

**ATTESTATION REPORT
OF THE
NEBRASKA STATE ENERGY OFFICE
JULY 1, 2017, THROUGH JUNE 30, 2018**

**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 October 19, 2018

*The **Nebraska Auditor of Public Accounts Office** was created by the first territorial Legislature in 1855. The Auditor was the general accountant and revenue officer of the territory. Those duties have expanded and evolved over the decades, as modern accounting theory has been implemented. The office of the Auditor of Public Accounts is one of six offices making up the executive branch of Nebraska State Government. Charlie Janssen was elected in November 2014, as the Nebraska Auditor of Public Accounts. He was sworn into office on January 8, 2015, as Nebraska's 25th State Auditor.*

The mission of the Nebraska Auditor of Public Accounts' office is to provide independent, accurate, and timely audits, reviews, or investigations of the financial operations of Nebraska State and local governments.

We will provide this information, as required by statute, to all policymakers and taxpayers through written reports and our Internet-based Budget and Audit databases.

We will maintain a professionally prepared staff, utilizing up-to-date technology, and following current Government Auditing Standards.

Audit Staff Working On This Examination

Krista Davis – Audit Manager

Brad Ashley, CPA – Auditor-In-Charge

Sara Leber, CPA – Auditor-In-Charge

Cody Guillot – Auditor

Our reports can be found electronically at: <http://www.auditors.nebraska.gov>

Additionally, you may request them by contacting us at:

Nebraska Auditor of Public Accounts

State Capitol, Suite 2303

P.O. Box 98917

Lincoln, Nebraska 68509

Phone: 402-471-2111

NEBRASKA STATE ENERGY OFFICE

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1 - 2
Key Officials and Office Contact Information	3
Comments Section	
Summary of Comments	4 - 5
Comments and Recommendations	6 - 20
Financial Section	
Independent Accountant's Report	21 - 22
Schedule of Revenues, Expenditures, and Changes in Fund Balances	23
Notes to the Schedule	24 - 28
Supplementary Information	29
Loan Receivable – Balance by Fund	30
Loan Receivable – Balance by Year	30

NEBRASKA STATE ENERGY OFFICE

BACKGROUND

The Nebraska State Energy Office (Energy Office) was created in 1977. The Energy Office was created to address a number of energy issues, such as education, outreach, energy conservation, and resource management. Congress established a number of energy conservation programs and appropriated funding to the U.S. Department of Energy (USDOE). Through formula grants, the Energy Office administers the Low-Income Weatherization Assistance Program (WAP), State Energy Program (SEP), and other USDOE special projects as funding is available.

The Energy Office also administers the Dollar and Energy Savings Loan Program, monitors fuel prices and supplies, collects energy supply and consumption data maintained in a statistical database, and regulates energy efficient building codes.

Federal Programs

The Energy Office provides oversight, administration, and technical support for several federally funded programs:

- The Energy Office administers the federally funded WAP, which lowers energy use and energy costs for low-income people by supporting energy-efficient home retrofits through State-managed networks of local weatherization providers. WAP funding is derived from annual appropriations by Congress to two Federal agencies: the USDOE and the U.S. Department of Health and Human Services (USHHS). The USHHS administers the Low-Income Home Energy Assistance Program (LIHEAP) funds that are allocated to the weatherization program. The funding for the LIHEAP program is directed to the Nebraska Department of Health and Human Services (DHHS) and must be administered in accordance with all applicable USDOE, USHHS, and Nebraska WAP State Plan guidelines and rules and regulations.

Community Action Agencies (CAPS) across the State receive funding from the Energy Office and are responsible for the weatherization work in their designated areas. The Energy Office administers WAP in accordance with USDOE guidance. A portion of the funds are set aside for training and technical assistance, which includes inspections and training WAP network staff.

- The SEP provides financial and technical assistance to States through formula and competitive grants. Each State uses its formula grant to develop strategies and goals specific to the State's energy priorities, design, and implementation of these State-driven energy programs. States are required to provide a 20% match for SEP annual formula funding allocations. The Energy Office uses State Cash Funds to meet this match requirement.
- State Heating Oil and Propane Program (SHOPP) is a weekly joint data collection effort between the Energy Information Administration (EIA) and State Energy Offices. The weekly survey collects residential prices for heating oil and propane directly from retailers within each State. This data collection assists policymakers and consumers to make decisions in the event of a heating fuel supply disruption or an unusually cold winter. Heating oil and propane sold by independent dealers can cause considerable supply and price fluctuations, and the SHOPP reporting enables better communication regarding market developments between fuel providers and States. In Nebraska, especially in rural areas, a significant number of homes use propane as their primary energy source for heating during the winter months.

NEBRASKA STATE ENERGY OFFICE

BACKGROUND

(Concluded)

Oil Overcharge Funds

Pursuant to Neb. Rev. Stat. §§ 81-1635 through 81-1641 (Reissue 2014), the Nebraska Energy Settlement Fund was established, and the Energy Office administers funds returned to the State through Federal district court actions, court settlements, and judgments against oil companies that overcharged customers. The Energy Office administers these funds according to court settlement guidelines and Federal regulations requiring the Petroleum Violation Escrow (PVE) funds to be spent on energy efficiency and renewable energy programs.

The PVE funds capitalized the Dollar and Energy Savings Loan Program, which is an energy efficiency, renewable energy, and waste minimization revolving loan and financing program. Loans are available through eligible Nebraska lending institutions. Nebraskans may finance qualified energy efficiency, renewable energy, and waste minimization projects in the residential, commercial, institutional, industrial, agricultural, and government sectors. The revolving loan program has loan repayments coming back into the program, which is reflected in the Energy Office's budget.

NEBRASKA STATE ENERGY OFFICE

KEY OFFICIALS AND OFFICE CONTACT INFORMATION

Name	Title
Jim Macy	Interim Director
David Bracht	Director (Terminated August 1, 2018)
Thomas Tabor	Energy Division Chief
Aaron Miller	Energy Program Administrator
David Wesely	Business Manager III

Nebraska State Energy Office
521 S. 14th Street, Suite 300
Lincoln, NE 68508
neo.ne.gov

NEBRASKA STATE ENERGY OFFICE

SUMMARY OF COMMENTS

During our examination of the Nebraska State Energy Office (Energy Office), we noted certain deficiencies and other operational matters that are presented here. The following comments are required to be reported in accordance with *Government Auditing Standards*: Comments #1, “Lack of Controls Over Revenues,” #2, “Payroll Issues,” #3, “Lack of Segregation of Duties Over Capital Assets,” and #4 “Subrecipient Monitoring,” which are considered to be significant deficiencies.

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

1. ***Lack of Controls Over Revenues:*** We noted a lack of adequate segregation of duties over revenues for the Dollar and Energy Savings Loan Program. Loan repayments totaled \$6,822,241 with loan balances totaling \$34,667,427 for the fiscal year ended June 30, 2018.
2. ***Payroll Issues:*** There was an overpayment of \$3,056 for a final paycheck to one employee; a lack of adequate segregation of duties; and missing payroll documentation, including I-9 form, W-4 forms, etc.
3. ***Lack of Segregation of Duties Over Capital Assets:*** One individual was able to perform all capital asset functions within the accounting system, with no secondary review or approval.
4. ***Subrecipient Monitoring:*** Adequate monitoring of subrecipients was lacking for the Low-Income Home Energy Assistance Program (LIHEAP), Weatherization Assistance Program (WAP), and the Biofuel Infrastructure Partnership (BIP) grant. There was also no documentation that one subrecipient met matching requirements for the BIP grant.
5. ***Lack of Adequate Documentation:*** The Energy Office was unable to provide two original documents selected for testing, and support was finally provided over 41 days after the initial request; rent allocations were not reasonable, causing over and undercharges to funding sources; lack of a contract for one payment; and untimely payment of one expenditure tested.
6. ***Loan System Issues:*** The loan system used by the Energy Office did not track historical records of funding sources if changes were made to the system, and password settings were not in compliance with State policies.
7. ***Agency-Owned Vehicles:*** The Energy Office owned five trucks, two of which were under-utilized during the fiscal year; one of the trucks had been transferred to a subrecipient, but the asset was not removed from the asset listing; there was no approval for agency-owned vehicles in accordance with State law; there was a lack of adequate monitoring of vehicle logs; and those logs were not adequately documented to reflect purpose of travel and locations of travel.
8. ***Inaccurate Federal Reporting:*** During testing of two Federal Financial Reports (FFR), we noted one of two reports understated expenditures incurred by \$131,250; and one of two reports did not include adequate documentation for costs reported as matching expenditures. Additionally, the LIHEAP Household Report-Long Form did not report the proper household income levels that received Weatherization assistance.

NEBRASKA STATE ENERGY OFFICE

SUMMARY OF COMMENTS

(Concluded)

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

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

NEBRASKA STATE ENERGY OFFICE
COMMENTS AND RECOMMENDATIONS

1. Lack of Controls Over Revenues

The Nebraska State Energy Office (Energy Office) operates the Dollar and Energy Savings Loan Program (Loan Program). Loan participation and repayments are recorded in a loan system to track individual balances. The loan receivable balance is also recorded in the State's accounting system, EnterpriseOne. The Energy Office received \$6,822,241 of loan repayments during the fiscal year ended June 30, 2018, and the loans receivable balance at June 30, 2018, was \$34,667,427.

During testing, we noted the Energy Office lacked an adequate segregation of duties over repayments received for the Loan Program, as one individual was able to perform the following procedures:

- Open mail containing cash receipts without a second staff member being present.
- Process the loan repayments in the loan system.
- Process write-offs or forgive balances in the loan system.
- Prepare deposits and journal entries in EnterpriseOne.
- Perform the monthly reconciliation between the loan system and EnterpriseOne.

No secondary review was performed of the reconciliation or adjustments (such as write-offs or loan forgiveness) made in the loan system by an individual without access to EnterpriseOne and the loan system to ensure balances were proper.

A similar finding was noted during the previous attestation for the calendar year ended December 31, 2013.

A good internal control plan requires an adequate segregation of duties or compensating procedures to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities when recording monies received and preparing deposits.

A lack of segregation of duties increases the risk of loss, misuse, or theft of funds. Without proper controls over the receipt of monies, there is an increased risk a loan receipt might not be deposited.

We recommend the Energy Office implement a proper segregation of duties or compensating procedures for the handling of receipts and entry of information in the loan program. Additionally, we recommend the Energy Office establish procedures for periodically reviewing adjusted loan balances.

Energy Office Response: The Energy Office is a small agency so segregation of duties is a concern. We do however believe that adequate compensating procedures are in place because we have different staff performing verifications. The Business Manager reconciles the data base to the accounting system on a monthly basis. The Accountant II confirms loan balances with banks on an ongoing three year cycle, and reconciles data base to the accounting system at a funding source level. The Accounting Clerk II gets Remittance Reports with the checks received that shows the current balance at the bank and she sees data base loan balance when she is entering it into the data base. In addition banks request loan balances from the Energy Office throughout the year which is basically an independent third party verification of our balances.

NEBRASKA STATE ENERGY OFFICE

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Lack of Controls Over Revenues** (Concluded)

The Energy Office management will continue to review internal control policies and compensating measures to ensure appropriate controls are in place.

APA Response: As noted in the comment, one individual was able to perform all processes to record loan payments in the loan system without a secondary review. The procedures outlined by the Energy Office do not alleviate the risk that errors or misappropriation of funds could occur and go undetected. The individual able to perform all processes could perform an adjustment to reduce loans to the proper balance which would not be caught during the Accountant II loan confirmation procedure or the banks request for loan balances, as the balances would be correct in the system. The loan system reconciliation procedure would identify the inconsistencies noted; however, the individual performing the reconciliation can perform adjustments within the system and no one independent from the process is reviewing the reconciliation to ensure all adjustments are appropriate.

2. **Payroll Issues**

Lack of Segregation of Duties

The State's accounting system does not have an established segregation of duties for payroll processing. Therefore, employees with access to process payroll are able to perform all procedures without a secondary individual being required to approve transactions. Accordingly, the Energy Office should have compensating procedures in place, such as a documented review of the payroll register and changes to pay rates and other payroll information, by an individual without payroll access, to ensure no one individual is able to conceal errors or irregularities.

The Energy Office had three individuals who not only were able to perform all payroll processes but also reviewed reports. There was no secondary review by an individual without payroll access to ensure expenditures were accurate and proper, including a review of the timesheet entries into the payroll system for the individuals with payroll access to ensure time entered and paid was proper.

The Energy Office had \$1,311,459 in personal services expenditures during the fiscal year ended June 30, 2018. A similar finding was noted during the previous attestation for the calendar year ended December 31, 2013.

Payroll Overpayment, Errors, and Lack of Documentation

During testing of payroll expenditures, we noted the following issues:

- One employee was terminated during the fiscal year. We tested that individual's final paycheck and determined he was overpaid \$3,056 in gross wages. The individual's final paycheck included 80 hours of paid work; however, the individual only worked eight hours during the last pay period.
- For one of two employees tested with large sick leave usage, we were unable to obtain documentation to substantiate the leave used. The individual used 50 hours during one pay period tested; however, no documentation was in the personnel file to ensure the leave was reasonable.

NEBRASKA STATE ENERGY OFFICE

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Payroll Issues (Concluded)

- For one of three employees tested, the employee had no I-9 form on file, and two of the three employees did not have a W-4 form on file in accordance with Federal regulations. According to discussions with the employees, the tax elections were being withheld correctly.

A good internal control plan requires an adequate segregation of duties to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities. This would require someone without payroll access to perform a documented review of payroll to ensure that it is proper, including a review of timesheets and leave usage. Furthermore, good internal controls require adequate policies and procedures to ensure employees' paychecks are properly calculated, and adequate documentation is on file for leave usage and withholdings.

Without an adequate segregation of duties, there is an increased risk of overpayments, improper payments, errors or irregularities occurring and not being detected.

We recommend the Energy Office:

- Implement policies and procedures to have an individual without payroll access perform a documented review of the payroll register, timesheets, leave usage, and changes to pay rates for accuracy and reasonableness.
- Establish procedures to ensure employees' final paychecks are properly calculated and consider working with its legal counsel to determine if it is able to request reimbursement for the \$3,056 overpayment of wages from the terminated employee.
- Ensure documentation is on file for large sick leave usage.
- Ensure I-9 forms and W-4 forms are on file for all new and existing employees in accordance with Federal regulations.

Energy Office Response: The overpayment was caused by a system generated entry on the last paycheck – The employee has been contacted and will be reimbursing the Energy Office. The agency will review employee files to ensure appropriate documentation is maintained.

The Energy Office management will continue to review policies and compensating measures to ensure appropriate controls are in place.

3. Lack of Segregation of Duties Over Capital Assets

The State's accounting system does not have an established segregation of duties over capital assets within the system. Therefore, employees with system access to capital asset functions are able to perform all procedures without a secondary individual required to approve transactions. Accordingly, compensating procedures should be in place, such as a documented review of the Additions & Retirements report by an individual without capital assets access, to ensure no one individual is able to conceal errors or irregularities.

NEBRASKA STATE ENERGY OFFICE
COMMENTS AND RECOMMENDATIONS
(Continued)

3. Lack of Segregation of Duties Over Capital Assets (Concluded)

The Energy Office had one individual who was able to add assets to the inventory records, to surplus and dispose of assets, and to perform the annual inventory. Additionally, no documented secondary review of capital asset reports was performed by an independent person without capital asset access to ensure additions and retirements were appropriate and accurate.

As of June 30, 2018, the Energy Office had 157 assets with an adjusted total purchase value of \$363,956; however, due to depreciation, the current combined book value was only \$74,356. A similar finding was noted during the previous attestation for the calendar year ended December 31, 2013.

A good internal control plan requires an adequate segregation of duties to ensure no one individual is able both to perpetrate and to conceal errors or irregularities. Without an adequate segregation of duties, there is an increased risk of fraud and misuse of State property.

We recommend the Energy Office establish an adequate segregation of duties to ensure no one individual is able to perpetrate and/or conceal errors and irregularities. This would include a documented secondary review of capital asset reports by someone without accounting system access to maintain capital assets.

Energy Office Response: The Energy Office management will continue to review internal control policies and compensating measures to ensure appropriate controls are in place.

4. Subrecipient Monitoring

During testing of government aid expenditures, we noted a lack of documentation to support that adequate monitoring was performed of subrecipients who received State and Federal monies, as follows:

Low-Income Home Energy Assistance Program (LIHEAP)

The Energy Office did not have adequate monitoring procedures and did not adequately document the monitoring they did perform for LIHEAP. Furthermore, it did not have adequate documentation or procedures to ensure clients met eligibility requirements. During the fiscal year, the Energy Office paid 1,842,388 to seven subrecipients. The Energy Office received reimbursement requests from the subrecipients, which included a breakdown of the current expenses by cost categories. Energy Office staff reviewed the reimbursement requests; however, no invoices or detailed expense reports were required at the time of payment. The Energy Office also performed annual fiscal on-site monitoring of each subrecipient. The period reviewed varied for the subrecipients depending on when the fiscal monitoring was conducted.

We selected two subrecipients and tested one payment made to each totaling \$28,716 and \$33,268, respectively. We also reviewed the Energy Office monitoring completed during fiscal year 2018 for these two subrecipients. We noted the following:

- The annual fiscal on-site monitoring for both subrecipients was performed by the Energy Office in June 2018. The monitoring files did not contain sufficient evidence for the APA to determine what procedures were performed for the detailed testing of expenditures. The monitoring files also lacked adequate documentation to support that many subrecipient expenditures were

NEBRASKA STATE ENERGY OFFICE

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Subrecipient Monitoring (Continued)

allowable and in accordance with Federal regulations. For example, hours worked did not agree to the timesheets due to adjustments, and the adjustment information was not on file; credit card statements were in the monitoring files, but not the supporting itemized receipts; and support for the property insurance premium amounts were not in the monitoring files. The APA subsequently obtained supporting documentation from the subrecipients that was not included in the Energy Office's monitoring files to complete testing of reimbursement payments.

- For one subrecipient tested, the monitoring completed by the Energy Office did not include testing of all expense categories reimbursed with LIHEAP funds. For this subrecipient, the following categories were not reviewed for calendar year 2017 expenses: Materials and Labor for both Weatherization and Health & Safety, Administration, and Training & Technical Assistance. The amount reimbursed during State fiscal year 2018 for these expense categories was \$105,380. The total paid to this subrecipient during the fiscal year was \$187,154.
- The payments to subrecipients included reimbursed costs attributable to specific homes or units weatherized during the month being reimbursed. For the payments tested, one subrecipient requested reimbursement for three units weatherized, and the other subrecipient tested requested reimbursement for 12 units weatherized. According to the LIHEAP State Plan, LIHEAP Weatherization is administered in accordance with Department of Energy Weatherization Assistance Program rules, located at 10 CFR § 440 (January 1, 2017), for income threshold and weatherization of entire multi-family housing structures. We tested the eligibility determination completed by the subrecipients for each of the 15 units and the following was noted:
 - One subrecipient incorrectly calculated annual income for one client. Annual income was calculated as \$22,502, but should have been \$31,770. The client was still eligible using the correct annual income.
 - For the other subrecipient, five clients tested did not have adequate documentation on file to support the eligibility determination, as outlined below.
 - For one client, the basic intake form was not signed by the client certifying that the information provided to determine eligibility was valid.
 - For two clients, the Weatherization Zero Income Verification form was on file, but neither form was notarized in accordance with Weatherization program requirements, resulting in questioned costs of \$520 and \$457. In addition, one form was not signed by the client. These clients lived in a 6-plex building.
 - There were two clients with annual incomes greater than 200% of the Federal poverty level who lived in the same 6-plex building as the clients who were not eligible due to lack of proper zero income verification. Therefore, the building no longer meets the requirement that no less than 66% of the units in the building are eligible units. As a result, these two clients are also no longer eligible, with questioned costs of \$919 and \$801, respectively, for the two units.

NEBRASKA STATE ENERGY OFFICE
COMMENTS AND RECOMMENDATIONS
(Continued)

4. **Subrecipient Monitoring** (Continued)

- According to the monitoring files, the clients noted above were tested by the Energy Office with no findings. Therefore, the monitoring was not adequate to ensure all clients receiving LIHEAP Weatherization assistance were eligible.
- In addition to the two payments selected for testing, we also tested additional expenditures, totaling \$10,037, incurred by the subrecipients in other months of State fiscal year 2018 that were reviewed by the Energy Office during the on-site monitoring. We noted the following:
 - One subrecipient paid \$513 for pollution liability insurance and audit costs of \$1,500 based on budgeted amounts, rather than using a reasonable method for cost allocation to determine the actual amount attributable to the LIHEAP program.
 - For this same subrecipient, the audit costs of \$1,500 were an administrative expense; however, the Energy Office recorded the reimbursement of this cost as an aid expenditure, rather than an administrative expenditure. At the time of this payment, the subrecipient had already been reimbursed the maximum amount for administrative expenditures, so the \$1,500 should not have been reimbursed by the Energy Office and is considered questioned costs.

45 CFR § 96.30(a) (October 1, 2017) requires fiscal control and accounting procedures sufficient to “permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.”

A good internal control plan requires the pass-through entity to establish controls to ensure subrecipients use Federal awards in accordance with Federal compliance requirements and the terms and conditions of the subaward, including procedures for monitoring of subrecipients’ fiscal activities related to Federal expenditures. A good internal control plan also requires the pass-through entity to establish written procedures to ensure adequate subrecipient monitoring is completed, and adequate documentation is retained.

10 CFR § 440.22(a) (January 1, 2017) states, in relevant part, “A dwelling unit shall be eligible for weatherization assistance under this part if it is occupied by a family unit: (1) Whose income is at or below 200 percent of the poverty level”

10 CFR § 440.22(b) (January 1, 2017) states, in relevant part, the following:

A subgrantee may weatherize a building containing rental dwelling units using financial assistance for dwelling units eligible for weatherization assistance under paragraph (a) of this section, where: . . . (2) Not less than 66 percent . . . of the dwelling units in the building: (i) Are eligible dwelling units

According to the Proof of Eligibility section regarding self-certification of the Weatherization Program Notice 17-3 (April 5, 2017) from the Department of Energy:

*After all other avenues of documenting income eligibility are exhausted, self-certification is allowable. However, evidence of the various attempts at proving eligibility must be contained in the client file, **including** a notarized statement signed by the potential applicant indicating that he has no other proof of income.*

NEBRASKA STATE ENERGY OFFICE

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Subrecipient Monitoring** (Continued)

Additionally, a good internal control plan requires procedures to ensure adequate documentation is obtained to ensure clients meet eligibility requirements.

45 CFR § 96.88(a) (October 1, 2017) provides the following:

Any expenditure for governmental functions normally associated with administration of a public assistance program must be included in determining administrative costs subject to the statutory limitation on administrative costs, regardless of whether the expenditure is incurred by the State, a subrecipient, a grantee, or a contractor of the State.

When adequate monitoring is not performed, there is an increased risk for the misuse of Federal funds and noncompliance with Federal regulations. When adequate income documentation is not obtained, the subrecipient is not in compliance with Federal regulations for client eligibility determination.

We recommend the Energy Office improve procedures to monitor subrecipients. Monitoring should include a written plan with procedures to ensure reimbursement requests are accurate and agree to support, expenditures and eligibility determinations are in accordance with Federal requirements, and adequate documentation is retained. We also recommend the Energy Office implement procedures to ensure subrecipients obtain adequate documentation to support that clients meet eligibility requirements.

Weatherization Assistance Program

The Energy Office had sub-grants with the same seven community action partnership organizations (subrecipients), as noted for the LIHEAP program above, to provide Weatherization Assistance for Low-Income Persons. The Energy Office paid \$1,839,067 to the seven subrecipients during the fiscal year ended June 30, 2018.

The Energy Office performed on-site monitoring of each organization annually; however, the review did not always include expenditures for the current fiscal year to ensure current year grant expenditures were properly spent. Furthermore, the monitoring documentation was not adequate to determine the procedures performed, including that all expenditures tested were allowable, allocations between funding sources were reasonable, and recipients of aid were eligible. A similar lack of documentation, as noted above for the LIHEAP program, was noted in the monitoring files for the Weatherization Program.

2 CFR § 200.331(d) (January 1, 2018) requires grantees to do the following:

Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Additionally, a good internal control plan requires policies and procedures to ensure adequate documentation is maintained and current grant expenditures are tested to verify compliance with Federal regulations. When monitoring is not adequate, there is an increased risk of noncompliance with Federal requirements and risk of abuse of Federal dollars.

NEBRASKA STATE ENERGY OFFICE

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Subrecipient Monitoring** (Continued)

We recommend the Energy Office establish adequate policies and procedures to ensure expenditures for the current fiscal year are reviewed, and documentation is retained to support the procedures performed.

Biofuel Infrastructure Partnership Grant

The Energy Office received a grant from the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) for the receipt of grant funds under the Biofuel Infrastructure Partnership (BIP). The objective of BIP was to increase consumption of biofuel in the form of ethanol. The grant was to be used for the installation of infrastructure (gas pumps and storage tanks). The BIP grant totaled \$2,285,000 in Federal funding and required the Energy Office to provide \$3,725,907 in matching funds.

We tested two reimbursement payments to applicants, totaling \$443,336, and noted the following:

- The Energy Office had no documentation of sub-grantee monitoring, as required by the grant agreement. According to the agreement, the Energy Office was to do the following: 1) ensure the gas pumps and storage tanks were operational by December 30, 2016, and that they remained operational through December 30, 2021; 2) ensure the grant funds were expended solely for the purpose of the grant agreement; and 3) monitor and evaluate the activities of the applicant-led project(s), etc.
- For one of two applicants tested, the matching requirement was not met. According to the sub-grantee agreement, the applicant was required to contribute \$105,000 or 34.4% in matching funds towards the total grant of \$305,000, with Energy Office funding of \$200,000. According to the reimbursement tested, the Energy Office funded \$266,100 or 98.04%, with sub-grantee contributions of only \$5,308 or 1.96%. There was only \$33,592 remaining of the original grant amount; therefore, the sub-grantee had already received more in grant funding than originally agreed upon, with no documentation of an amendment. Section 4.E of the sub-grantee agreement provides the following:

The Reimbursement Request should also include details of the Sub-Grantee Match (as defined herein) to be applied to the identified Project, provided that in lieu of individual allocation to individual Projects, Sub-Grantee may provide a summary accounting of the aggregate Match funds for all Projects of the Sub-Grantee. Match funds may not include Ineligible Expenditures. AEN [Access Ethanol Nebraska] may reduce AEN Grant amounts if the Sub-Grantee Match submitted is less than that indicated on the final accepted applications for the Projects, including adjustments to reflect aggregate Sub-Grantee Match for all Projects.

- For one of two expenditures tested, adequate supporting documentation, such as invoices, statements, etc., were not obtained in accordance with the sub-grant agreement. The sub-grantee was reimbursed for \$10,234 in market development costs and reported \$5,000 for site preparation matching contributions. The sub-grantee agreement, Section 4.A., states the following:

For any eligible expenditure that Sub-Grantee is requesting AEN Grant payment for, such accounting shall include detailed supporting documentation showing actual costs and evidence of payment (e.g. invoices, statements, etc.) Evidence of payment may include ACH and wire transfer confirmation or other evidence of electronic payments.

NEBRASKA STATE ENERGY OFFICE
COMMENTS AND RECOMMENDATIONS
(Continued)

4. Subrecipient Monitoring (Concluded)

Good internal controls require adequate policies and procedures to ensure sub-grantee monitoring is performed and documented for compliance with grant agreements. Without adequate policies and procedures, there is an increased risk of misuse of Federal and State funds.

We recommend the Energy Office establish adequate policies and procedures for the monitoring of grant agreements.

Energy Office Response: The Energy Office will review and update its policies and procedures to address the above findings.

5. Lack of Adequate Documentation

During testing of Energy Office operating expenditures, we noted the following issues:

- The Auditor of Public Accounts (APA) sent expenditure samples to the Energy Office on June 29, 2018, for testing. However, the Energy Office staff was unable to provide the original documentation for two of the items requested for testing. One was a contractor payment for \$20,625, and the second was a journal entry moving \$16,288 from Federal funds to an Energy Office trust fund. After multiple follow-up inquiries made by the APA, the Energy Office was able to provide a copy of the invoice for the contractor payment and support for the journal entry in order for the APA to test the transactions. However, documentation was not received until after August 8, 2018, more than 41 days after the initial request.

Neb. Rev. Stat. § 84-305(2) (Supp. 2017) provides, in relevant part, the following:

Upon receipt of a written request by the Auditor of Public Accounts for access to any information or records, the public entity shall provide to the auditor as soon as is practicable and without delay, but not more than three business days after actual receipt of the request, either (a) the requested materials or (b)(i) if there is a legal basis for refusal to comply with the request, a written denial of the request together with the information specified in subsection (1) of this section or (ii) if the entire request cannot with reasonable good faith efforts be fulfilled within three business days after actual receipt of the request due to the significant difficulty or the extensiveness of the request, a written explanation, including the earliest practicable date for fulfilling the request, and an opportunity for the auditor to modify or prioritize the items within the request. No delay due to the significant difficulty or the extensiveness of any request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity.

The Energy Office did not provide documentation within the timeframe established in State law. A similar finding was noted during the previous attestation for the calendar year ended December 31, 2013.

- The Energy Office was charged \$52,540 during fiscal year 2018 for its office rent expense. It then allocated the expense across the different funding sources (cash and Federal funds), according to staff payroll expenditures during the previous fiscal year. During our review of the allocation calculation, we determined the calculation did not include all funding sources of the Energy Office and should have used current year expenditures as the basis of the allocation. The unreasonable allocation calculation caused over/undercharges to various funding sources, as follows:

NEBRASKA STATE ENERGY OFFICE

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Lack of Adequate Documentation** (Concluded)

Funding Source	Over/(Under) Charges
Federal Low-Income Home Energy Assistance Program (LIHEAP) grant	\$ 4,853
Cash Funds	\$ 1,319
Federal State Energy Program (SEP) grant	\$ 662
Federal Weatherization Assistance grant	\$ (5,318)
Other Federal grants	\$ (1,516)

- For one of one expenditures tested, the Energy Office did not perform competitive bidding or have a contract on file for ongoing maintenance and service costs for its Weatherization system in accordance with Neb. Rev. Stat. § 73-504(2) (Cum. Supp. 2016), which states, in relevant part, the following:

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.

The Energy Office paid the contractor \$66,949 during fiscal year 2018 and, therefore, should have had a contract on file. A similar finding was noted during the previous attestation for the calendar year ended December 31, 2013.

- One of three expenditures tested was not paid in a timely manner. According to the invoice, payment was due on June 29, 2017. The Energy Office supervisor approved the invoice for payment on June 1, 2017; however, the payment was not made until September 27, 2017, nearly three months after it was due. Neb. Rev. Stat. § 81-2403(1) (Reissue 2014) provides, in relevant part, the following:

[E]ach agency shall make payment in full for all goods delivered or services rendered on or before the forty-fifth calendar day after (a) the date of receipt by the agency of the goods or services or (b) the date of receipt by the agency of the bill for goods or services, whichever is later, unless other provisions for payment are agreed to in writing by the creditor and the agency.

Good internal controls require adequate procedures to ensure all original documentation is on file, allocations are reasonable, contracts are on file in accordance with State law, and payments are made timely. Without such procedures, there is an increased risk that improper transactions may occur and go undetected.

We recommend the Energy Office implement adequate procedures to ensure supporting documentation is maintained, allocations are reasonable, contracts are established in accordance with State law, and payments are made timely.

Energy Office Response: The Energy Office will work to review these findings with its staff and emphasize the requirements that appropriate procedures are followed.

NEBRASKA STATE ENERGY OFFICE
COMMENTS AND RECOMMENDATIONS
(Continued)

6. Loan System Issues

The Energy Office utilized a loan system for the Dollar and Energy Savings Loan Program. The system was created by the Office of the Chief Information Officer (OCIO) to track loan balances to individuals and funding sources. We noted the following issues with the system configurations:

Historical Records

The Energy Office used the loan system to track the funding sources of monies loaned to individuals. When loan repayments were received by the banks, the deposits were processed through the loan system, which created a report used to generate the deposit document in EnterpriseOne. The report provided the funding sources for the repayments and was used to ensure each of the funds in EnterpriseOne had the proper receivable balance. However, if the report was not maintained at the time of the deposit, there was not a report available in the loan system to obtain the historical data. Furthermore, there was no history maintained of changes made within the loan system, including changes made to the funding sources account coding.

A similar finding was noted during the previous attestation for the calendar year ended December 31, 2013.

According to the Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-704, Logging:

All systems that handle CONFIDENTIAL or RESTRICTED information, allow interconnectivity with other systems, or make access control (authentication and authorization) decisions, must record and retain audit-logging information sufficient to answer the following questions:

- (1) What activity was performed?*
- (2) Who or what performed the activity, including on what system activity was performed?*
- (3) What the activity was performed on (object)?*
- (4) When was the activity performed?*
- (5) What tool(s) was the activity performed with?*
- (6) What was the status (such as success vs. failure), outcome, or result of the activity?*

A good internal control plan includes ensuring systems used by the Energy Office maintain a historical account of activities performed, including a record of changes made to data within the system. When historical data is not maintained, there is an increased risk of errors or irregularities within the system going undetected.

We recommend the Energy Office ensure historical data is maintained and accessible in the loan system. We further recommend the Energy Office log changes made to critical data sets, including the funding sources account coding.

Password Settings

The loan system was accessed through the State of Nebraska portal, my.ne.gov. Access to the portal was controlled through the Nebraska Directory Services (NDS). The NDS allowed users five grace logins after their password had expired. This violated the NITC Standards and Guidelines, Information Security Policy 8-302, Passwords, which states:

NEBRASKA STATE ENERGY OFFICE

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Loan System Issues (Concluded)

Information that is classified as CONFIDENTIAL requires a high level of security. A password used to access CONFIDENTIAL information must follow the password complexity rules outlined in subsection (1), and must contain the following additional requirements:

- (a) Expire after 90 days; and*
- (b) Accounts will automatically lock after three consecutive unsuccessful password attempts.*

A similar finding was noted during the previous attestation for the calendar year ended December 31, 2013.

A good internal control plan includes system-enforced password reset intervals, combined with account lockout controls, based on a risk assessment and the likely consequences of an authentication error. Allowing grace logins creates unknown variables in the life of a user's password, as reset intervals are not confined to established terms. Inadequate password control settings increase the risk of unauthorized users gaining access to sensitive information in the loan system.

We recommend the Energy Office work with the OCIO to eliminate grace logins.

Energy Office Response: The Energy Office will work with OCIO to determine available options, and costs, to address these issues.

7. Agency-Owned Vehicles

During testing of vehicles owned by the Energy Office, we noted the following issues:

- The Energy Office owned four trucks, which were used for subrecipient monitoring and other travel as needed. Two of the four trucks were under-utilized. On average, the vehicles were driven fewer than 400 miles per month during the fiscal year ended June 30, 2018. Furthermore, one of the vehicles was not used four months during the year, and the second was not used one full month during the year.

According to the Department of Administrative Services (DAS) – Transportation Services Bureau (TSB), Policies & Procedures, Section 6, agencies with permanently assigned TSB vehicles “are expected to use the vehicles more than 1,000 miles per month when averaged over the life of the lease.” If the vehicles are under-utilized, the Energy Office should assess whether they are needed.

- The Energy Office is required to obtain approval from TSB for the purchase of vehicles. However, it was unable to provide documentation of the approval. Neb. Rev. Stat. § 81-1015 (Reissue 2014) provides the following:

Subject to section 81-1013, the bureau shall own and hold title, in the name of the State of Nebraska, to all state-owned vehicles. All purchases of state-owned vehicles and automotive equipment shall be made or approved by the bureau. The Director of Administrative Services shall not approve any voucher for the purchase of any passenger car unless submitted by the bureau.

NEBRASKA STATE ENERGY OFFICE

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Agency-Owned Vehicles (Continued)

- According to the Energy Office's capital asset listing, it owned a fifth vehicle, purchased with Federal Weatherization funding. However, the Energy Office said it no longer had the vehicle because its ownership had been transferred to a subrecipient. The APA attempted to obtain further information regarding the transfer and documentation of approval from the Federal agency; however, the Energy Office could not provide additional information. Furthermore, the Energy Office did not notify the DAS – Materiel Division that it no longer needed the vehicle, so the vehicle could first be offered to other State agencies, as required by State law. The vehicle had not been removed from its capital asset listing, circumventing the proper disposal procedures established by the State. Neb. Rev. Stat. § 81-161.04(1) (Reissue 2014) provides, in relevant part, the following:

Whenever any using agency has any personal property for which it no longer has any need or use, it shall notify the materiel division in writing setting forth a description of the property and the approximate length of time that the property has been in the possession of the using agency. The materiel division shall appraise the property and notify all other using agencies of the state that the materiel division has the property for sale and that the property can be bought at the appraised price. No property will be sold until first offered to using agencies as provided by this section unless the property is unusable. If the materiel division fails to receive an offer from any using agency, it may sell or dispose of the property by any method which is most advantageous to the State of Nebraska, including auction, sealed bid, private or public sale, or trade-in for other property, with priorities given to the other political subdivisions. All sales shall be made in the name of the State of Nebraska.

- During testing of vehicle logs, the Energy Office did not document its review of the logs to ensure mileage was accurate or verify the odometer readings periodically to the vehicle to ensure the vehicles were being used for business purposes.
- For one of four vehicle logs tested, the log was not completed in detail to reflect the purpose of the travel and locations traveled to and from, in order to determine whether mileage claimed was reasonable and necessary.
- For one of eight trips tested, we were unable to recalculate the mileage based upon the locations documented on the vehicle log. The log documented one-way travel from Lincoln to Kearney, Nebraska, for 325 miles. However, according to Google Maps, mileage from Lincoln to Kearney is only 131 miles, for a variance of 194 miles. According to the Energy Office, the travel was from Lincoln to Kearney to Hastings, with a return trip to Lincoln the same day. According to Google Maps, mileage for this trip would be 283 miles, a variance of 42 miles. Furthermore, according to the log, the return trip from Kearney to Lincoln was the following day, recorded at 69 miles. Supporting documentation was not adequate to determine the locations of travel or if the vehicle was being utilized for business purposes.

Neb. Rev. Stat. § 81-1025 (Reissue 2014) requires the following:

(1) Each operator of a bureau fleet vehicle shall report the points between which the bureau fleet vehicle traveled each time used, the odometer readings at such points, the time of arrival and departure, the necessity and purpose for such travel, the license number of such vehicle, and the department to which such vehicle is assigned.

NEBRASKA STATE ENERGY OFFICE
COMMENTS AND RECOMMENDATIONS
(Continued)

7. Agency-Owned Vehicles (Concluded)

(2)(a) Each operator of a special-use vehicle as prescribed in section 81-1011 or a motor vehicle in which a state agency other than the bureau holds the title shall follow the policy and use the travel form which shall be established by the director or designated head of the state agency owning such vehicle. The form shall include, but not be limited to, the name of the operator, the license number of the vehicle, the total daily mileage or total hours of daily operation, and any other information the director or designated head deemed relevant.

Good internal controls require adequate policies to ensure agency-owned vehicles are necessary and utilized to their full capacity, documentation is on file to substantiate the approval of agency-owned vehicles, disposed vehicles are properly surplus through DAS and removed from the capital asset listing in the accounting system, and logs are adequately reviewed and contain all required information to document travel is business related.

Without such policies, there is an increased risk for the abuse of State assets.

We recommend the Energy Office implement policies for the following: 1) reviewing vehicle utilization to determine if vehicles are necessary; 2) obtaining TSB approval for future vehicle purchases in accordance with State law; 3) obtaining Federal approval for the transfer of the vehicle and removal of the asset from the State accounting system; and 4) ensuring logs are reviewed and contain adequate documentation, as required by State law.

Energy Office Response: The Energy Office will review its processes to make sure that state and federal requirements are being met.

8. Inaccurate Federal Reporting

U.S. Department of Agriculture (USDA) Commodity Credit Corporation (CCC)

During testing of two USDA CCC, Federal Financial Reports (FFR), we noted one of two reports did not correctly report expenditures incurred. Additionally, one of two reports did not include adequate documentation for costs reported as matching expenditures.

The Federal share of expenditures on the FFR for the quarter ending December 31, 2017, was not correct. The Federal share of expenditures was reported as \$1,409,106; however, actual expenditures was \$1,540,356, an understatement of \$131,250. The Energy Office used the prior quarter expenditures.

Furthermore, the Energy Office reported \$1,348,426 of matching expenditures, including \$598,941 of third-party match. However, the Energy Office did not perform procedures or obtain support to ensure the third-party match reported was for allowable expenditures.

According to the USDA CCC grant agreement, Section VI. B:

(3) The Grantee will use financial management systems which include: (a) Accurate, current, and complete disclosure of the financial results of each grant... (d) Accounting records supported by source documentation.

NEBRASKA STATE ENERGY OFFICE
COMMENTS AND RECOMMENDATIONS
(Concluded)

8. Inaccurate Federal Reporting (Concluded)

(4) The grantee must retain financial records, supporting documents, statistical records, and all other records pertinent to the grant through February 1, 2025, except that the records must be retained beyond this date if audit findings have not been resolved.

Good internal controls require adequate policies and procedures to ensure required Federal financial reports are reported accurately and supported with adequate documentation in accordance with the grant agreement. Without adequate policies and procedures, there is an increased risk of inaccurate reporting.

We recommend the Energy Office establish policies and procedures to ensure that all Federal Financial Reports are completed correctly and supporting documentation is on file for reported expenditures, including match.

Low-Income Home Energy Assistance (LIHEAP)

The income levels of households assisted was not accurately reported for the Federal Fiscal Year (FFY) 2017. For FFY 2017, the “LIHEAP Household Report-Long Form,” under “Section II. Number of Assisted Households by Poverty Interval,” reported that 164 households received Weatherization assistance.

We tested 10 households in this category. For one household tested, the income level was listed as “under 75% Poverty;” however, the income level should have listed the household in the “76-100% Poverty” category. For another household tested, the income level was listed as “126-150% Poverty;” however, the income level should have listed the household in the “101-125% Poverty” category.

Per 45 CFR § 96.82(a) (October 1, 2017):

Each grantee which is a State or an insular area which receives an annual allotment of at least \$200,000 shall submit to the Department, as part of its LIHEAP grant application, the data required by section 2605(c)(1)(G) of Public Law 97-35 (42 U.S.C. 8624(c)(1)(G)) for the 12-month period corresponding to the Federal fiscal year (October 1-September 30) preceding the fiscal year for which funds are requested. The data shall be reported separately for LIHEAP heating, cooling, crisis, and weatherization assistance.

Per 42 USC 8624(c)(1)(G), the number and income levels of households are required to be reported.

Good internal control requires procedures to ensure reported data is accurate.

When reporting is not adequately reviewed, there is an increased risk of noncompliance with Federal requirements.

We recommend the Energy Office implement procedures to ensure reports are accurate.

Energy Office Response: The Energy Office will review this finding with staff and review possible options.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

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

NEBRASKA STATE ENERGY OFFICE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Energy Office
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska State Energy Office (Energy Office) for the fiscal year ended June 30, 2018. The Energy Office's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2018, is based on the accounting system and procedures prescribed by the State of Nebraska's Director of the Department of Administrative Services, as set forth in Note 1, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Schedule of Revenues, Expenditures, and Changes in Fund Balances; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and

abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. We are also required to obtain and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

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

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

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska

October 17, 2018

NEBRASKA STATE ENERGY OFFICE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2017, through June 30, 2018

	Energy Office Cash Fund 28130	Clean-Burning Motor Fuel Dev 28150	Federal General Fund 40000	Energy Office Federal Fund 48110	Energy Settlement Fund 68110	Totals (Memorandum Only)
REVENUES:						
Taxes	\$ 300,000	\$ -	\$ -	\$ -	\$ -	\$ 300,000
Intergovernmental	347,235	-	2,009,408	2,813,597	-	5,170,240
Sales & Charges	-	-	-	6,255	-	6,255
Miscellaneous	26,890	1,790	-	43,297	236,175	308,152
TOTAL REVENUES	<u>674,125</u>	<u>1,790</u>	<u>2,009,408</u>	<u>2,863,149</u>	<u>236,175</u>	<u>5,784,647</u>
EXPENDITURES:						
Personal Services	291,105	5,609	143,701	871,044	-	1,311,459
Operating	42,804	-	23,083	206,733	233,732	506,352
Travel	85	-	236	24,317	360	24,998
Capital Outlay	2,218	-	-	3,328	-	5,546
Government Aid	502,457	49,529	1,842,388	2,569,111	-	4,963,485
TOTAL EXPENDITURES	<u>838,669</u>	<u>55,138</u>	<u>2,009,408</u>	<u>3,674,533</u>	<u>234,092</u>	<u>6,811,840</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(164,544)</u>	<u>(53,348)</u>	<u>-</u>	<u>(811,384)</u>	<u>2,083</u>	<u>(1,027,193)</u>
OTHER FINANCING (USES):						
Operating Transfers Out	-	(200,000)	-	-	-	(200,000)
TOTAL OTHER FINANCING (USES)	<u>-</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Net Change in Fund Balances	(164,544)	(253,348)	-	(811,384)	2,083	(1,227,193)
FUND BALANCES, July 1, 2017	968,352	297,378	-	14,132,312	34,881,895	50,279,937
FUND BALANCES, June 30, 2018	<u>\$ 803,808</u>	<u>\$ 44,030</u>	<u>\$ -</u>	<u>\$ 13,320,928</u>	<u>\$ 34,883,978</u>	<u>\$ 49,052,744</u>
FUND BALANCES CONSIST OF:						
General Cash	\$ 1,268,821	\$ 44,030	\$ -	\$ 1,088,770	\$ 13,031,844	\$ 15,433,465
Deposits with Vendors	3,374	-	-	478	-	3,852
Loans Receivable (Note 7)	531,613	-	-	12,231,680	21,904,134	34,667,427
Due to Vendors	-	-	-	-	(52,000)	(52,000)
Due to Government (Note 6)	(1,000,000)	-	-	-	-	(1,000,000)
TOTAL FUND BALANCES	<u>\$ 803,808</u>	<u>\$ 44,030</u>	<u>\$ -</u>	<u>\$ 13,320,928</u>	<u>\$ 34,883,978</u>	<u>\$ 49,052,744</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA STATE ENERGY OFFICE

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2018

1. Criteria

The accounting policies of the Nebraska State Energy Office (Energy Office) are on the basis of accounting, as prescribed by the State of Nebraska's Director of the Department of Administrative Services (DAS).

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

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

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2014), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public.

The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows. State Accounting does not require the Energy Office to record all accounts receivable and related revenues in EnterpriseOne; as such, the Energy Office's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of June 30, 2018, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of June 30, 2018, **does not** include amounts for goods and services received before June 30, 2018, which had not been posted to the general ledger as of June 30, 2018.

Other liabilities are recorded in accounts entitled Due to Vendors and Due to Government for the Energy Office. 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 Energy Office had no accounts receivable not included in the Schedule at June 30, 2018. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

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

NEBRASKA STATE ENERGY OFFICE

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

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

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

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

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

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Energy Office consist of severance tax receipts.

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

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

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

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

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

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

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

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

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

NEBRASKA STATE ENERGY OFFICE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

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

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Energy Office’s funds at June 30, 2018, included amounts recorded in Due to Vendors and Due to Government. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

Other Financing Sources – Operating transfers out.

2. Reporting Entity

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

The Energy Office is part of the primary government for the State of Nebraska.

3. Totals

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

4. General Cash

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

5. Capital Assets

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

NEBRASKA STATE ENERGY OFFICE

NOTES TO THE SCHEDULE

(Continued)

5. Capital Assets (Concluded)

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Energy Office 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, and all computers.

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

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of 3 to 10 years. Capital asset activity of the Energy Office recorded in the State Accounting System for the fiscal year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 358,410	\$ 5,546	\$ -	\$ 363,956
Total	<u>358,410</u>	<u>5,546</u>	<u>-</u>	<u>363,956</u>
Less accumulated depreciation for:				
Equipment				<u>289,600</u>
Total capital assets, net of depreciation				<u>\$ 74,356</u>

6. Due to Government

The Nebraska Public Power District (NPPD) committed \$1 million to fund 2.5% loans to NPPD customers through the Energy Office's loan program. The loans were to fund heat pumps, programmable thermostats, and back-up natural gas furnaces. Upon NPPD's decision to discontinue financial participation in the program the funds are to be returned to NPPD.

7. Loans Receivable

The Energy Office administered the Dollar and Energy Savings Loan Program to provide low interest loans to Nebraskans to finance energy efficient, renewable energy, and waste minimization improvements in residential, commercial, institutional, industrial, agricultural, and governmental sectors.

NEBRASKA STATE ENERGY OFFICE

NOTES TO THE SCHEDULE

(Concluded)

7. Loans Receivable (Concluded)

The loan activity during the fiscal year ended June 30, 2018, was as follows:

Fund	Balance July 1, 2017	Repayments	Disbursements	Balance June 30, 2018
28130	\$ 610,769	\$ 147,136	\$ 67,979	\$ 531,612
48110	11,822,229	2,070,854	2,480,305	12,231,680
68110	24,543,755	4,604,251	1,964,631	21,904,135
	\$ 36,976,753	\$ 6,822,241	\$ 4,512,915	\$ 34,667,427

NEBRASKA STATE ENERGY OFFICE

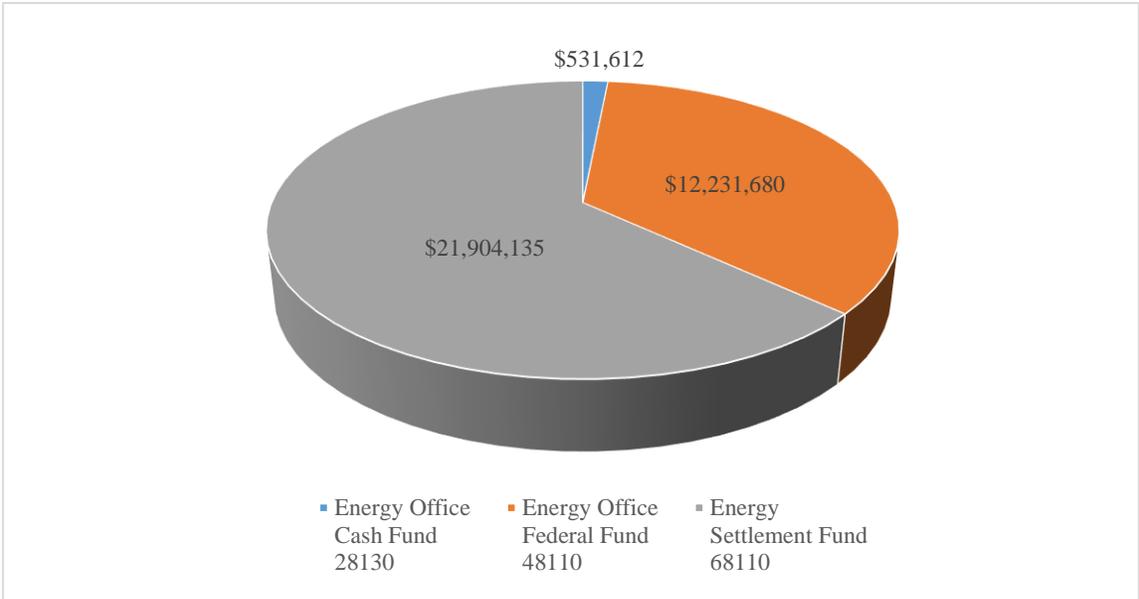
SUPPLEMENTARY INFORMATION

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

NEBRASKA STATE ENERGY OFFICE

Loans Receivable - Balance By Fund

For the Fiscal Year Ended June 30, 2018



Loans Receivable - Balance By Year

For the Fiscal Years 2014 Through 2018

