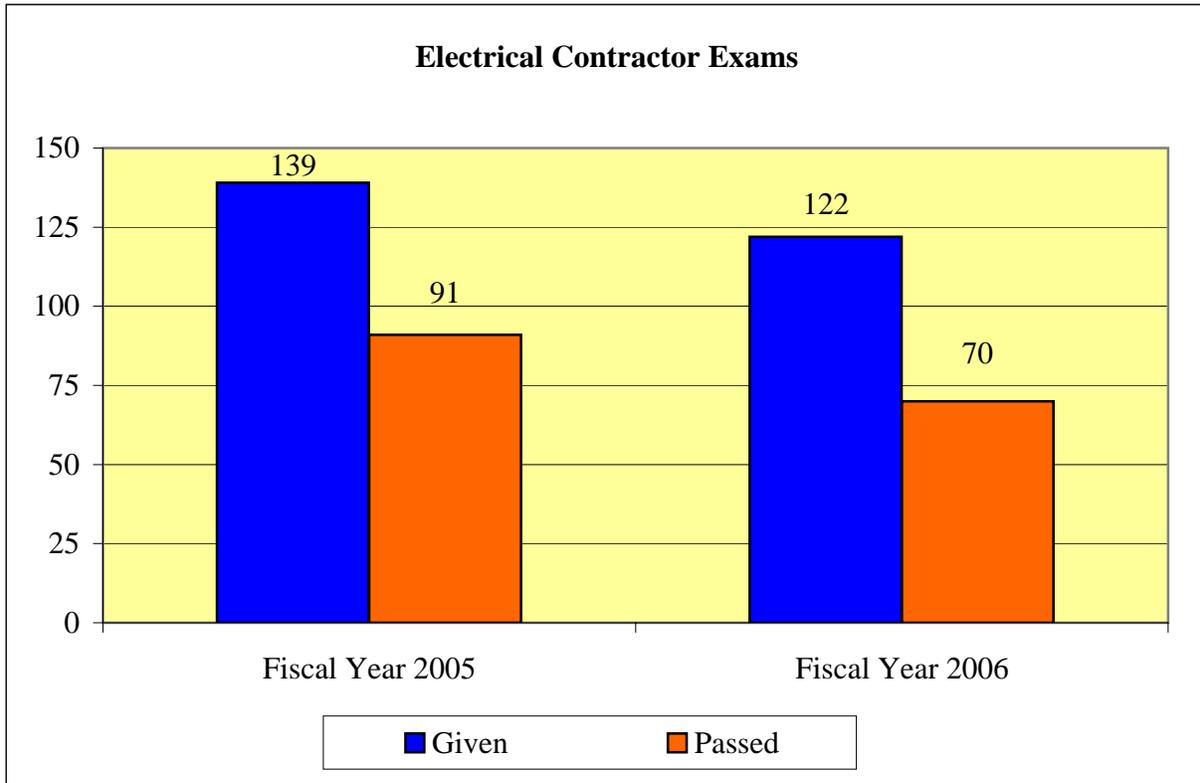
STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balance. Statistical Section 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 balance, and, accordingly, we express no opinion on it.

NEBRASKA ELECTRICAL DIVISION
EXAMINATION STATISTICS
For the Fiscal Years Ended June 30, 2005 and 2006



NEBRASKA ELECTRICAL DIVISION
EXAMINATION STATISTICS
For the Fiscal Years Ended June 30, 2005 and 2006



NEBRASKA ELECTRICAL DIVISION
NUMBER OF INSPECTIONS
For the Fiscal Years Ended June 30, 2002 Through 2006

