AUDIT REPORT
OF THE
NEBRASKA STATE ELECTRICAL DIVISION

JULY 1, 2000 THROUGH JUNE 30, 2001

NEBRASKA STATE ELECTRICAL DIVISION

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BACKGROUND

The State Electrical Division (Division) includes the State Electrical Board, which has seven members who are appointed by the Governor and serve five-year terms. Members shall include a journeyman electrician, an electrical contractor or master electrician, a certified electrical inspector, a licensed professional electrical engineer, a state rural electric systems representative, a state municipal electric systems representative, and one member of any of these groups. The Board holds regularly scheduled meetings to set policies, promulgate regulations, hear and rule on appeals, and give directions to the Executive Director.

The Division's major duties include:

- Licensing electricians
- Enforcing minimum wiring standards, as outlined in the current edition of the National Electrical Code
- Inspecting electrical installations
- Investigating electrical fires, accidents, and electrocutions

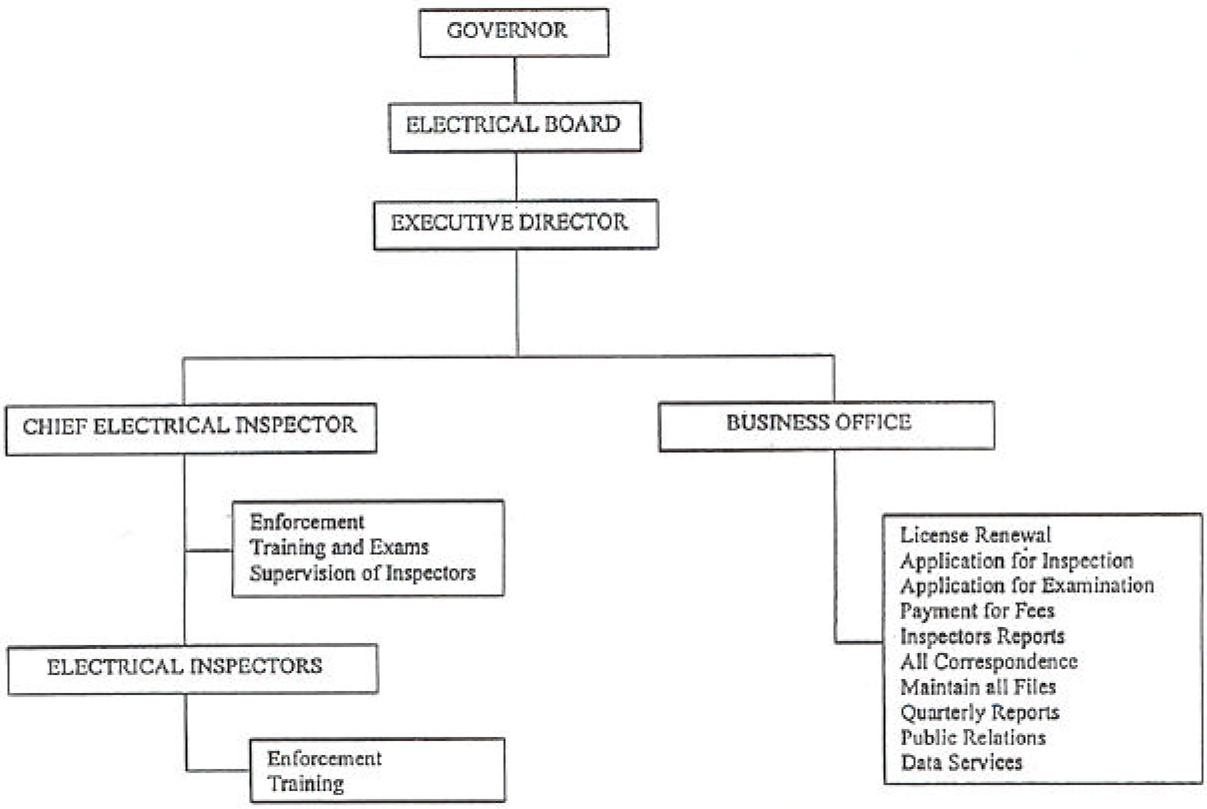
Program 197 – Protection of People and Property is funded with cash funds received from occupational license fees and inspection fees. The Division employed an Executive Director, 13 inspectors, and two secretaries at June 30, 2001.

MISSION STATEMENT

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

NEBRASKA STATE ELECTRICAL DIVISION

ORGANIZATIONAL CHART



SUMMARY OF COMMENTS

During our audit of the Nebraska State Electrical Division, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Costs of Activities:*** The Division did not have a system to accumulate the costs of its major activities and to compare the costs with the fees collected for those activities. This has been a comment since 1996.

2. ***Permanently Assigned Vehicle:*** The Executive Director used a permanently assigned State vehicle to commute to and from home. The Board had not determined whether it was cost effective for the Executive Director to drive a permanently assigned vehicle. The Board also had not formally approved the use of a permanently assigned vehicle for the Director.

3. ***Internal Control over Fixed Assets:*** Procedures regarding internal control over fixed assets should be improved. An annual physical inventory was not performed and there was no written capitalization policy for fixed assets. Purchase costs for items acquired prior to fiscal year 2000 were not included on the fixed asset listing.

4. ***Deposits of Receipts:*** Three of 20 receipts tested were not deposited within three business days of receipt as required by Neb. Rev. Stat. Section 84-710 R.R.S. 1999.

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

Draft copies of this report were furnished to the Division to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Division declined to respond.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

COMMENTS AND RECOMMENDATIONS

1. Costs of Activities

Good fiscal policy requires the Division to evaluate the appropriateness of fees charged in relation to the costs incurred by the Division related to the fees.

The Division did not have a system to accumulate the costs of their major activities, including an allocation of administrative costs. Fees were collected related to these activities, and the amount collected was not compared to the costs of the services. This has been a comment since 1996.

Without a system to accumulate the costs of these activities the Board did not have the information necessary to make decisions regarding appropriate amounts for the various fees.

> We recommend the Division establish a system to accumulate the costs of the major activities. We also recommend the Board compare the costs of activities to the fees collected to determine whether the fees are being charged at an appropriate level.

2. Permanently Assigned Vehicle

Executive Order 99-02, Paragraph 2, states "the use of all state-owned vehicles will be strictly limited to conducting official business of the state. Any private use of a state-owned vehicle, including commuting to and from work, shall be cause for disciplinary action in accordance with Neb. Rev. Stat. Section 81-1024."

Sound business policy requires procedures to ensure State vehicle usage is cost-efficient. The Department of Administrative Services – Transportation Services Bureau (DAS – TSB) policy Section IV(1) states that "vehicles shall be considered for permanent assignment when they are required for a period of thirty days or longer, will travel a minimum of 1,000 miles, and be utilized seventeen (17) working days per month."

The Executive Director used a permanently assigned State vehicle to commute to and from work.

The Board had not determined whether it was cost-efficient for the Executive Director to drive a permanently assigned vehicle from DAS – TSB. Additionally, the Executive Director's use of the permanently assigned vehicle was not formally approved by the Board.

DAS-TSB charged the agency $165 per month and $.14 per mile for permanently assigned vehicles. For fiscal year 2001, the Division paid $2,816 for the use of the vehicle. If the Division had reimbursed the Director for his personal vehicle use based on the same mileage, it

COMMENTS AND RECOMMENDATIONS

2. Permanently Assigned Vehicle (Concluded)

would have saved approximately $868. However, the savings would have been even larger if commuting miles were not considered. We noted only one month during fiscal year 2001 in which the Director drove the permanently assigned vehicle over 1,000 miles during the month.

> We recommend the Division comply with Executive Order 99-02 regarding commuting with a State-owned vehicle. We also recommend the Board periodically review the cost-effectiveness of the Director driving a permanently assigned car. If the Board determines a permanently assigned vehicle for the Director is cost-effective, we recommend this approval be documented in the Board minutes.

3. Internal Control Over Fixed Assets

Good internal control requires an adequate segregation of duties over fixed assets in order to safeguard assets.

Neb. Rev. Stat. Section 81-1118.02(1), R.R.S. 1999 requires that each department “annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control” of the department.

Good accounting practice requires significant policies to be in writing.

We noted internal control over fixed assets should be improved. Two individuals had access to the inventory list. One employee added items to the list, and the Executive Director reviewed the list to ensure all items coded to a capital outlay account were added properly. Per the Nebraska Accounting System (NAS), $22,680 was coded as capital outlay during fiscal year 2001. Fixed asset additions of $17,168 were reported on the inventory list for the fiscal year. Therefore, $5,512 of fixed assets purchased had not been added to the inventory list.

A physical inventory of the Division’s fixed assets was not performed on an annual basis. In addition, the Division did not have a written policy regarding the capitalization of fixed assets. Purchase costs were not recorded for items acquired prior to fiscal year 2000, and therefore, could not be presented in the financial statements.

COMMENTS AND RECOMMENDATIONS

3. Internal Control Over Fixed Assets (Concluded)

Lack of internal controls, the failure to perform an annual physical inventory, and the absence of a written capitalization policy all increase the risk of loss or misuse of fixed assets. Historical purchase costs of fixed assets are necessary for presentation in the financial statements.

> We recommend the Division consider additional procedures to improve the internal control over fixed assets. We also recommend the Division perform an annual physical inventory in accordance with Statute. Also, a written capitalization policy should be developed to ensure consistency in adding items to the fixed asset inventory. The Division should determine the purchase costs of all fixed assets in order for the fixed asset amount to be presented in the financial statements.

4. Deposits of Receipts

Neb. Rev. Stat. Section 84-710 R.R.S. 1999 requires deposits to be made to the State Treasurer within three business days of receipt when the aggregate amount is $500 or more, and within seven days when the aggregate amount is less than $500.

Three of 20 receipts tested, each part of an aggregate greater than $500, were not deposited with the State Treasurer within three business days of receipt. Two deposits were made five business days after receipt, and one deposit was made four business days after receipt.

The Division was not in compliance with State Statute when receipts were not deposited timely. Additionally, late deposits caused a loss of interest earned.

> We recommend the Division comply with the statutory requirements for depositing receipts within the established time limits.

STATE OF NEBRASKA
AUDITOR OF PUBLIC ACCOUNTS

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

Kate Witek
State Auditor
kwitek@mail.state.ne.us

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@
vmhost.cdp.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@
vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

NEBRASKA STATE ELECTRICAL DIVISION

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska State Electrical Division as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska State Electrical Division, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska State Electrical Division as of June 30, 2001, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2001, on our consideration of the Nebraska State Electrical Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, except for that portion marked "unaudited," on which we express no opinion, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Timothy J. Channer CPA

August 23, 2001 Manager

NEBRASKA STATE ELECTRICAL DIVISION

STATEMENT OF ASSETS AND FUND BALANCE
ARISING FROM CASH TRANSACTIONS
SPECIAL REVENUE FUND TYPE

June 30, 2001

		Governmental Fund Type
		Special Revenue
Assets		
Cash in State Treasury	$	844,993
Deposit with Vendors		1,549
Total Assets	$	846,542
Fund Balance		
Fund Balance:		
Reserved For Postage	$	1,549
Unreserved, Undesignated		844,993
Total Fund Balance	$	846,542

See Notes to Financial Statements.

NEBRASKA STATE ELECTRICAL DIVISION

STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2001

	Governmental Fund Type Special Revenue
RECEIPTS:	
Sales and Charges:	
Inspection Fees	$ 515,060
Renewal Fees	336,484
Other Sales and Charges	88,697
Miscellaneous	55,098
TOTAL RECEIPTS	995,339
DISBURSEMENTS:	
Personal Services	719,573
Operating	108,507
Travel	112,012
Capital Outlay	23,014
TOTAL DISBURSEMENTS	963,106
Excess of Receipts Over Disbursements	32,233
FUND BALANCE, JULY 1, 2000	814,309
FUND BALANCE, JUNE 30, 2001	$ 846,542

See Notes to Financial Statements.

NEBRASKA STATE ELECTRICAL DIVISION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

Cash Fund

For the Fiscal Year Ended June 30, 2001

	CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Sales and Charges:			
Inspection Fees		$ 515,060	
Renewal Fees		336,484	
Other Sales and Charges		88,697	
Miscellaneous		55,098	
TOTAL RECEIPTS		995,339	
DISBURSEMENTS:			
Personal Services	$ 743,811	719,573	$ 24,238
Operating	144,003	108,507	35,496
Travel	105,163	112,012	(6,849)
Capital Outlay	39,637	23,014	16,623
TOTAL DISBURSEMENTS	1,032,614	963,106	69,508
Excess of Receipts Over Disbursements		32,233	
FUND BALANCE, JULY 1, 2000		814,309	
FUND BALANCE, JUNE 30, 2001		$ 846,542	

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska State Electrical Division are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity. The Nebraska State Electrical Division (Division) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Division is exempt from State and Federal income taxes. The financial statements include all funds of the Division. The Division has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Division, or the significance of their relationship with the Division are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Division to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Division.

These financial statements present the Nebraska State Electrical Division. No component units were identified. The Nebraska State Electrical Division is part of the primary government for the State of Nebraska's reporting entity.

B. Basis of Accounting. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Division are maintained and the Division's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Assets and Fund Balances for all funds of the Division. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the cash receipts and disbursement basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. <u>Summary of Significant Accounting Policies</u> (Continued)

GAAP), which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

C. **Fund Accounting.** The accounts and records of the Division are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund type presented on the financial statements is that required by GAAP and includes:

Special Revenue Funds. Reflects transactions related to resources received and used for restricted or specific purposes.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund type established by the Nebraska Accounting System that is used by the Division is:

2000 - Cash Funds - accounts for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

D. **Budgetary Process.** The State’s biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Division and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the cash fund type are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

The Division utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Division's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Division's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2001, there were no budgetary funds in which disbursements exceeded appropriations.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report . They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash fund on the Budgetary Statement is appropriately classified as a special revenue fund for Financial Statement purposes.

E. **Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. Under GAAP the cost of general fixed assets would be recorded in the General Fixed Asset Account Group.

F. **Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. The Division's fund was designated for investment during fiscal year 2001.

G. **Compensated Absences.** All permanent employees working for the Division earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

H. **Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Division are:

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. <u>Summary of Significant Accounting Policies</u> (Concluded)

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees. This consists primarily of inspection fees and license renewal fees.

Miscellaneous. Receipts from sources not covered by other major categories. This consists primarily of investment interest.

I. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Division are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

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

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

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

J. Fund Balance Reservations. Reservations of fund balance are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balance are also established for assets which are not current in nature, such as reserved for postage.

2. <u>Contingencies and Commitments</u>

Risk Management. The Division is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Division, as part of the primary government for the State,

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. <u>Contingencies and Commitments</u> (Concluded)

participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance, programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

A. Motor vehicle liability, which is insured for the first $5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State Agencies have the option to purchase coverage for physical damage to vehicles.

B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $1 million for each loss, and a $10,000 retention per incident.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly-acquired properties are covered up to $1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to $10,000,000.

E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska State Electrical Division's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Division, if any, could not be determined at this time. However, it is the Division's opinion that final settlement of those matters should not have an adverse effect on the Division's ability to administer current programs. Any judgment against the Division would have to be processed through the State Claims Board and be approved by the Legislature.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. State Employees Retirement Plan (Plan)

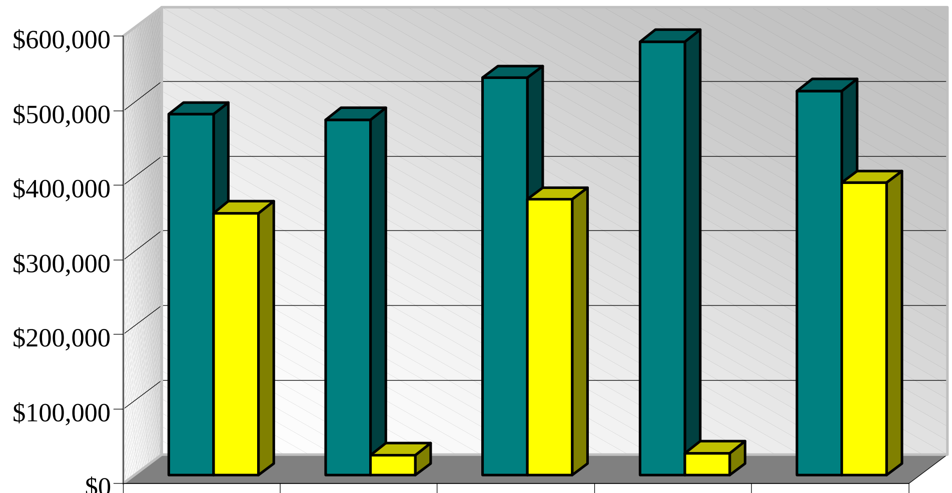
The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full-time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Division matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

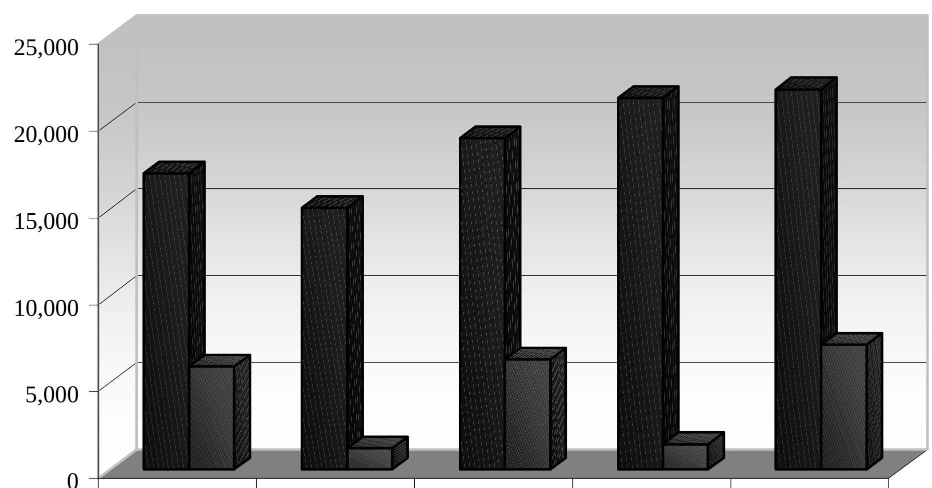
For the fiscal year ended June 30, 2001, employees contributed $24,750 and the Division contributed $38,610.

Schedule of Fees Collected



	1997 (Unaudited)	1998 (Unaudited)	1999 (Audited)	2000 (Unaudited)	2001 (Audited)
Inspection Fees Collected	$483,540	$476,251	$532,922	$581,013	$515,060
License Fees Collected	$350,983	$26,868	$369,632	$29,508	$392,181

Schedule of Inspections and Licenses



	1997 (Unaudited)	1998 (Unaudited)	1999 (Audited)	2000 (Unaudited)	2001 (Audited)
Number of Inspections	17,063	15,070	19,080	21,419	21,911
Number of Licenses	5,946	1,225	6,350	1,468	7,183

Note: Licenses are issued for a 2-year period and exprie on December 31 of even years. Licenses issued in even years still expire at the end of that even year. The majority of licenses issued and amount of license fees collected from year to year.

STATE OF NEBRASKA
AUDITOR OF PUBLIC ACCOUNTS

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

Kate Witek
State Auditor
kwitek@mail.state.ne.us

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@
vmhost.cdp.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@
vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

NEBRASKA STATE ELECTRICAL DIVISION

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Nebraska State Electrical Division as of and for the year ended June 30, 2001, and have issued our report thereon dated August 23, 2001. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska State Electrical Division. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska State Electrical Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska State Electrical Division in the Comments Section of this report as Comment Number 2 (Permanently Assigned Vehicle), Comment Number 3 (Internal Control over Fixed Assets), and Comment Number 4 (Deposits of Receipts).

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Nebraska State Electrical Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska State Electrical Division in the Comments Section of this report as Comment Number 3 (Internal Control Over Fixed Assets).

This report is intended solely for the information and use of the Division, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Timothy J. Channer CPA

August 23, 2001 Manager