ATTESTATION REPORT
OF THE
NEBRASKA ETHANOL BOARD

JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

Issued on May 6, 2013

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NEBRASKA ETHANOL BOARD

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BACKGROUND

The Nebraska Ethanol Board (Board) works with private sector companies to establish and promote an ethanol industry in the State of Nebraska (State). The Board consists of seven members appointed by the Governor with the approval of a majority of the Legislature. Four members shall actually be involved in farming in the State, one in general farming, and one each in the production of corn, wheat, and sorghum. One member shall be actively engaged in business in the State. One member shall represent labor interests in the State. One member shall represent Nebraska petroleum marketers in the State.

The Board shall retain the services of a full-time administrator to be appointed by the Board. The administrator shall hold office at the pleasure of the Board.

The Board administers the Agricultural Alcohol Fuel Tax Fund. The primary source of revenue to this Fund is generated from one and one-quarter cents per gallon check-off on ethanol denaturant and non-highway fuel tax refunds. The Fund shall be used for the following purposes:

- Establish, with cooperation of private industry, procedures and processes necessary to the manufacture and marketing of fuel containing agricultural ethyl alcohol;
- Establish procedures for entering blended fuel into the marketplace by private enterprise;
- Analyze the marketing process and testing of marketing procedures to assure acceptance in the marketplace of blended fuel and co-products resulting from the manufacturing process;
- Cooperate with private industry to establish privately owned agricultural ethyl alcohol manufacturing plants in Nebraska to supply demand for blended fuel;
- Sponsor research and development of industrial and commercial uses for agricultural ethyl alcohol and for co-products resulting from the manufacturing process;
- Promote State and national air quality improvement programs and influence Federal legislation that requires or encourages the use of fuels oxygenated by the inclusion of agricultural ethyl alcohol or its derivatives;
- Promote the use of renewable ethanol as a partial replacement for imported oil and for the energy and economic security of the nation;
- Participate in the development and passage of national legislation dealing with research, development, and promotion of United States production of fuels oxygenated by the inclusion of agricultural ethyl alcohol or its derivatives, access to potential markets, tax incentives, imports of foreign-produced fuel, and related concerns that may develop in the future; and
- As the Board may otherwise direct to fulfill the goals set forth under the Ethanol Development Act, including the solicitation of Federal funds, which is set out at Neb. Rev. Stat. §§ 66-1330 through 66-1348 (Reissue 2009, Cum. Supp. 2012).

MISSION STATEMENT

The Nebraska Ethanol Board is committed to cooperation with private industry to encourage production, sale, and use of agriculturally produced ethyl alcohol and its co-products. Specifically, the Board is directed to help establish ethanol production in the State; to promote and develop markets for ethanol and its co-products; and to sponsor research that will advance industrial uses for ethanol.

The Ethanol Development Act declares it shall be the State's public policy to safeguard the life, health, property, and public welfare of its citizens with the production, sale, and use of motor fuel. The pollution caused by certain components of motor fuel are matters affecting the public interest and a statewide emphasis on the production and use of motor fuel containing agricultural ethyl alcohol as a substitute for polluting components is necessary for the reduction of pollution. It will further serve as an incentive for the agricultural economy in this State and provide an energy and environmental benefit to the citizens of the State and to future economic growth of Nebraska.

NEBRASKA ETHANOL BOARD

ORGANIZATIONAL CHART

GOVERNOR

NEBRASKA ETHANOL
BOARD MEMBERS

ADMINISTRATOR

Staff
ETHANOL PROJECT MANAGER
BUSINESS MANAGER
PUBLIC INFORMATION OFFICER

EXIT CONFERENCE

An exit conference was held April 10, 2013, with the Board to discuss the results of our examination. Those in attendance for the Nebraska Ethanol Board were:

NAME	TITLE
Todd Sneller	Administrator, NEB
Steve Sorum	Ethanol Project Manager
Gerri Monahan	Business Manager
Robert Storant	Department of Agriculture – Accounting and Finance Manager

SUMMARY OF COMMENTS

During our examination of the Nebraska Ethanol Board (Board), 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. ***Corn and Grain Sorghum Receipts:*** The Department of Agriculture (Department) does not have an adequate segregation of duties over receipts deposited to the Ethanol Board's Ethanol Production Incentive Cash (EPIC) Fund. The Department also returns checks to individuals if the check is made out for an incorrect amount or insufficient documentation is submitted.

2. ***Vehicle Usage:*** The Board leases a vehicle from the Department of Administrative Services (DAS) Transportation Services Bureau (TSB) and also reimburses staff for vehicle miles. The Board could decrease its costs if it were to manage their leased vehicle and personal mileage better. A similar finding was noted in our previous report.

3. ***Temporary Employment and Resource Sharing:*** The Ethanol Board contracted with outside entities for temporary employment services, instead of going through the DAS temporary employment pool or receiving approval from the Director of Personnel as required by State statute. The Board also allowed a non-profit corporation to utilize its website for a conference registration.

4. ***Contracts:*** The Board's contracts were not reviewed by legal counsel and it appeared some contracts were structured so they were not required to be bid. In addition, contract expenditures were not being correctly entered in the State's Accounting System, EnterpriseOne.

5. ***Travel:*** Adequate supporting documentation was not available for some meal, lodging, and mileage expenditure documents tested.

6. ***EnterpriseOne Financial Data:*** Two Ethanol Board account balances were not properly recorded on the State's Accounting System.

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 Ethanol Board.

SUMMARY OF COMMENTS
(Continued)

Draft copies of this report were furnished to the Board 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.

COMMENTS AND RECOMMENDATIONS

1. Corn and Grain Sorghum Receipts

The Department of Agriculture (Department) is responsible for collecting a $0.00875 tax on each bushel of corn and each hundredweight of grain sorghum retained by the first purchaser. This tax is then deposited into the Ethanol Production Incentive Cash (EPIC) Fund which is used to pay a credit of $0.18 per gallon of ethanol produced. Per State statute and the State's Accounting System, EnterpriseOne, the Nebraska Ethanol Board (Board) is responsible for the EPIC Fund.

Since the Department is responsible for collecting the corn and grain tax, the Auditor of Public Accounts (APA) reviewed their procedures to ensure the amount shown on the Board's financial statements, as Deposits from Common Fund, was correct. In the calendar year ended December 31, 2012, the Department collected and deposited $12,850,242 into the EPIC Fund.

During our testing we noted:

Lack of Segregation of Duties
A good internal control plan requires segregation of duties to ensure the employee who has initial custody of the checks is not also responsible for the record keeping function.

The Department does not have an adequate segregation of duties over its corn and grain sorghum tax receipt process. The individual who took initial custody of the checks was responsible for entering the receipts into the Department's record keeping system and then marking the checks for deposit only before a second individual became involved in the deposit process. As a result, the individual would have been able to withhold a check from the record keeping system and the deposit process, without the knowledge of the Department.

When the recording keeping and custody functions are performed by the same individual, there is an increased risk of loss of State funds due to theft.

> We recommend the Department strengthen control procedures by immediately endorsing all checks upon receipt, before they are given to the individual who enters them into the record keeping system. We also recommend creating an initial listing of receipts that can be compared to the EnterpriseOne deposit document to ensure all amounts received were deposited.

Return Check Policy
A good internal control plan requires monies received be deposited intact, meaning all amounts receipted for the day should be deposited. Depositing intact is important for the control and safety of monies receipted, as all amounts are accounted for in the bank account.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Corn and Grain Sorghum Receipts (Concluded)

The Department returns checks to individuals who pay the incorrect amount or do not submit sufficient supporting documentation. When checks received by the Department are made out for an incorrect amount, the check, remittance form, and a letter are mailed back to the customer requesting the correct amount be mailed. During the calendar year ended December 31, 2012, there were 23 checks returned for a total of $243,834.

Failure to deposit monies receipted intact relinquishes control of funds which could have been deposited into the State bank account. As a result, there is an increased risk money may be lost or stolen.

> We recommend the Department deposit checks written for the incorrect amount and request additional amounts or issue a refund based on the amount received. If sufficient supporting documentation is not submitted with the checks, we recommend the Department deposit the checks and then request the additional supporting documentation needed.

Department's Response: During the audit period for the Nebraska Ethanol Board the Department of Agriculture (NDA) transitioned to a central fee collection center. NDA understands the points referenced in the audit point and we are committed to reviewing the process currently used and to making improvements to the process. Corrective action will be taken immediately to have all checks endorsed at the time the mail is opened. NDA currently has accounts receivable software being developed to create a uniform process for receipting payments and to better cross utilize staff. This will reduce the amount of checks that are currently being returned.

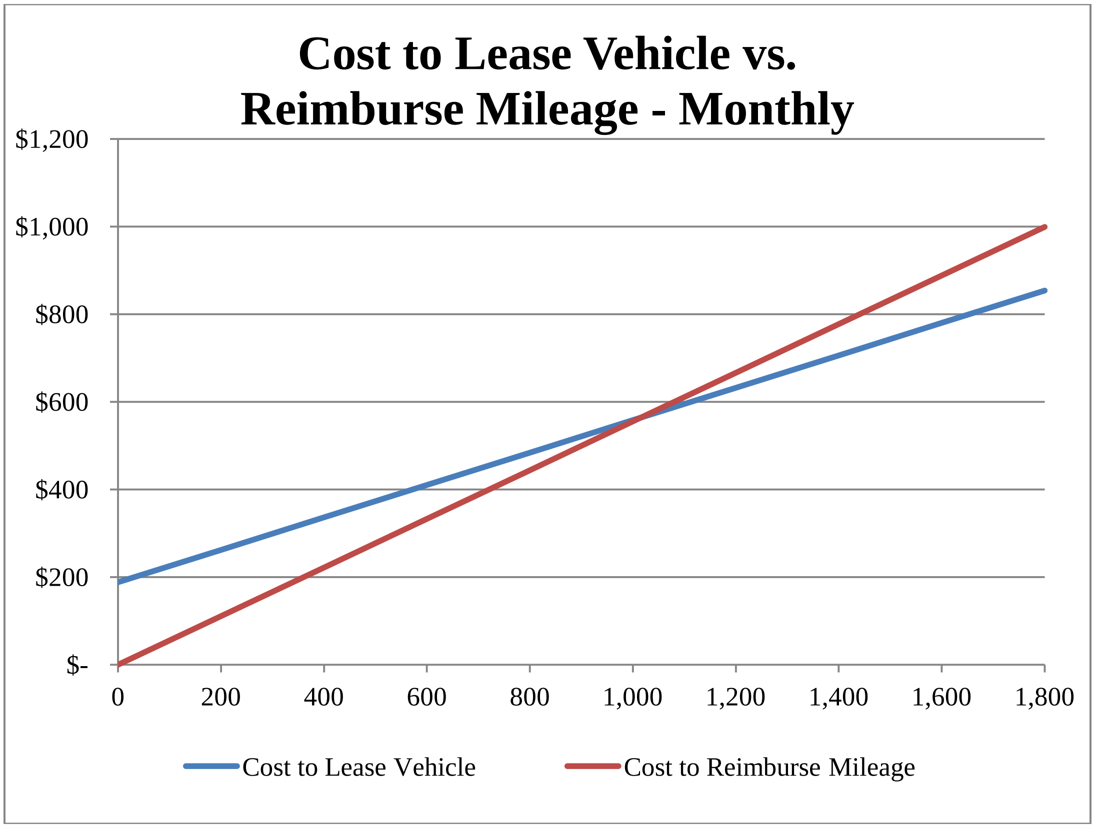
2. Vehicle Usage

The Department of Administrative Services (DAS) – Transportation Services Bureau (TSB), *Requirements for Permanently Assigned Motor Vehicles and Related Information* states, "Motor vehicles shall be considered for permanent assignment when they:…Will travel a minimum of 1,000 miles per month and will be utilized seventeen working days per month."

DAS – TSB provides vehicles to State Agencies either by long-term lease or for days or weeks. The Board leases a vehicle from DAS – TSB. As part of the long-term lease, they pay TSB a monthly fee, as well as, a fee for each mile driven. During the calendar year ended December 31, 2012, the leased vehicle was driven an average of 653 miles and 14 days each month. As can be seen by the following charts, it is more cost efficient to reimburse employees for mileage, or utilize a short-term (daily) lease, if the permanently leased vehicle is driven fewer than 1,000 miles a month. Per our calculation, the Board could have saved $807 during the calendar year ended December 31, 2012, if they had reimbursed mileage instead of paying for the leased vehicle.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Vehicle Usage</u> (Continued)



Per correspondence between the Board and TSB, the Board has a permanently assigned vehicle because it is a flex fuel vehicle that is shown at various events that promote the use of ethanol.

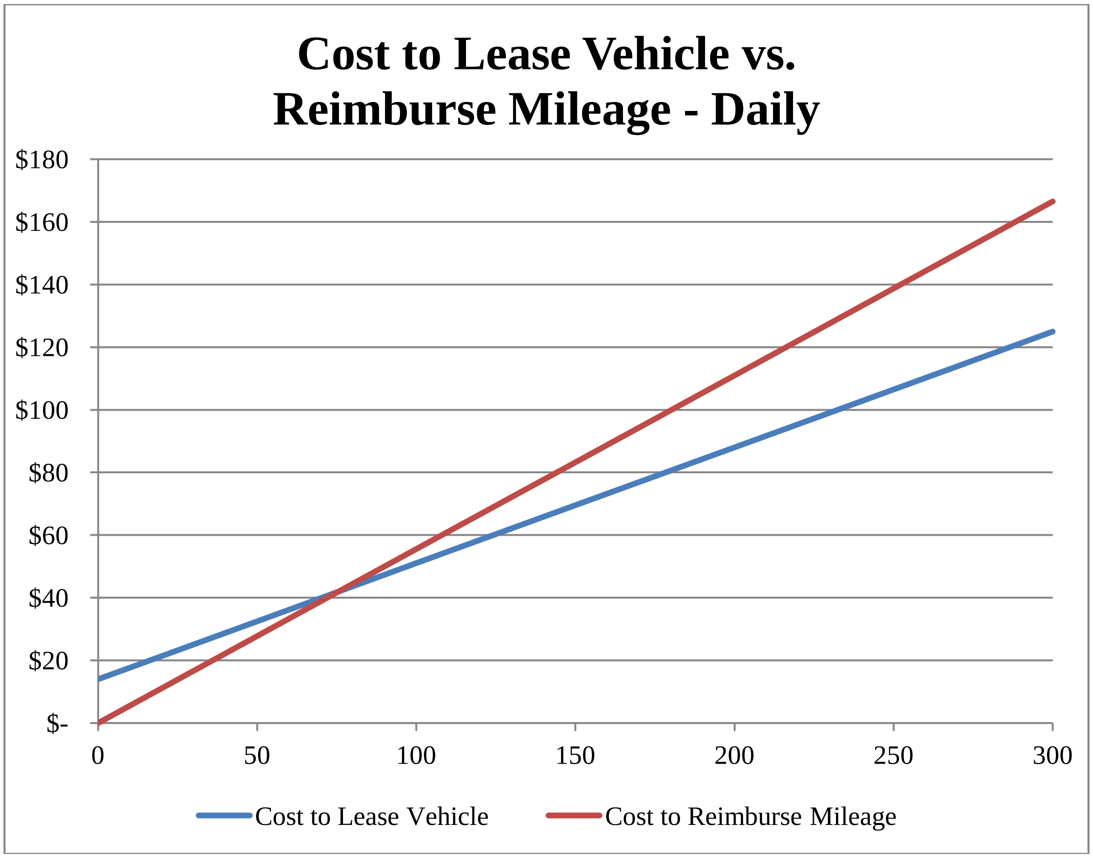
We also noted a number of trips where employees were reimbursed for mileage when other less expensive options were available. We noted:

- One employee drove their personal vehicle to a Board meeting in Scottsbluff. The Board could have rented a vehicle from TSB for the trip and saved $120. The Board's permanently leased TSB vehicle was in use by another employee during the trip.
- One employee drove their personal vehicle throughout the State to distribute ethanol informational pamphlets and other ethanol related items. Had the Board used a TSB vehicle they could have saved $81. The Board's leased TSB vehicle was in use by another employee during the trip.
- One employee attended a conference in Minneapolis and drove their personal vehicle. Had the permanently leased vehicle from TSB been used, the Board would have saved $195 by paying the lower per mile cost to TSB than was reimbursed to the employee. The Board's leased TSB vehicle was not used at all during the weeklong trip and thus was available.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Vehicle Usage</u> (Concluded)

Below is a chart showing the cost to lease a vehicle from TSB compared to the cost to reimburse mileage for daily trips. For the trips noted above, there was no documentation to support an analysis of whether it would have been less costly to use a TSB fleet vehicle instead of reimbursing mileage.



The Board has the potential to realize cost savings by utilizing the most cost effective means of travel. A similar finding was noted in our previous report.

> We recommend the Board reassess the necessity of the leased vehicle, and determine if it is more cost effective to keep the vehicle, reimburse staff mileage, or check out vehicles from TSB only when needed.

Board's Response: The agency will continue to evaluate personal and lease vehicle usage in an ongoing effort to accomplish efficiencies that reflect net cost to the agency.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Temporary Employment and Resource Sharing

Neb. Rev. Stat. § 81-1307 (Reissue 2008) states, in relevant part,

> *"The Director of Personnel shall be responsible for the administration of the personnel division. The director shall be responsible for specific administrative systems including, but not limited to, the following:…(6) Temporary Employees: (a) The director shall administer the Temporary Employee Pool containing applicants from which state agencies can draw when in need of a short-term labor supply; and (b) State agencies must receive approval from the director before hiring any temporary employee."*

Title 273 Nebraska Administrative Code (NAC) 5-001.01 states,

> *"Requests to hire any temporary employee(s) shall include the following information: agency and division names and numbers; work location; position title and class code; number of FTE; work schedule; salary; beginning and ending dates; list of essential duties; education and experience and other special requirements; if any driving required; dress code; type of temporary (agency, SOS or private sector); justification/reason; funding source; supervisor's name and phone number; and agency approver's name and phone number."*

Title 273 NAC 5-012 states,

> *"Agencies shall maintain appropriate NIS [EnterpriseOne] fields to allow DAS-State Personnel Division to obtain needed data for a quarterly report which includes the following information: (1) the number of temporary employees on the payroll during that period; (2) the amount of money expended on these temporary employees; (3) the number of such temporary employees who were eligible for health insurance coverage pursuant to section 84-1601; (4) the number of such temporary employees who elected coverage; (5) total state contribution for Agency temporary employees' insurance; and (6) the average length of health insurance coverage for those temporary employees who elected coverage."*

Title 273 NAC 3-001 defines an Agency as "any legally constituted board, commission, department or other branch of state government in which all positions are under the same appointing authority."

The Nebraska Supreme Court has declared, "Agency regulations properly adopted and filed with the Secretary of State of Nebraska have the effect of statutory law." *Middle Niobrara Natural Resources Dist. v. Department of Nat. Resources*, 281 Neb. 634, 651, 799 N.W.2d 305, 318 (2011).

According to the Nebraska Supreme Court, "In the absence of constitutional authority, an administrative agency has only that power which has been granted to it by the Legislature." *Nebraska Public Service Com'n v. Nebraska Public Power Dist.*, 256 Neb. 479, 491, 590 N.W.2d 840, 848 (1999).

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Temporary Employment and Resource Sharing</u> (Continued)

Good business practice includes segregating State business from that of non-governmental entities in regards to the use of State financial resources.

We noted the Board shared resources with a non-profit organization, the Nebraska Ethanol Industry Coalition (NEIC). The purpose of NEIC appeared to mimic that of the Board. One purpose of NEIC was to collect registration fees and pay associated costs for hosting an annual Ethanol Emerging Issues forum in Omaha, Nebraska. The registration form was accessed and completed by participants through the Board website; however, registration fees were paid to NEIC. In addition, revenue and expenditures associated with the annual forum completely bypassed the State accounting system.

NEIC was created by the Board Director, who also serves as the President of NEIC. Nothing in State statute allowed for this type of arrangement, which was used to circumvent the requirements of State statute directing the process for obtaining temporary employees. For example, work on Board/NEIC mutual projects was performed, in part, by a paid intern hired by the Board through a contractual relationship with NEIC. The Board also contracted with an outside entity for temporary employment services, in which an officer of NEIC was paid $35 per hour for services. In total, the Board paid $20,771 for temporary employment services during the calendar year tested. The fund balance of NEIC, as of December 31, 2011, was $51,968. The APA did not identify any project/work associated with NEIC that would be outside the scope/mission of the Board as defined by State statute.

When the Board carries out its statutory obligations, in part, through the creation and use of a non-profit corporation, all revenues and expenditures associated with the Board are not processed through the State accounting system. When those dollars are not subject to the controls and rules and regulations developed by the State to safeguard assets, there is an increased risk for the abuse of funds. In addition, when the Board contracts with a non-profit corporation for employment services, it is in direct violation of State statute.

> We recommend the Board follow State statute and DAS Personnel rules and regulations for the hiring of temporary staff. We also recommend the Board, through legal counsel or the Attorney General, review the relationship between the Board and NEIC and address any concerns regarding the sharing of resources between those two entities.

Board's Response: The agency disagrees with the characterization of "temporary employees" as used in the context of this finding. An established, accredited internship program has been established by the agency and interns are not temporary employees. Further, the continuity, experience and security advantages of three-year contracts are, by nature, not "temporary".

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Temporary Employment and Resource Sharing</u> (Concluded)

Board's Response, Concluded:
Regarding "resource sharing", the agency again reviewed the documents previously submitted to the Attorney General's office and believes the collaboration between the agency and private industry is appropriate, efficient and consistent with statutory directives clearly stated in the preamble of the audit report.

APA's Response: Regardless of an intern's characterization as temporary or otherwise, DAS Personnel requires intern information be entered into the Employee Work Center (Workday) "so that interns can be accurately tracked[.] [T]he agency should create the position first and include the following information: Employee Type = Employee; Employee Sub-Type = Intern; Job Family = Non-Classified." The document previously submitted to the Attorney General was not from the Ethanol Board, but from the Nebraska Ethanol Industry Coalition. The document was a funding request, and not a request for an opinion regarding the relationship between the Board and NEIC. As the relationship between the Board Director and the NEIC is highly unusual, we reiterate our recommendation that the Board seek a legal opinion regarding the relationship between the Board and NEIC.

4. <u>Contracts</u>

A good internal control plan requires a legal review of contracts before they are executed to ensure the State and the contracting agency's interests are adequately protected by the contract, and adequate remedies exist in the event of a breach of contract.

Per Neb. Rev. Stat. § 73-504(2) (Cum. Supp. 2012),

> *"All proposed state agency contracts for services in excess of fifty thousand dollars shall be bid in the manner prescribed by the division procurement manual or a process approved by the Director of Administrative Services. Bidding may be performed at the state agency level or by the division. Any state agency may request that the division conduct the competitive bidding process."*

Per Neb. Rev. Stat. § 73-506(3) (Cum. Supp. 2012), "State agencies shall not structure contracts for services to avoid any of the requirements of sections 73-501 to 73-510."

Per the DAS Agency Procurement Manual for Services,

> *"All service contracts regardless of the dollar amount must be entered into the NIS system [EnterpriseOne]. For services procurement(s) $25,000 and over, purchase orders must be processed against the service contract. The purchase order(s) should be completed at the time the order is placed, to document the specific requirements and track the vendor's performance."*

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Contracts (Concluded)

During testing we noted all three contracts tested did not have a legal review prior to entering into the contract. The contract values ranged from $5,000 to $49,999.

In addition, the contract for $49,999, for the period July 25, 2009, through June 30, 2012, was not competitively bid. Per emails the APA observed, it appears the amount of the contract was entered in below the $50,000 statutory threshold in order to not have to competitively bid the contract.

The contract was renewed for the period July 1, 2012, through June 30, 2015, for $49,999. During testing of expenditures we noted, payments on the contract were not correctly entered in the State's Accounting System, EnterpriseOne. As a result, EnterpriseOne is not able to accurately track the contract usage.

Without a legal review of contracts, there is an increased risk that the State, or contracting Agency, may not be adequately protected under the contract or there may not be adequate remedies in the event of a breach in contract. When contracts are not periodically bid, there is an increased risk the Board may not get the best price for services. Without accurate contract data in the State's accounting system, there is an increased risk contracts will be overspent. Furthermore, contract usage reported to the Legislature will not be accurate if purchase orders are not processed against the contract.

> Since the Board does not employ legal counsel, we recommend the Board reach out to the Attorney General's office or the DAS – Materiel Division to see if they would review contracts prior to the Board entering into them. We also recommend the Board periodically bid contracts to ensure they are getting the best deal on services. We also recommend the Board comply with the DAS Agency Procurement Manual for Services by entering purchase orders in EnterpriseOne for contract expenditures, so contract usage can be adequately tracked and reported to the Legislature.

Board's Response: As suggested during prior audits the agency met several times with representatives from the Attorney General's office and with legal counsel from the Nebraska Department of Agriculture to develop and maintain an effective contract template. That template is used exclusively for agency contracts. The template includes controls suggested by the Auditor of Public Accounts. As recommended, the agency will continue to consult with DAS Purchasing staff to review contracts and related compliance requirements. The agency will continue these practices as recommended.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Travel

Per the DAS Accounting Manual, AM-005, Travel Expense Policies, Section 6, "Agencies are responsible to see that all submitted claims for food/meals are adequately substantiated. Unsubstantiated food/meals should not be reimbursed. Receipts are required unless the cost of the food/meal is under $5.00…" Per Travel Expense Policies, Section 8, "Detailed receipts are required as support for all expenditures except immaterial items identified by the Director of Administrative Services…the requirement to provide detailed receipts includes…lodging."

Per the DAS State Accounting Manual, AM-005, Travel Expense Policies, Section 4,

> *"It is State Accounting policy that a person generally be more than 60 miles from his or her workplace in order to be eligible for lodging. We realize there may be reasons to pay for lodging for distances less than 60 miles. Such reasons include, but are not limited to work requirements, medical conditions or weather; in those instances the reason must be clearly stated on the disbursement document."*

Good internal control requires that mileage claimed for reimbursement is substantiated by reliable sources. Good internal control also requires that the purpose of travel be indentified when reimbursements are claimed.

During testing of travel expenditures, we noted the following:

- The purpose of travel, using the TSB leased vehicle, was not adequately documented on the vehicle logs.

- The mileage reimbursed for a trip to a conference in Minneapolis exceeded the mileage per GoogleMaps, plus 10%. As a result, the employee was reimbursed $53 more for mileage than was identified by GoogleMaps and an additional 10%. For this trip we also identified $81 in reimbursed meals that were not supported by detailed receipts and $23 in lunches were reimbursed which were provided at the conference.

- One purchase card expenditure included $258 for two individuals' lodging in Omaha and no hotel invoice was retained. The only support was a credit card receipt.

- The same expenditure noted above included $91 for an employee based in Lincoln, to stay in Omaha overnight. There was no documentation to suggest why the overnight stay was necessary.

When reimbursements and travel expenditures are not adequately substantiated, there is an increased risk of misuse of State funds.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. **Travel** (Concluded)

> We recommend the Board identify the purpose and destinations for all mileage amounts claimed. We also recommend the Board substantiate meal and lodging reimbursements with detailed receipts and documentation to support why lodging is necessary.

Board's Response: The agency will review travel functions to ensure compliance with accounting requirements and recommendations in an effort to efficiently conduct business.

6. **EnterpriseOne Financial Data**

EnterpriseOne is the State's Accounting System. During our attestation of the Board, we identified two instances where account balances appeared incorrect.

Federal Cash Fund

Sound accounting practices requires proper tracking of revenues and expenditures. The last expenditure from the USDA Federal Grant Fund 46010 occurred in November 2006, and the only activity since has been interest earned.

At December 31, 2012, the Ethanol Board had $2,751 in cash in the USDA Federal Grant Fund. Per discussion with the Board, they were not aware of why they would have a balance in this Fund.

The Board had cash in a Federal fund, which is unusual. Typically, Federal funds do not have a long standing cash balance earning interest, since the Federal government typically reimburses expenditures.

> We recommend the Board look into what caused the balance and take the necessary steps to correctly address what should be done with the cash in the USDA Federal Grant Fund.

Due From Other Government Account

Sound accounting practices require the Board periodically review its accounts to ensure balances are appropriate.

The Board has a credit balance of $908 in its Due From Other Government account, which appears to be related to transactions that occurred in 2003. Based on the transactions identified in EnterpriseOne, it does not appear the Due From Other Government account exists.

The Board's information in EnterpriseOne does not appear to be correct.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. <u>EnterpriseOne Financial Data</u> (Concluded)

We recommend the Board look into this balance and make any adjustments or payments necessary.

Board's Response: The agency accepts this recommendation and is taking steps to resolve these issues as reported.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA ETHANOL BOARD

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Ethanol Board
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Ethanol Board (Board) for the calendar year ended December 31, 2012. The Board'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, the revenues, expenditures, and changes in fund balances of the Nebraska Ethanol Board 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, others within the Board, 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

April 16, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA ETHANOL BOARD

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the calendar year ended December 31, 2012

	Agricultural Alcohol Fuel Tax Fund 21600	Ethanol Production Incentive Fund 26020	USDA Federal Grant Fund 46010	**Totals (Memorandum Only)**
REVENUES:				
Intergovernmental	$ 15,950	$ -	$ -	$ 15,950
Miscellaneous	7,618	88,075	66	95,759
TOTAL REVENUES	23,568	88,075	66	111,709
EXPENDITURES:				
Personal Services	323,936	-	-	323,936
Operating	163,805	-	-	163,805
Travel	27,690	-	-	27,690
TOTAL EXPENDITURES	515,431	-	-	515,431
Excess (Deficiency) of Revenues Over (Under) Expenditures	(491,863)	88,075	66	(403,722)
OTHER FINANCING SOURCES (USES):				
Deposit to/from Common Fund	532,952	12,850,242	-	13,383,194
Operating Transfers Out	-	(15,132,423)	-	(15,132,423)
TOTAL OTHER FINANCING SOURCES (USES)	532,952	(2,282,181)	-	(1,749,229)
Net Change in Fund Balances	41,089	(2,194,106)	66	(2,152,951)
FUND BALANCES, JANUARY 1, 2012	233,297	2,194,142	2,685	2,430,124
FUND BALANCES, DECEMBER 31, 2012	$ 274,386	$ 36	$ 2,751	$ 277,173
FUND BALANCES CONSIST OF:				
General Cash	$ 276,399	$ 36	$ 2,751	$ 279,186
Deposits with Vendors	459	-	-	459
Due From Other Government	(907)	-	-	(907)
Due to Vendors	(1,565)	-	-	(1,565)
TOTAL FUND BALANCES	$ 274,386	$ 36	$ 2,751	$ 277,173

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2012

1. Criteria

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 Vendors and Due From Other Government for the Board. 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 Board had no accounts receivable at December 31, 2012. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

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

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

NOTES TO THE SCHEDULE
(Continued)

1. **Criteria** (Concluded)

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 Board are:

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

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 Board are:

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

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.

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger.

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

Other Financing Sources – Operating transfers and Deposits from Common Fund.

NOTES TO THE SCHEDULE
(Continued)

2. Reporting Entity

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

The Nebraska Ethanol Board 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 equipment. Under State Accounting policies, expenditures for equipment are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining equipment 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 Board takes an annual inventory, recording in the State Accounting System all equipment that has a cost of $1,500 or more at the date of acquisition.

For the CAFR, the State requires the Board 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.

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of three years.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 1,574	$ -	$ -	$ 1,574
Less accumulated depreciation* for:				
Equipment				1,092
Total capital assets, net of depreciation				$ 482

**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

A total of $10,461,676 was transferred from the Ethanol Production Incentive Cash (EPIC) Fund to the Cash Reserve Fund before November 30, 2012, as required by Neb. Rev. Stat. § 84-612(8) (Cum. Supp. 2012). Also, § 84-612(8) required transfers to the Cash Reserve Fund be the same amount as had been transferred from the Cash Reserve Fund to the EPIC Fund between July 1, 2011, through November 30, 2012.

Transfers of $4,597,614 were made from the EPIC Fund to the Highway Trust Fund in order to pay credits for ethanol production in accordance with Neb. Rev. Stat. § 66-1344(2)(a) (Reissue 2009). Established by § 66-1344(2), a credit of eighteen cents per gallon of ethanol produced for ninety-six consecutive months beginning with the first calendar month for which it is eligible to receive the credit and ending not later than June 30, 2012. The amount of the transfer is calculated by the Nebraska Department of Revenue and reported to the Nebraska State Treasurer for the amount of motor fuel tax that was not collected due to the ethanol credits provided in Neb. Rev. Stat. § 66-1344 (Reissue 2009).

Additional transfers of $54,323 were performed to disburse the EPIC Fund's final cash balance since it closed December 31, 2012. See footnote 8 for additional information.

For calendar year 2012, a total of $15,113,613 was transferred from the EPIC Fund, pursuant to the statutes noted above.

NOTES TO THE SCHEDULE
(Continued)

7. Deposits to/from Common Funds

The EPIC Fund is common to the Board, Nebraska Department of Agriculture, and the Nebraska Department of Revenue. The Agricultural Alcohol Fuel Tax Fund is common to the Board and the Nebraska State Treasurer.

Neb. Rev. Stat. § 66-1345(1) (Cum. Supp. 2012) created the EPIC Fund in order to pay ethanol producer incentives created under Neb. Rev. Stat. § 66-1344(2)(a) (Reissue 2009). Further, § 66-1345 identifies various sources of revenue for the EPIC Fund, which includes an excise tax of seven-eighths cent per bushel of corn and per hundredweight of grain sorghum levied upon all corn and grain sorghum sold through commercial channels in Nebraska or delivered in Nebraska as established in Neb. Rev. Stat. § 66-1345.01 (Cum. Supp. 2012). These taxes are collected, administered, and enforced by the Department of Agriculture and deposited into the EPIC Fund. The Nebraska Department of Agriculture deposited $12,849,682 in the EPIC Fund during calendar year 2012.

Additional Deposits from Common Funds of $560 were made to the EPIC Fund during the calendar year ended December 31, 2012.

Neb. Rev. Stat. § 66-489(2) (Reissue 2009) establishes an excise tax of one and one-quarter cents per gallon of ethanol produced. The proceeds from this excise tax are collected by the Nebraska Department of Revenue and remitted to the Nebraska State Treasurer for credit to the Agricultural Alcohol Fuel Tax Fund. The Nebraska State Treasurer deposited $500,533 to the Agricultural Alcohol Fuel Tax Fund in calendar year 2012, as directed by the Nebraska Department of Revenue.

Additional Deposits from Common Fund of $32,419 were made to the Agricultural Alcohol Fuel Tax Fund during the calendar year ended December 31, 2012.

For calendar year 2012, a total of $12,850,242 was deposited into the EPIC Fund and a total of $532,952 was deposited into the Agricultural Alcohol Fuel Tax Fund, pursuant to the statutes noted above.

8. EPIC Fund

Neb. Rev. Stat. § 66-1345(1) (Cum. Supp. 2012) created the Ethanol Production Incentive Cash Fund which was to be used by the Ethanol Board to pay a credit of eighteen cents per gallon of ethanol produced. The eighteen cent credit was established by Neb. Rev. Stat. § 66-1344(2)(a) and (b) (Reissue 2009) and eligibility for this credit was to end no later than June 30, 2012. The main source of income for the Ethanol Production Incentive Cash Fund was an excise tax levied upon all corn and grain sorghum sold through commercial channels in Nebraska or delivered in Nebraska. The excise tax during the calendar year ended December 31, 2012, was seven-eighths cent per bushel for corn and seven-eighths cent per hundredweight for grain sorghum. In accordance with Neb. Rev. Stat. § 66-1345.01 (Cum. Supp. 2012), the corn and grain sorghum excise tax ended October 1, 2012.

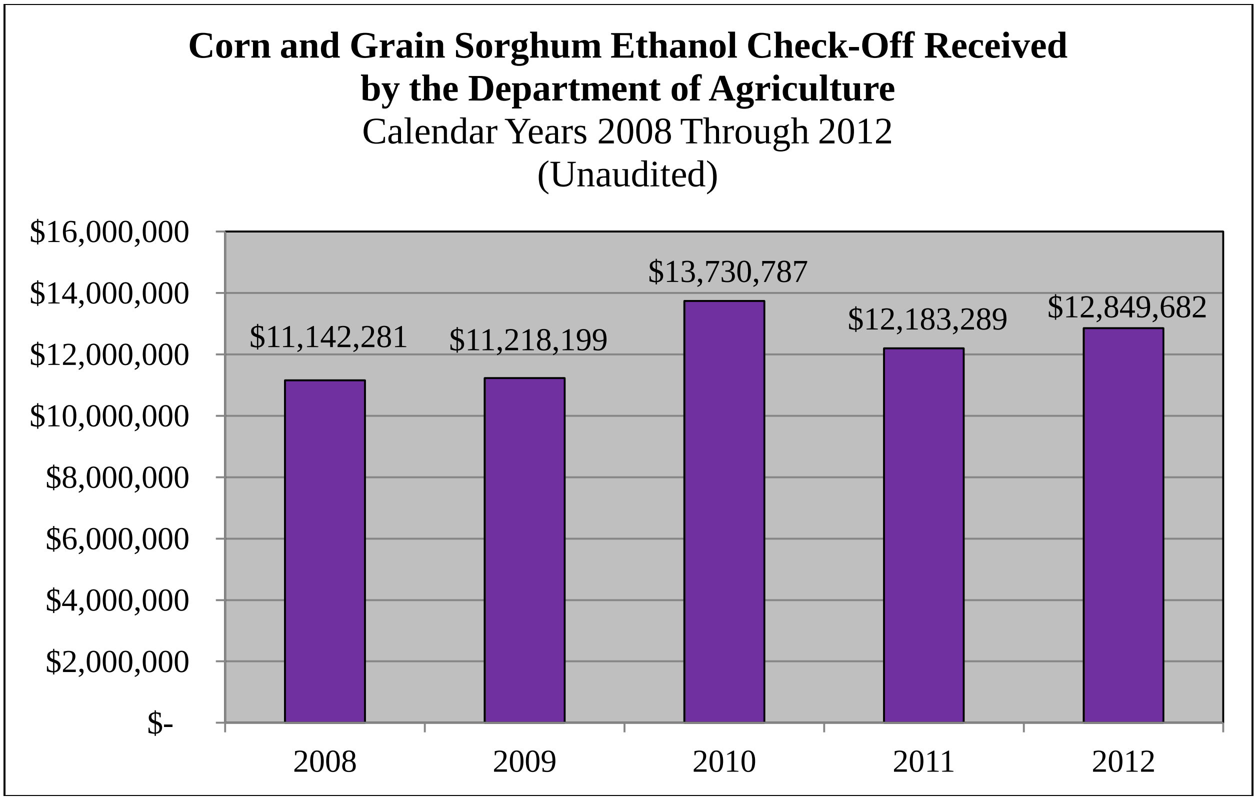
NOTES TO THE SCHEDULE
(Continued)

8. EPIC Fund (Concluded)

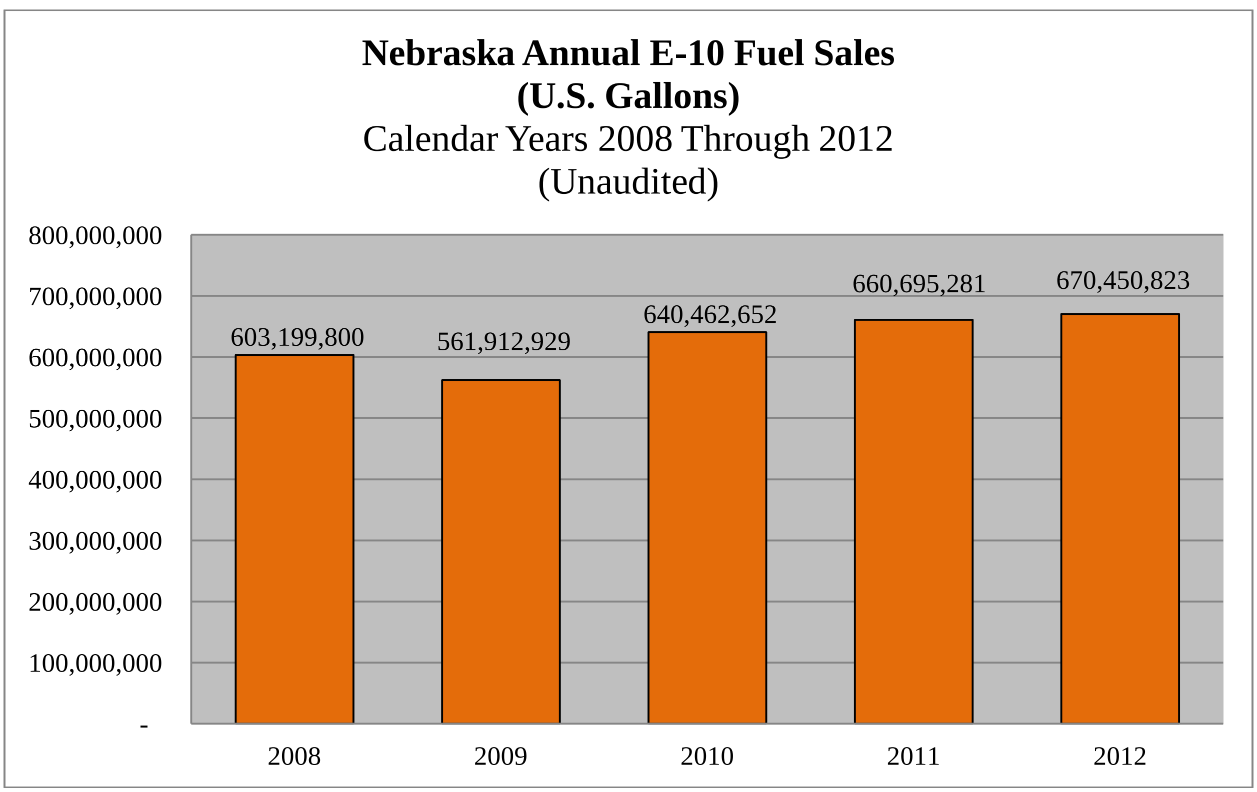
Neb. Rev. Stat. § 66-1345(4) (Cum. Supp. 2012), required the State Treasurer to transfer one half of the unexpended and unobligated funds, from the Ethanol Production Incentive Cash Fund to the Nebraska Corn Development, Utilization, and Marketing Fund and the Grain Sorghum Development, Utilization, and Marketing Fund in the same proportion as funds were collected from corn and grain sorghum. The other half of the unexpended and unobligated funds were to be transferred to the General Fund. On December 31, 2012, $27,162 was transferred to the General Fund, $26,746 was transferred to the Corn Development, Utilization, and Marketing Fund, and $415 was transferred to the Grain Sorghum Development, Utilization, and Marketing Fund. As of December 31, 2012, the Ethanol Production Incentive Cash Fund had a balance of $36.

SUPPLEMENTARY INFORMATION

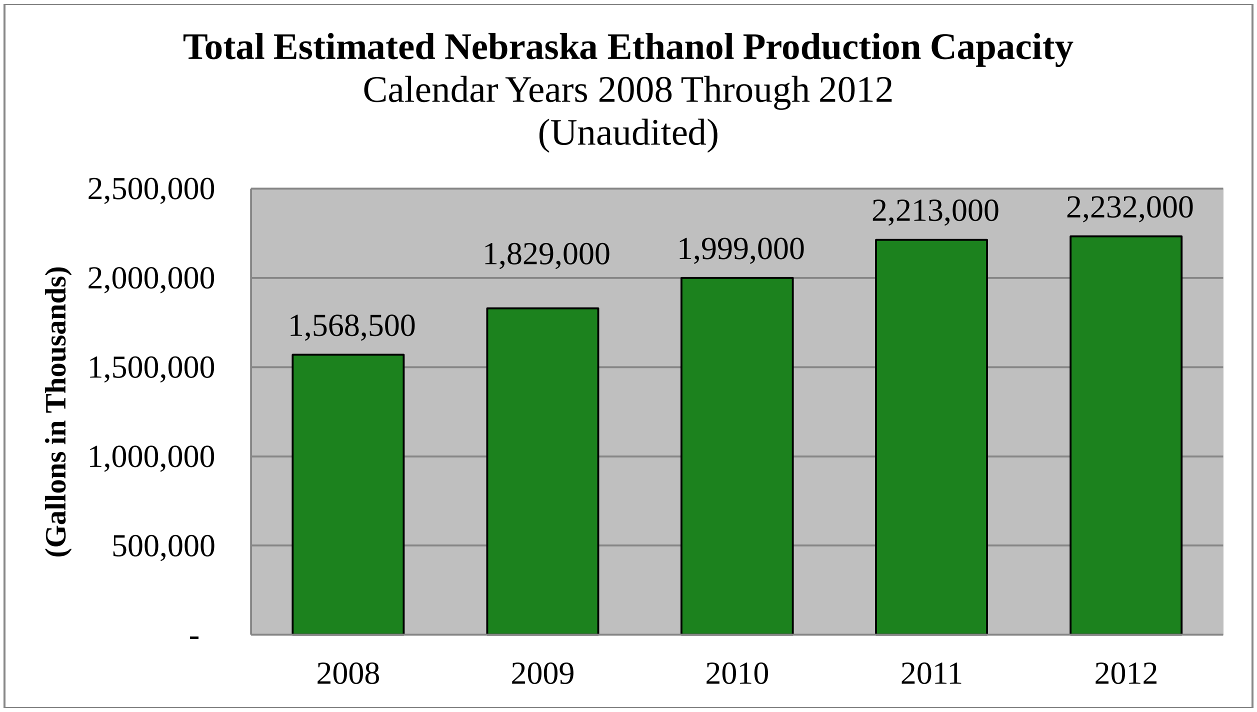
Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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



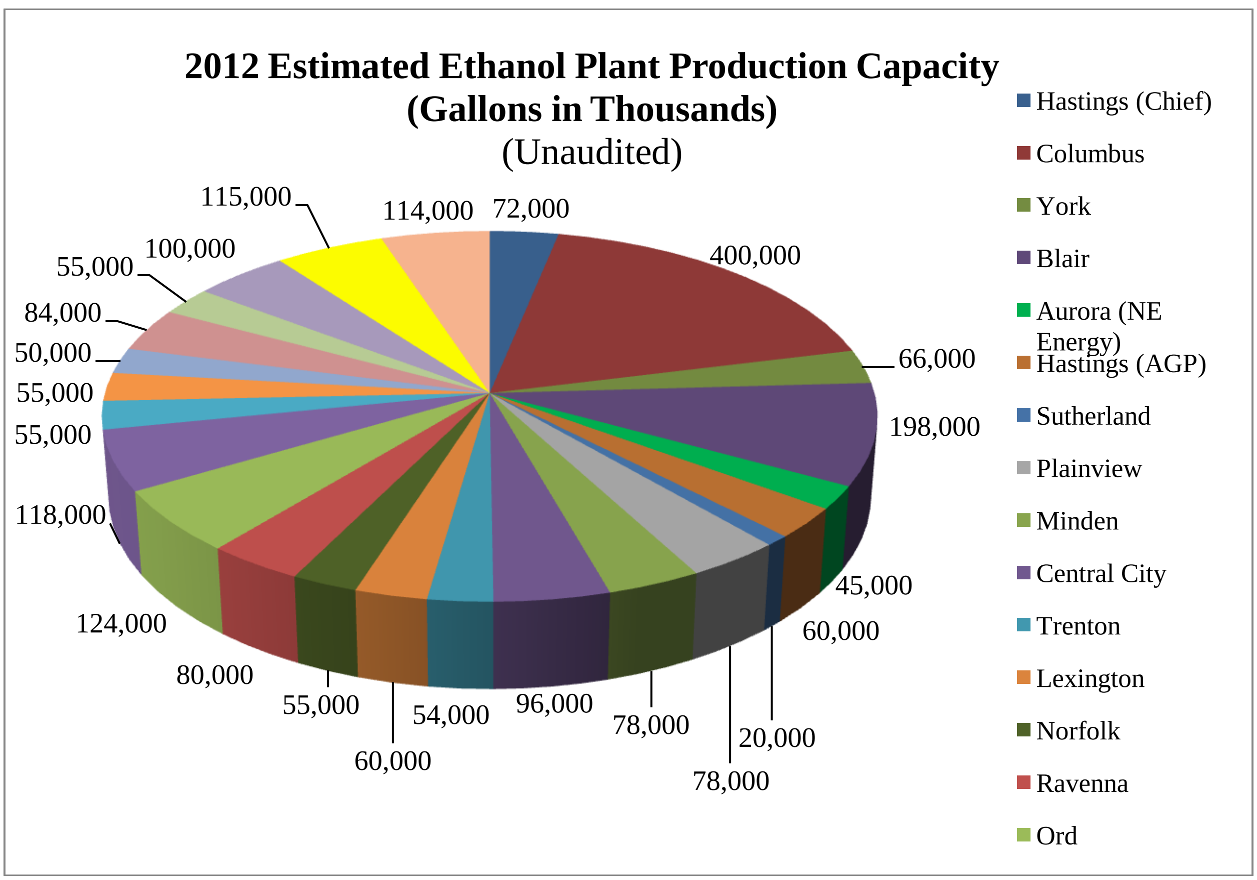
Source: State accounting system – EnterpriseOne



Source: Motor Fuels Division, Nebraska Department of Revenue – Nebraska Annual Motor Fuel Sales.



Source: Nebraska Ethanol Board – Estimated Nebraska Ethanol Production Capacity (US Gallons).



Source: Nebraska Ethanol Board – Estimated Nebraska Ethanol Production Capacity (US Gallons).