AUDIT REPORT
OF THE
NEBRASKA PUBLIC SERVICE COMMISSION

JULY 1, 2000 THROUGH JUNE 30, 2001

NEBRASKA PUBLIC SERVICE COMMISSION

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BACKGROUND

The Public Service Commission was created in 1906 by a constitutional amendment as the State Railway Commission. The name of the Commission was changed to the Public Service Commission by a 1972 constitutional amendment. The Commission consists of five members elected in general elections for a term of six years. The following are the current Commissioners:

Frank Landis	First District
Anne Boyle, Chairperson	Second District
Lowell C. Johnson	Third District
Rod Johnson	Fourth District
Gerald L. Vap, Vice Chairperson	Fifth District

The constitutional and specific statutory authority empowers the Commission to regulate rates and services and have general control over all common carriers in Nebraska. A common carrier is any carrier, including a contract carrier, engaged in the transportation of household goods and passengers for hire, or furnishing communication services for hire in Nebraska intrastate commerce. The Commission also: regulates manufactured homes, modular housing units, recreational vehicles, grain warehouses, and rates of private water companies; tests grain moisture test devices; performs motive power and equipment and railroad track safety inspections; and administers the Nebraska Universal Service Fund and the Nebraska Relay Service. The Commission was composed of its general administration, transportation, communications, grain warehouse, housing and recreational vehicle, and universal service fund departments.

The transportation department regulates railroads (safety laws, track and motive power and equipment inspection, and the compiling and filing of reports required by law) and household goods and passenger carriers (rates, service, territory, safety, and insurance).

The communications department regulates telephone companies, including basic local service rates and access charges, boundary limitations, subscriber complaints against telephone companies, licensing of long distance companies, oversight and operation of the Nebraska Relay Service, administration of the Link-Up and Lifeline programs and the Universal Service Fund, and numerous other activities. The communications department also regulates engineering (safety while building and maintaining lines, and private water companies).

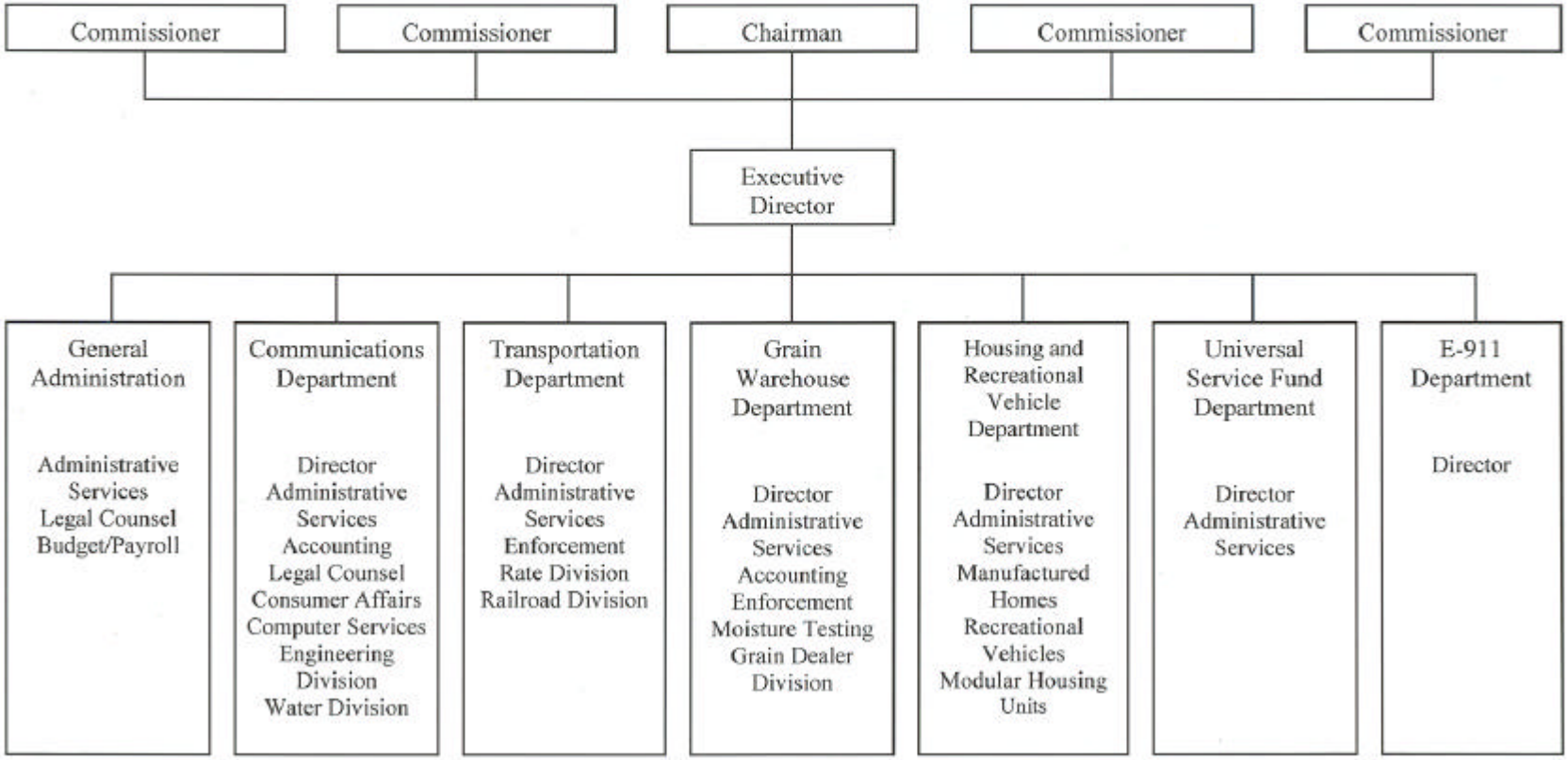
The grain warehouse department regulates grain production (warehouses, dealers, grain probes, and moisture testing).

The housing and recreational vehicle department regulates the construction of manufactured (mobile) homes, modular housing units, and recreational vehicles through plan review, factory production line inspection, dealer lot inspection, and consumer complaint investigation.

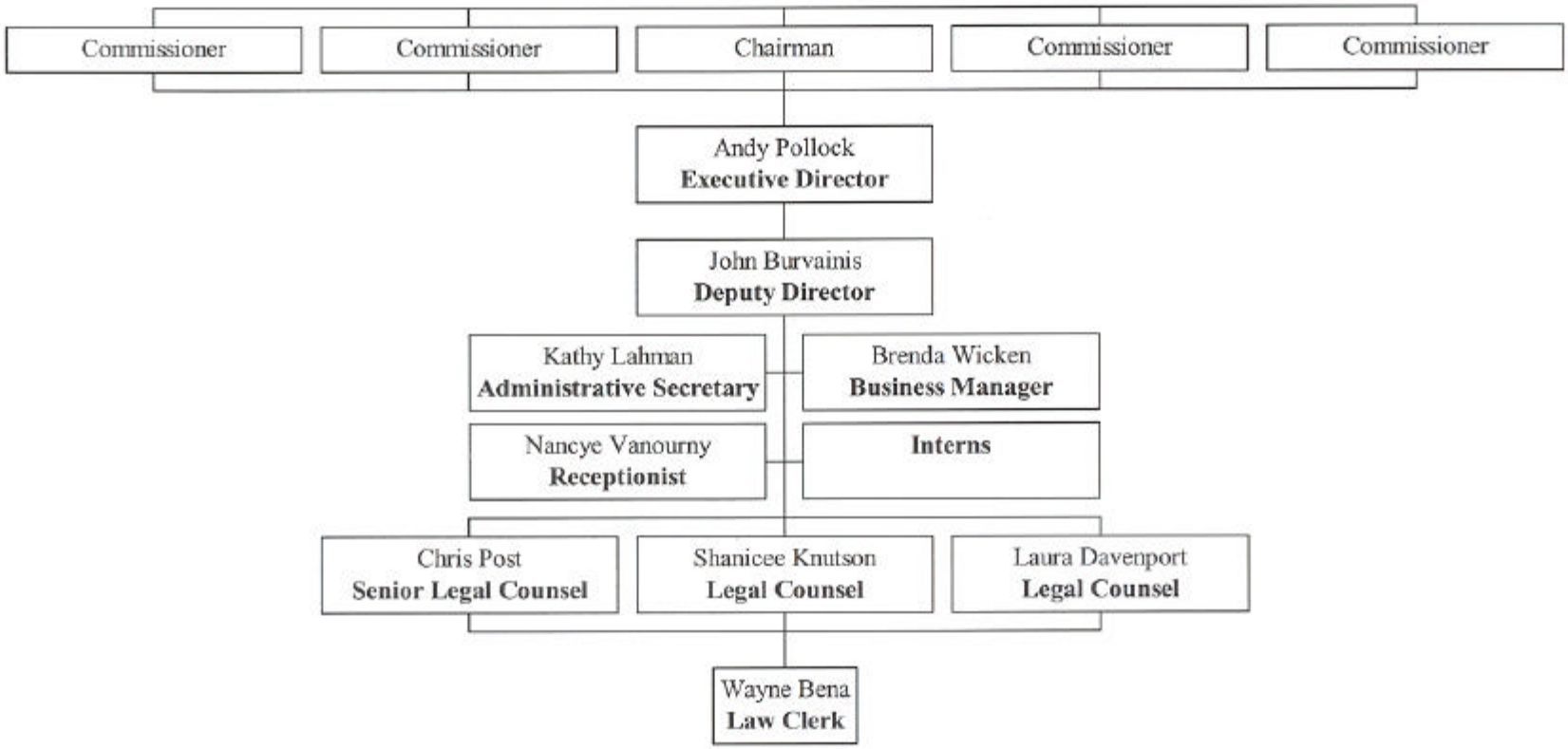
MISSION STATEMENT

The goals of the Public Service Commission are to execute its constitutional and statutory duties in a consistent, professional, and forthright manner at the least cost and for the greatest benefit to the State of Nebraska.

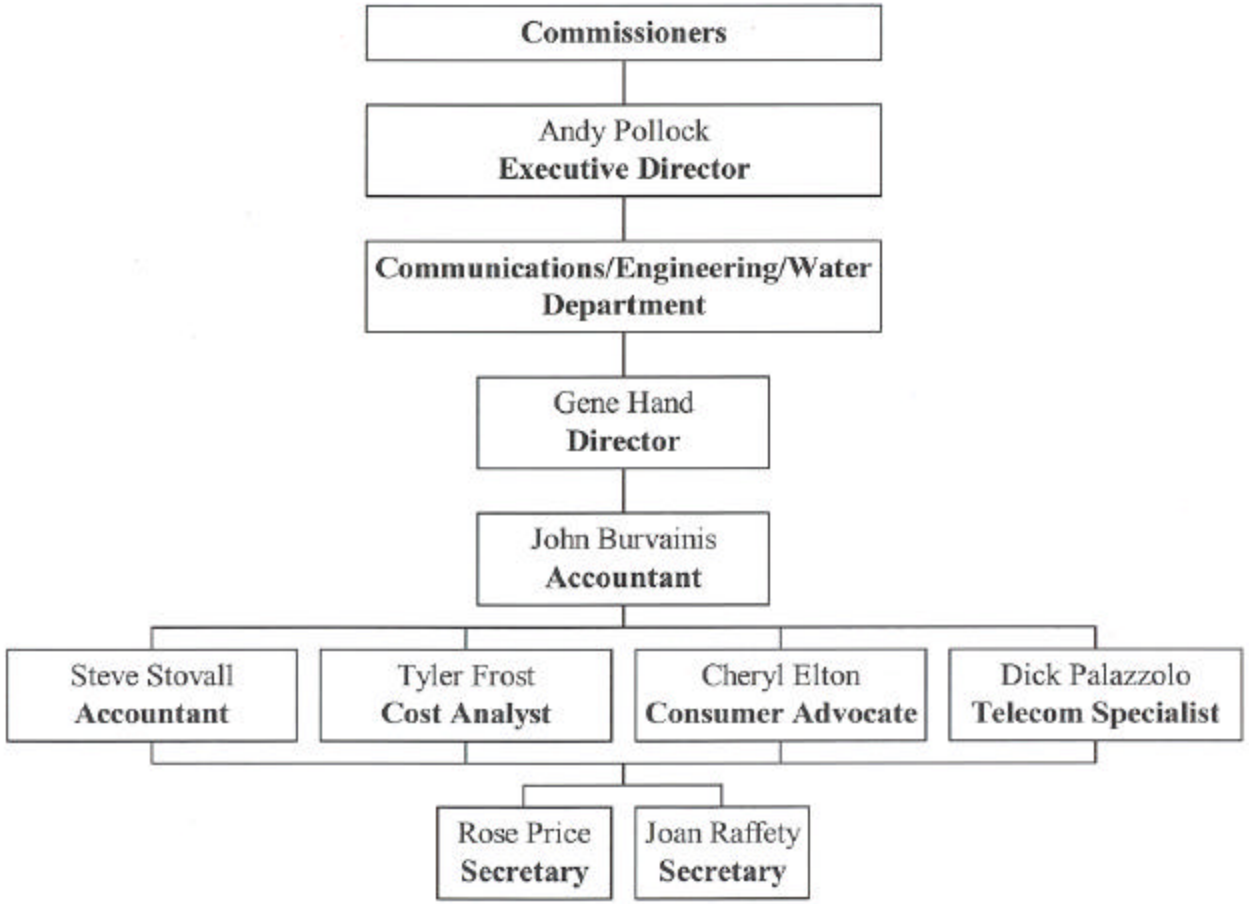
Nebraska Public Service Commission
Organization Chart



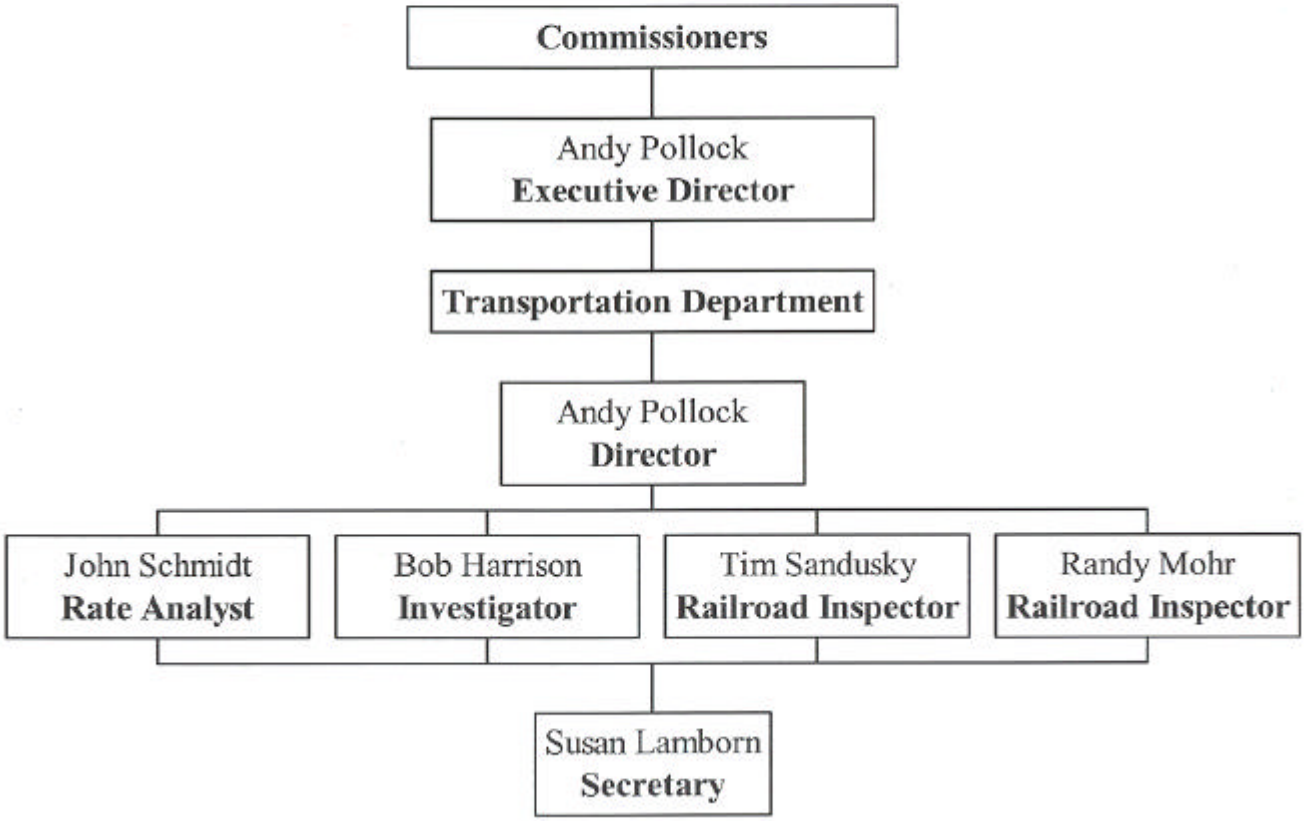
Nebraska Public Service Commission
General Administration Department
Organization Chart



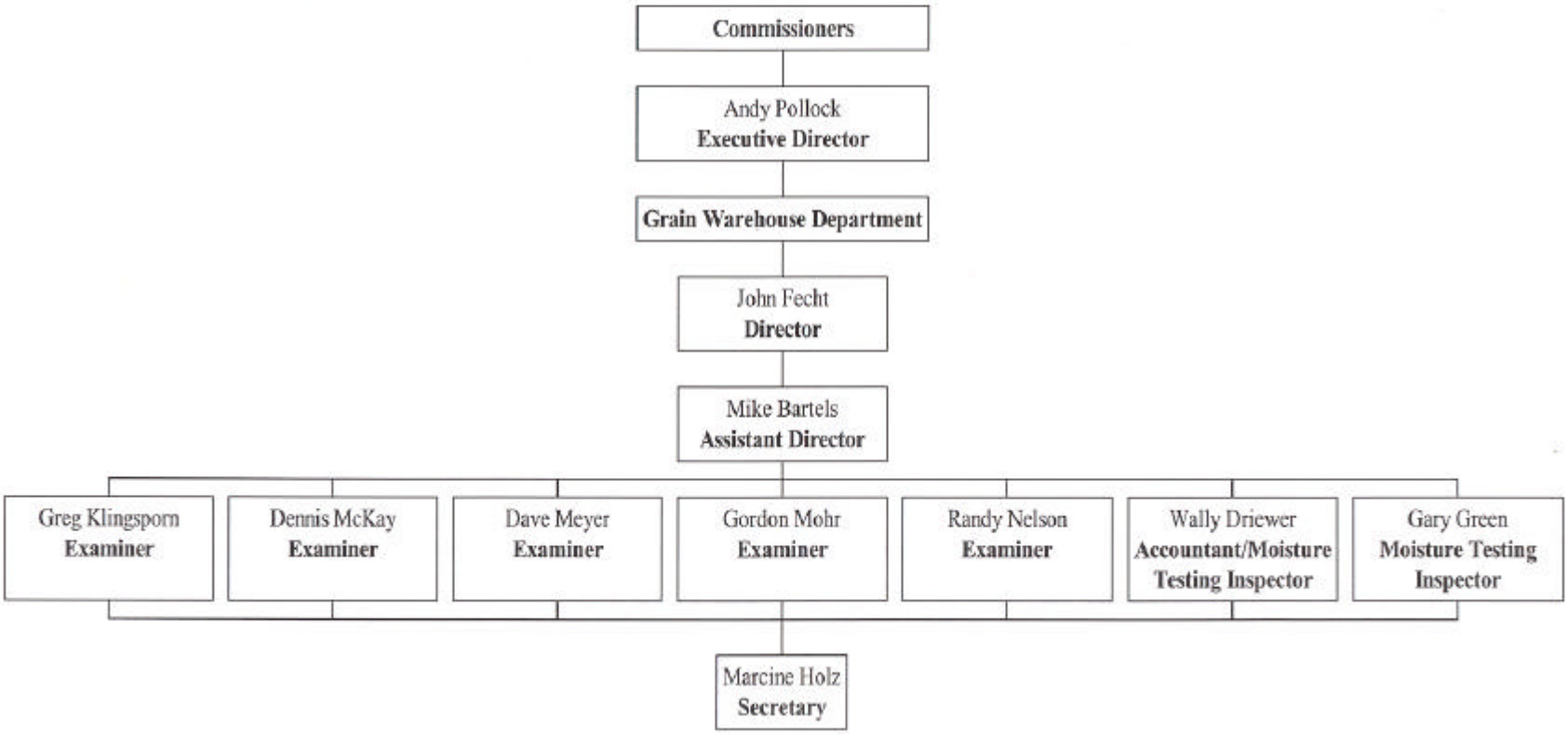
Nebraska Public Service Commission
Communications Department
Organization Chart



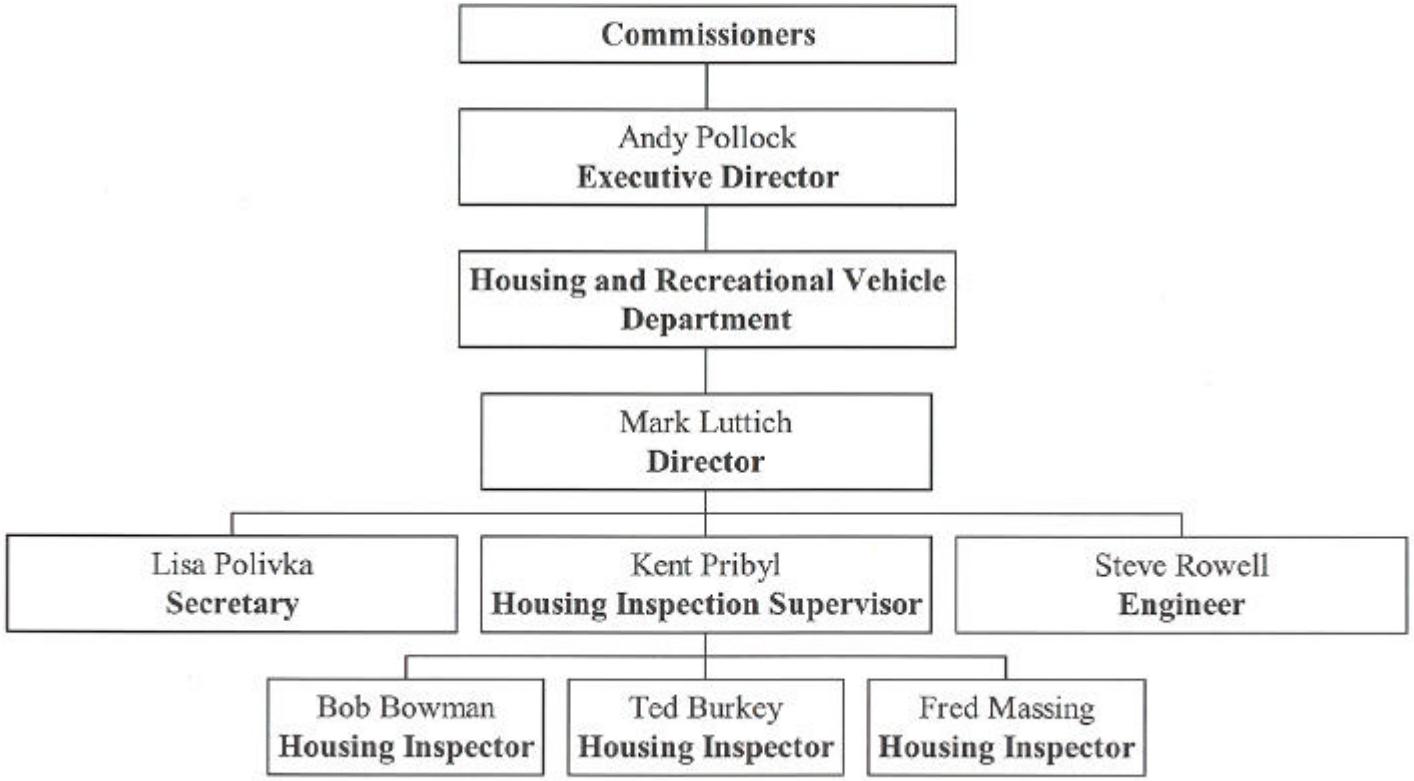
Nebraska Public Service Commission
Transportation Department
Organization Chart



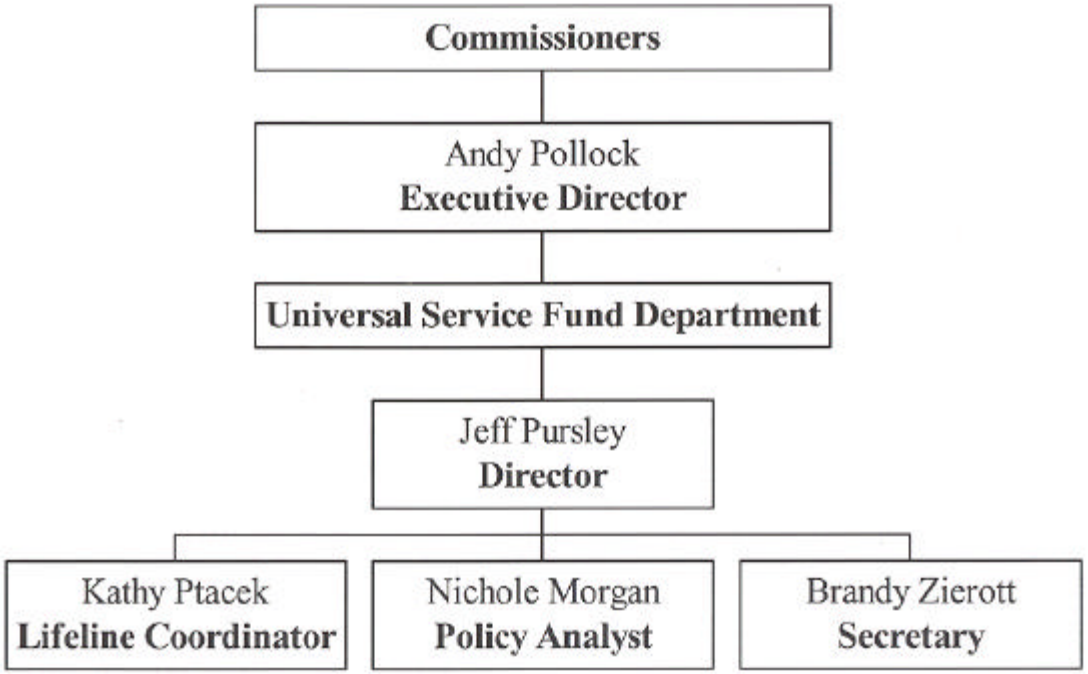
Nebraska Public Service Commission
Grain Warehouse Department
Organization Chart



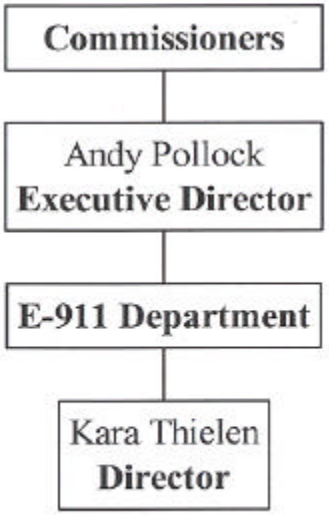
Nebraska Public Service Commission
Housing and Recreational Vehicle Department
Organization Chart



Nebraska Public Service Commission
Universal Service Fund Department
Organization Chart



Nebraska Public Service Commission
E-911 Department
Organization Chart



SUMMARY OF COMMENTS

During our audit of the Nebraska Public Service Commission, 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. ***Nebraska Universal Service Fund (NUSF) Receipts:*** The Commission did not have adequate procedures in place to ensure all NUSF monies due the State were collected or to determine that companies reported an accurate amount of revenues. The Commission received $56,121,867 for the NUSF surcharge.

2. ***NUSF Disbursements:*** There was not an adequate segregation of duties over disbursements from the NUSF. There was inadequate documentation to support certain amounts paid to companies from the Fund. There was no verification of the information submitted by the telecommunication companies that received aid from the NUSF. There were no official, approved rules and regulations for the NUSF. The Commission disbursed $36,451,866 in aid payments from the NUSF.

3. ***Internal Control Over Travel Expenses:*** We noted many control problems related to travel expenses of the Commission, including an inadequate review of travel documentation; unreasonable or unallowable meals, lodging, and mileage reimbursements; and inadequate documentation to support the expenses.

4. ***Internal Control Over Receipts:*** There were inadequate controls over Commission receipts, including the Telecommunications, Housing, Transportation, and Grain Warehouse Departments. The Commission did not ensure all money due was remitted and did not ensure all money received was actually deposited.

5. ***Excessive Cash Fund Balance:*** The cash fund balance for the Manufactured Homes and Recreational Vehicles Fund was $711,517 at June 30, 2001. The total disbursements from the fund for the fiscal year were $344,586.

6. ***Internal Control Over Disbursements:*** One document totaling $88,428 was incorrectly coded. One document totaling $83,972 did not contain adequate documentation to support the payment.

7. ***Internal Control Over Fixed Assets:*** There was not an adequate segregation of duties over fixed assets. Eleven items valued at a total of $38,127 were added to the list for the incorrect fiscal year. Assets valued at $10,832 were deleted in error from the list. Additionally, eleven items with a total value just under $9,000 were not added to the list.

SUMMARY OF COMMENTS
(Concluded)

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 Commission to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Commission declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

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

COMMENTS AND RECOMMENDATIONS

1. Nebraska Universal Service Fund (NUSF) Receipts

Neb. Rev. Stat. Section 86-1402 R.R.S. 1999 defines the purpose of the Nebraska Telecommunications Universal Service Fund Act "to authorize the Commission to establish a funding mechanism which supplements federal universal service support mechanisms and ensures that all Nebraskans, without regard to their location, have comparable accessibility to telecommunication services at affordable prices." Commission Application Number NUSF-4 entered on June 6, 2000, set the surcharge at 6.95 percent of total intrastate revenues from all service providers in Nebraska from July 1, 2000 through June 30, 2001. The surcharge was collected on retail end-user revenues from intrastate telecommunication services, including wireless telecommunications. During fiscal year 2001, the Commission collected $56,121,867 from the NUSF surcharge. We noted the following related to the Commission's collection of the NUSF surcharge:

- The Commission did not have adequate procedures to ensure the NUSF surcharge was remitted for all companies with intrastate retail revenues. The Commission was not authorized to regulate wireless telephone companies; therefore, they were unable to determine whether all wireless telephone companies in Nebraska remitted the surcharge to the Commission.

  Good internal control requires procedures to ensure all money owed to the State is collected. The risk that the Commission is not collecting all monies due increases without adequate procedures to ensure all companies properly remit the NUSF surcharge.

  > We strongly recommend the Commission implement procedures to ensure all companies with intrastate retail revenues remit the NUSF surcharge.

Commission's Response: The Public Service Commission has expended a significant amount of staff resources to identify companies providing telecommunications services within Nebraska and to inform such companies of the applicable requirements relative to the Nebraska Universal Service Fund ("NUSF"). The efforts include: (i) asking telecommunications companies to identify inter-connecting and reselling companies; (ii) searching telephone directory yellow pages and other advertising media; and (iii) reviewing federal spectrum licenses. To date, the Commission has identified more than 500 such entities. The Commission will continue to execute these processes as permitted by existing, limited staffing resources. Additionally, the Commission, when budgets allow, will consider seeking additional personnel to adequately ensure remittances are accurate, as well as to carry out other responsibilities in the NUSF program. Further, Legislation is pending (as of April 9, 2001) that would require all wireless carriers to register with the Commission, which would help ensure that all remittances from wireless carriers are being received.

COMMENTS AND RECOMMENDATIONS

1. <u>Nebraska Universal Service Fund (NUSF) Receipts</u> (Continued)

- Under Neb. Rev. Stat. Section 86-1405(2)(a) R.S.Supp., 2001, the Commission has the "authority and power to issue orders carrying out its responsibilities . . ." Commission Application Number NUSF-1, Progression Order Number 7, entered on March 28, 2000, stated that all companies whose revenues, subject to the NUSF surcharge, are greater than $1,000,000 in a NUSF fiscal year, shall have all information used for the determination of intrastate retail telecommunications services revenue subject to the NUSF surcharge audited on an annual basis. The audit shall be performed by an independent third party, with the audit results for a fiscal year due before the end of the next fiscal year.

  We tested eight companies with reported revenues in excess of $1,000,000. None of the eight companies tested had a third party audit on file with the Commission. Therefore, the Commission did not have procedures to ensure the revenues the companies reported were accurate.

  Without proper procedures to ensure the revenues reported by the telecommunication companies are accurate, the Commission is unable to determine whether the amounts received from the telecommunication companies for the NUSF surcharge are accurate.

  > We recommend the Commission implement procedures to ensure the reported revenues from the telecommunication companies are accurate. The Commission Order requiring third party audits should be complied with to ensure the amounts remitted for the NUSF surcharge are accurate.

Commission's Response: The Commission had not yet enforced the third party audit requirements due to staff turnover and significant staff absences for health reasons. On an ongoing basis, the Commission will assign responsibility to a NUSF staff member to ensure third party audits requirements are enforced in accordance with Commission orders.

Auditors' Response: The Commission procedures should ensure that significant responsibilities of Commission staff could be handled in the event of staff turnover or absenteeism.

- Under Neb. Rev. Stat. Section 86-1405(2)(a) R.S.Supp., 2001, the Commission has the "authority and power to issue orders carrying out its responsibilities . . ." Commission Application Number NUSF-1 Progression Order Number 7, entered on March 28, 2000, required that the telecommunication companies continue to make monthly remittances due on the 15th of the month. Neb. Rev. Stat. Section 86-1405(2)(c) R.S.Supp., 2001 gave the Commission the authority to administratively fine any person who violates the Nebraska Telecommunications Universal Service Fund Act.

COMMENTS AND RECOMMENDATIONS

1. <u>Nebraska Universal Service Fund (NUSF) Receipts</u> (Continued)

Eleven of fifteen companies tested did not remit the monthly surcharge by the 15th of the month. None of the eleven companies were assessed a fine. The total of the late remittances was $1,217,376. Nine companies were from one to six days late. One company was 31 days late. One company was 63 days late.

Without proper procedures to ensure remittances are received by the 15th of the month, the NUSF will lose interest on the monies not remitted timely.

> We recommend the Commission implement procedures to ensure the monthly surcharge to the NUSF is received timely. We also recommend the Commission use its statutory authority and set fines for companies who remit the surcharge late.

Commission's Response: The Commission does not have the authority to automatically levy fines, but may only fine companies after notice and a public hearing, which requires a significant amount of staff resources. The Commission will consider asking the Legislature for the authority to automatically levy fines for late remittances. In the interim, the Commission will develop and implement procedures relative to the conduct of hearings to levy fines for late payments, and do what is feasible with existing staff and resources.

Auditors' Response: We simply recommended the Commission use its statutory authority to administratively fine any person in violation of the Nebraska Telecommunications Universal Service Fund Act. If the current Statutes are difficult to enforce, we agree the Commission should consider whether the statutory revisions should be pursued.

- Good internal control also requires procedures be in place to ensure amounts reported to the Commission are reasonable.

  The Commission did not analyze the revenues reported from each telecommunications company to ensure the reported revenues were reasonable. The receipts in the NUSF increased significantly from the prior fiscal year. The NUSF surcharge increased by $6,592,061 or 13.3 percent. Part of the increase was due to the timing of the first collection of the surcharge in fiscal year 2000. The first remittance to the Fund was in August 1999; therefore, there were only 11 months of remittances in fiscal year 2000. However, that explanation did not fully support the total amount of the increase in the receipts from fiscal year 2000 to fiscal year 2001. The Commission also stated the increase was due, in part, to increased revenues reported by the companies. However, the

COMMENTS AND RECOMMENDATIONS

1. <u>Nebraska Universal Service Fund (NUSF) Receipts</u> (Concluded)

Commission did not provide adequate documentation to support the conclusion, as the Commission did not analyze the reported revenues for each company between the two years.

Without adequate procedures to analyze the reported revenues from companies, the Commission was unable to determine whether the revenues reported by the companies were reasonable.

> We recommend the Commission implement procedures to ensure the revenues reported by the telecommunication companies are reasonable.

Commission's Response: The Commission does not agree that there was an increase in NUSF remittances significant enough to warrant additional investigation. As noted in the audit report, remittances increased 13.3 percent between fiscal year 1999/2000 and 2000/2001. The majority of this increase is due to the fact that there were only eleven monthly remittances in fiscal year 1999/2000 compared to twelve in 2000/2001. This accounts for 75% of the noted variance. Further, telecommunications revenues in the state have grown at 5.77% per year between 1987 and 1997. Regression analysis of actual remittances to the NUSF from 1999 to 2001 shows growth rates of 6.25%. This is a variance of less than half of a percent. This information was provided to the audit staff during the course of the audit.

Moreover, notwithstanding the recommendation that individual companies' reported revenues be studied to consider the reasonableness of fluctuations, it is the Commission's belief that analyzing the overall growth or change in NUSF remittances is more meaningful than analyzing the change in individual company remittances. Company revenues may vary significantly due to seasonality, promotions, and numerous other factors. Also, the telecommunications industry is undergoing a significant transformation with the advent of competition. Traditional phone companies are experiencing stagnant or even declining revenues while new entrants and wireless companies are seeing significant growth.

Auditors' Response: As noted in our comment, there was a $6,592,061 increase in revenues from fiscal year 2000 to fiscal year 2001. The increase was more than three times the materiality level for the financial statement special revenue fund used by the auditor. The auditor received the amount of the NUSF surcharge remitted by each company each month, but did not receive an analysis of the revenues reported from the companies. We recommended the Commission implement procedures to ensure revenues reported by the telecommunications companies are reasonable. We feel this should be an ongoing procedure.

COMMENTS AND RECOMMENDATIONS

2. NUSF Disbursements

Neb. Rev. Stat. Section 86-1405(1) R.S.Supp., 2001 states, "only eligible telecommunications companies designated by the commission shall be eligible to receive support to serve high-cost areas from the fund. A telecommunications company that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."

We noted the following concerns related to the disbursement of monies from the NUSF:

- Good internal control requires an adequate segregation of duties so that no one person is in a position to both perpetrate and conceal errors or irregularities.

  There was not an adequate segregation of duties over the payment of funds from the NUSF. The Director of the fund calculated the payments, prepared and approved the disbursement document, and also reconciled the activity of the fund to the Cash and Investment Status Report from the Nebraska Accounting System. Additionally, there was no independent review of the calculation of aid payments to ensure they were accurate. The Commission disbursed $36,451,866 in aid from the NUSF during fiscal year 2001.

  The risk of incorrect or unauthorized payments greatly increases without an adequate segregation of duties over the payments of funds from the NUSF.

  > We strongly recommend the Commission implement procedures to ensure an adequate segregation of duties over payments from the NUSF. There should be an independent verification of all payments made from the Fund to ensure the payments are accurate and authorized by the Commission.

Commission's Response: The Commission has been unable to segregate responsibility for NUSF payments due to staff turnover and significant staff absences due to illness and injury. On an on-going basis, the Commission will endeavor, as feasible with limited staff resources, to segregate duties over the payments of funds from the NUSF. Also, the Commission will institute procedures for verification of information used to calculate payments made from the NUSF. The Commission, when budgets allow, will consider seeking additional staff.

Auditors' Response: If adequate segregation of duties is not possible, other controls should be implemented to compensate for the lack of segregation of duties. Such controls might include a review of NUSF transactions by an independent individual such as the Business Manager, Director, or Commissioner. Again, the Commission should ensure procedures or controls that are implemented and become the responsibility of Commission staff could be handled in the event of staff turnover or absenteeism.

COMMENTS AND RECOMMENDATIONS

2. <u>NUSF Disbursements</u> (Continued)

- Good internal control also requires proper approval from the Commission of any significant grant payments or retroactive grant payments made to telephone companies.

  There was not adequate Commission approval of additional and retroactive grant funding. Five companies were awarded $1,965,516 in additional grant funding for the fiscal year. The five companies also received $1,718,496 for one-time retroactive payments of the additional funding. The Commission approved providing additional funding to each of the five companies, but no documentation was found that the Commission approved the actual amount of the additional funding or the retroactive one-time payment of the grants.

  Again, without an adequate segregation of duties over the payments from the NUSF, the risk for errors or irregularities in payments from the Fund could go undetected.

  > We recommend the Commission formally approve the actual amount of any additional grant funding and any retroactive payments made to the telecommunication companies.

Commission's Response: In the past, the Commission has treated information pertaining to the amount of company-specific additional grants as confidential and proprietary data. Therefore, the Commission did not historically include this information in the orders approving such grants. After reviewing the relevant state law in response to information requests, the Commission now treats this information as public data. Accordingly, the Commission will include amounts and effective dates in orders granting additional funding amounts.

- Good internal control requires procedures to ensure accurate information is submitted by telecommunication companies and used in the calculation of payments from the NUSF.

  Two of nine companies tested did not provide the Commission an annual audit of the transition plan submitted to the Commission. The transition plan was used to calculate the payments from the NUSF and included such items as rates charged and demand. The two companies received over $27 million in payments from the NUSF.

  Without an independent verification of the information submitted by the telecommunication companies, the Commission cannot ensure the payments made to these companies were based on accurate information.

COMMENTS AND RECOMMENDATIONS

2. <u>NUSF Disbursements</u> (Continued)

> We recommend the Commission implement procedures to ensure information submitted by the telecommunication companies and used to calculate the payment from the NUSF is accurate. This would include an independent verification of the information be submitted to and reviewed by the Commission.

Commission's Response: The Commission had not yet enforced the third party audit requirements due to staff turnover and significant staff absences for health reasons. On an ongoing basis, the Commission will assign responsibility to a NUSF staff member to ensure third party audit requirements are enforced in accordance with Commission orders.

- Good internal control requires the implementation of procedures and the maintenance of records to provide reliable financial information.

  Information used to calculate the payments from the NUSF could not be traced to the company-submitted transition plans for two of ten payments tested. The 1998 local service demand was not available and could not be traced to one company's transition plan. The 1998 local service demand was a vital piece of the calculation.

  We also noted the demand for the "Tandem Switching Facility" could not be traced to a company's transition plan. "Tandem Switching" refers to a switch that handles toll calls. The switching function takes a local call and routes it to its destination over the telecommunications network. Long distance companies pay local companies for every minute that goes through the local switches. "Facility" is one of the rate elements to measure how much the local company gets for providing the switching function. This measure was also used in calculating the payment made to the company.

  The two companies received over $22 million in payments from the NUSF.

  > We recommend the Commission implement procedures to ensure adequate documentation is on file for all payments.

Commission's Response: As noted above, the Commission will institute procedures for verification of information used to calculate payments made from the NUSF. The Commission did verify 1998 local service demand, which accounts for more than 99% of the payments in question. This verification was provided to audit staff prior to the issuance of this report.

COMMENTS AND RECOMMENDATIONS

2. <u>NUSF Disbursements</u> (Continued)

Auditors' Response: When we initially asked for the 1998 local service demand for the company noted in our comment, the Director of the NUSF did not have the 1998 local service demand on file for that company. The Director of the NUSF then contacted the company to have them resubmit their data. Therefore, we could not be assured that the demand was verified prior to issuance of any payments to that company since the Commission did not have the demand on file at the time of our audit.

- Good internal control requires procedures be in place to ensure the accuracy of payments made from the NUSF.

  One of nine companies tested received an overpayment of aid from the NUSF. Two errors were noted on the calculation of aid to one company. The first error involved an incorrect amount entered into the calculation worksheet and resulted in a $285,322 overpayment to the company. The Commission uncovered the error and the funds were returned. The second error also involved an incorrect amount entered into the calculation worksheet and resulted in an overpayment covering 16 months and totaling $1,428. This overpayment had not been repaid.

  Again, with an adequate segregation of duties involving independent verification of the calculation of the aid payments, errors could be detected prior to the disbursement of funds to the companies.

  We recommend the Commission ensure payments made from the NUSF are accurate by implementing an independent review of the calculation of aid payments to telecommunication companies.

Commission's Response: As noted above, the Commission will institute procedures for verification of information used to calculate payments made from the NUSF.

- Neb. Rev. Stat. Section 86-1406 R.R.S. 1999 requires the Commission to adopt rules and regulations "as may be reasonably necessary to efficiently develop, implement, and operate" the Nebraska Telecommunications Universal Service Fund. This statute became effective on September 13, 1997.

  The Commission did not have official approved rules and regulations regarding the Nebraska Universal Service Fund, which at June 30, 2001 was just under $47 million.

  We recommend the Commission make the adoption of rules and regulations covering the Fund a priority.

COMMENTS AND RECOMMENDATIONS

2. NUSF Disbursements (Concluded)

Commission's Response: The Commission has adopted proposed NUSF rules and regulations and will soon forward them to the Attorney General for review and consideration, as required by state law. A draft of these rules was provided to audit staff during the course of the audit.

Auditors' Response: We did receive a draft copy of the proposed rules and regulations. We simply recommended this be a priority since the Fund has been effective since September 1997.

3. Internal Control Over Travel Expenses

We tested 22 travel expense reimbursement documents for a total of $13,111. The Commission had $126,224 in travel disbursements for the year. We noted the following concerns related to travel disbursements of the Commission:

Review of Travel Expense Reimbursement Documents

Good internal control requires procedures to ensure the payments for expense reimbursements are reasonable and necessary for the Commission and are supported by adequate documentation.

We noted there was not an adequate review of the expense reimbursement documents at the Commission to ensure all payments were supported by adequate documentation and that all claims were reasonable and necessary for purposes of the Commission.

The Commissioners' travel expense reimbursement documents were not reviewed in detail. The Commissioners submitted supporting documentation for their travel to the Commission's Business Manager, who actually prepared the document for the Commissioners. There was no verification to determine if the supporting documentation was adequate or if it supported the purpose of the travel. There was no verification of personal vehicle mileage claimed to ensure it was reasonable or for Commission business purposes. There was also no review of meals claimed to ensure only actual amounts were claimed, to determine if the conference attended provided meals, or to determine if the meals claimed were reasonable. One Commissioner did not have documentation to support four trips claimed on two expense documents. The total claimed for the four trips was $168. This also included two overnight trips where the hotel rooms were direct-billed to the Commission.

Two department directors reviewed the expense reimbursement documents of their employees to verify the purpose of the trip and to ensure hotel and other charges were reasonable. However, there was no review of personal vehicle mileage to ensure it was reasonable or for Commission business.

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

Without a proper review of expense reimbursement documents, the risk of incorrect or unreasonable travel reimbursements being paid increases.

> We strongly recommend the Commission implement procedures to ensure an adequate review of all expense reimbursement documents. All expense reimbursement documents should contain sufficient documentation to support the purpose of the trip. All travel related expenses per trip should be compared to ensure the documentation provided agrees to the claim for reimbursement. Meals and miles claimed should be thoroughly reviewed to ensure only actual amounts are reimbursed, meals were not provided by the conference attended, and miles driven were reasonable.

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. The Commission will conduct periodic samplings of mileage reimbursement requests to verify mileage claimed is accurate. The Commission will utilize Mapblast.com for this purpose. The Commission will also consider procedures to more thoroughly review expense reimbursement request to the extent such review is feasible with existing staff. Finally, the Commission will consider seeking additional personnel to address this audit point and others set forth below for which limited staffing is a basis or the basis.

Auditors' Response: When matters come to the attention of the auditor, as was the case with Commission travel expenses, it is typical for the next audit to focus more thoroughly on those specific areas.

<u>Meal Expense Reimbursements</u>

Good internal control requires procedures to ensure all meals claimed are reasonable and in accordance with Commission policy.

- A Commissioner went to Overland Park, Kansas two days prior to the start of the conference to attend a golf tournament sponsored by the seminar. The Commissioner was reimbursed the maximum amount allowed, per Commission policy, for meals on the day of the golf tournament ($25) and on his travel day prior to the golf tournament ($19). We also noted the seminar provided breakfast and lunch the day of the golf tournament.

  The Commissioner reasonably could have been reimbursed for a dinner on the evening prior to the seminar. The Commissioner was reimbursed a total of $44 for meals for the two days.

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

The same Commissioner traveled to Columbus, Nebraska a day before a meeting. Again, we noted a golf outing listed on the meeting agenda for the morning. The meeting did not officially begin until 6 PM that evening. The Commissioner was reimbursed $12 in meal expenses and $32 in lodging for the extra day prior to the meeting. We do not feel these are necessary or reasonable expenses.

> We recommend the Commission implement procedures to ensure meal reimbursements are made only for actual, necessary, and reasonable expenses while on State business.

Commission's Response: The Commission implemented a policy on June 4, 2001, making it clear to all staff that the Commission does not reimburse employees for meal expense reimbursement requests that appear to be a per diem. Per this policy, the Commission uses the per diem rates established by the Internal Revenue Service as guidelines in assessing the reasonableness of each request. The Commission will continue to ensure that meals claimed are only for actual, necessary, and reasonable expenses and will require employees to submit receipts for expenses claimed. Other than the June 4, 2001, policy, the Commission's travel expense reimbursement procedures have not changed significantly since prior audit reports, which did not comment on such procedures.

Auditors' Response: After the prior audit was conducted for fiscal year 1999 the Department of Administrative Services significantly revised their travel guidelines, as noted in a memo dated December 15, 2000, to all Agencies, Boards, and Commissions. The Commission policy dated June 4, 2001, specifically indicated that employees should <u>not</u> submit receipts to the business manager; rather, the employees should maintain them for a period of six months. As noted in this comment, we did not feel the current Commission policy was adequate.

- Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 states that employees and commission members should claim only actual expenses incurred in the line of duty. Good internal control requires that meals not be reimbursed when provided at the conference attended.

  One Commissioner and one employee tested each claimed the maximum amount allowed, per Commission policy, for meals when meals were provided at the conference attended.

  1. One Commissioner claimed the maximum reimbursement under Commission policy at the time ($25) for two days. Breakfast was provided by the conference one day and lunch was provided both days.

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

2. One employee claimed the maximum amount allowed for the location of the conference ($38) for each of four days. We noted breakfast was provided for three days and lunch and dinner were provided one day each.

We also noted one additional Commissioner and four additional employees who claimed the maximum amount allowed, per Commission policy, for meals while in travel status. These claims appear to be based on a per diem amount and not actual expenses.

1. A Commissioner claimed the maximum allowed, per Commission policy, while on a trip to California. The amount ($35) was claimed for each of five days. We also noted breakfast was provided one day.

2. Four employees each claimed the maximum amount allowed, per Commission policy, while in travel status in Nebraska. The employees either claimed the maximum amount allowed under Commission policy at the time ($25) or prorated the amount of meals for which they were eligible. The amounts were claimed from three to five days totaling from $82 to $100.

We recommend the Commission comply with State statute and ensure only actual expenses incurred are reimbursed. A more thorough review of expense reimbursement documents is necessary to comply with the statute.

Commission's Response: See Response to Second Recommendation immediately above. Further, the Commission will include a more thorough review of the conference agendas to establish if reimbursement of meals is appropriate.

- The Internal Revenue Service (IRS) requires employees to substantiate the cost of meals under an accountable plan. Amounts paid under a nonaccountable plan must be included in the employee's taxable income. Adequate accounting generally requires the use of a log or receipts to document actual expenses. This is the guideline set forth by DAS as of December 15, 2000.

  Additionally, the Nebraska Accounting System Manual, Concept 5, clearly states that no reimbursement may be made for alcoholic beverages.

  The Commission policy adopted January 10, 2001, did not require employees to submit or maintain receipts or meal logs for meals $25 or less. Effective June 4, 2001, the Commission employees were required to maintain receipts for 6 months, but not submit them with the reimbursement request.

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

The current policy was not suitable under the accountable plan framework. Receipts or meal logs should have been submitted and maintained in accordance with the Commission record retention schedule.

We noted two employees tested did not submit receipts for meals claimed for reimbursement after June 4, 2001.

We noted one employee provided receipts upon the request of the auditor, but the total provided did not agree to the total reimbursed. Receipts were not provided for $16 in meal expenses. Three of the receipts submitted contained inadequate documentation. The employee only maintained the credit card portion of the receipt. There was not a detailed receipt to ensure all expenses were allowable. These three receipts totaled $90. One of the three receipts included a $41 dinner. The daily federal standard per diem rate for the city was $38. Without a formal policy from the Commission regarding the reasonableness of meal expenses, $41 for one meal would appear to be unreasonable. Finally, the only detailed receipt submitted contained an alcoholic beverage, which the Commission reimbursed to the employee.

Without adequate policies and procedures covering the reimbursement of meal expenses, the Commission is not able to determine if requests for meal reimbursements are allowable.

> We recommend the Commission review its policy regarding documentation for meal expenses to comply with IRS regulations and DAS guidelines. Detailed receipts or logs must be reviewed by the Commission to ensure the reimbursement is allowable. In no circumstance is it allowable to reimburse employees for alcoholic beverages.

Commission's Response: See Response to Second Recommendation above. Further, beginning in January 2001, the Commission has revised and formalized its policies and procedures regarding documentation for meal expenses, resulting in the June 4, 2001, policy. The Commission appreciates the Auditor's input, and will continue its work of improving said policies.

The reimbursement for the alcoholic beverage referenced in this report item was an administrative oversight, which was corrected prior to the date of the Auditor's report. The employee has reimbursed the State. The Commission is fully aware of the prohibition against reimbursing for alcoholic beverages and will continue to abide by that prohibition. We regret the oversight.

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

<u>Personal Vehicle Mileage Reimbursements</u>

- Good internal control requires procedures to ensure expenses claimed for reimbursement are reasonable and accurate. This may include an analysis to determine if the most efficient means of travel was used, especially during tight budget periods.

  Three employees in the Modular and Manufactured Housing Department were reimbursed over $7,000 each for personal vehicle mileage during the fiscal year. Another employee was reimbursed over $5,000 for personal vehicle mileage during the fiscal year. The inspectors in this Department have significant travel related duties, but are not required to drive a State vehicle, which could save the Commission money. There was no documentation of an analysis to determine whether it was more economical to drive State vehicles or to reimburse the employees for personal vehicle mileage.

  Without a documented analysis to determine if State or personal vehicles are more economical for these employees, the Commission does not know if it would save money by using State vehicles.

  > We recommend the Commission document an analysis of the cost and benefits of reimbursing employees for personal miles compared to the cost of driving a State vehicle.

Commission's Response: Such analysis was done by our staff in 2001. We are not aware of any request from the Auditor's office to provide this information other than the request in this report, both the preliminary and final version of it. Plans have been made to offer housing department staff a lower reimbursement rate in consideration for the convenience they gain by utilizing their own personal vehicle. Initially, the commission was informed by the Department of Administrative Services ("DAS") that DAS would need to enter such an agreement with the employees; later, DAS told the Commission that the Commission, not DAS, should be the party to the agreement. The Auditor's office later recommended to the Commission that it adopt a policy to be approved by DAS in addition to the agreements, which policy the Commission is in the process of finalizing.

Auditors' Response: We were advised by the Director of the plans to offer housing department staff a lower reimbursement rate, hence, our recommendation that the policy be approved by DAS. At that time we specifically asked the Director about documentation regarding the analysis and indicated the documentation would be a key part we would be

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

interested in reviewing. At that time the Director did not provide any documentation to support his analysis, but indicated he would be working on putting the information together.

- Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 states that when reimbursement is requested for mileage by automobile . . . the points between which such travel occurred shall be shown on the expense document. If proper documentation of all trips is not included on the expense reimbursement document, mileage claimed cannot be properly verified. Neb. Rev. Stat. Section 81-1176(1) R.R.S. 1999 states, "only one mileage request shall be allowed for each mile actually and necessarily traveled in each calendar month by the most direct route. . ."

  We noted three expense documents tested did not contain adequate documentation to support the miles claimed for reimbursement or contained requests for reimbursement of miles that were unnecessary or unsubstantiated.

  1. The first document contained variances on several trips:

     Three trips between Grand Island and Scottsbluff included excess miles. On two of the trips the employee indicated he traveled to Gering, but did not properly document the trip. The total variance related to these trips was 207 miles out of a total 1,585 miles.

     Five trips between Grand Island and York included miles in excess of the most direct route. Again, the employee indicated he took a longer route to save time. The total variance related to these trips was 101 miles out of a total of 440 miles.

     One trip between Grand Island and Minden included miles in excess of the most direct route. There was no documentation to support a 14 mile variance on a 104 mile trip.

     This one employee claimed 322 excess or undocumented miles for one expense document tested, which covered one month.

  2. The second document contained mileage variances on two trips:

     A Commissioner traveled to Overland Park, Kansas from his hometown and was reimbursed for 95 miles in excess of actual miles. The actual mileage for the trip was 554 miles.

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

The Commissioner also traveled to Kansas City, Missouri from his hometown and was reimbursed 110 miles in excess of actual miles. The actual mileage for the trip was 540 miles.

There was no documentation to support the excess mileage for either trip.

The Commissioner claimed 205 excess or undocumented miles for one expense documented tested, which covered a two-month period.

3. The last document contained mileage variances on two trips:

A trip from Seward to Lincoln to York to Seward included miles in excess of the most direct routes. The employee claimed 126 miles, but the actual mileage was 103 miles. The 23 mile excess was not explained.

One trip between Scottsbluff and Gering included mileage in excess of the most direct route. The employee claimed 16 miles between Scottsbluff and Gering, but the actual miles, per the State of Nebraska map, was 3 miles. The employee indicated he inspected a factory in Gering, and returned to Scottsbluff for lodging. The return to Scottsbluff was not documented on the expense document.

Based upon only 11 documents tested, we noted 563 excess or undocumented personal vehicle miles were reimbursed to commissioners or employees. Again, the three documents with the excess miles only covered a one or two month period.

Without an adequate review of personal vehicle miles claimed by employees and Commissioners, the Commission is unable to determine if miles driven are reasonable and for official Commission business.

We recommend the Commission implement procedures to ensure personal vehicle miles claimed are properly documented, actual, and necessary prior to reimbursement.

Commission's Response: See Response to First Recommendation above.

<u>State Vehicle Mileage</u>

Good internal control requires procedures to ensure miles driven in State vehicles are for official Commission business and are reasonable and necessary.

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

The Commission owned thirteen State vehicles at June 30, 2001. Eleven vehicles were assigned to grain warehouse department employees. The Director of the Grain Warehouse Department and the Executive Director both signed the monthly vehicle logs. However, we noted there was not a proper review of the logs to ensure miles driven were reasonable and were for Commission business only.

There were also two "pool" cars owned by the Commission. Again, the Executive Director signed the monthly vehicle logs, but there was not a proper review of the logs to ensure the miles driven were reasonable and were for State business only.

We reviewed the mileage on a vehicle log for one employee selected for testing in which a State vehicle was driven. We noted a variance between the map miles and the miles reported for the points of travel. The variance was between Atkinson and Ainsworth. The log noted 64 miles and the map listed 47 miles for a 17 mile or 36% variance.

Again, without an adequate review of State vehicle miles, the Commission is unable to determine if miles driven are reasonable and for official Commission business.

> We recommend the Commission implement procedures to ensure miles driven in State vehicles is reasonable and for State business only.

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. Time and resources do not permit our limited staff to conduct a thorough review (i.e., cross-checking for other documentation of the travel entries and verification of mileage for each entry) of all vehicle logs. The Commission will conduct periodic samplings of the vehicle logs to ensure that the miles driven were reasonable and for State business only.

Auditors' Response: As discussed with Commission staff, we are agreeable to samplings of the vehicle logs, and did not intend for the Commission to verify each entry on the vehicle logs.

<u>Lodging Expenses</u>

Good internal control requires procedures to ensure lodging expenses are reasonable and economical for the Commission, particularly in tight budget times.

COMMENTS AND RECOMMENDATIONS

3. <u>Internal Control Over Travel Expenses</u> (Continued)

Sales to the State of Nebraska and its agencies are exempt from sales, use, and lodging tax. Lodging expenses in Nebraska can be directly billed to the Commission and the taxes would not be incurred.

We noted the following related to lodging expenses:

- One employee and three Commissioners attended a conference in Los Angeles/Beverly Hills in July 2000. The conference registration listed two available hotels for conference attendees. One hotel was $175 per person, per night. This was the hotel in which the conference was held. The second hotel was six blocks away and was $119 per person, per night. The difference in rates per night was $56. All four individuals stayed at the more expensive hotel for four nights. The Commission reimbursed the four individuals a total of $896 in excess of the more economical hotel. There was no documentation or explanation for the stay at the more expensive hotel.

- Additionally, three documents tested included reimbursement to Commission employees or Commissioners for lodging expenses in Nebraska. The bills were not directly billed to the Commission, therefore, the employees paid sales, use, and lodging taxes, and the Commission was required to reimburse the employees including the lodging tax amounts.

Without proper procedures to ensure lodging expenses are reasonable, the risk the Commission will pay for unreasonable lodging expenses or sales, use, and lodging taxes increases.

> We recommend the Commission implement procedures to ensure only the most economical and reasonable travel related costs are reimbursed and that hotel rooms in Nebraska are direct billed to the Commission so that the sales, use, and lodging taxes are not paid.

Commission's Response: As is the existing practice, the Commission will continue to research the best travel accommodations possible and document any unusual circumstances to establish reasonableness. The Commission will continue to take into account such factors as cost, the lodging's distance (in time and space) from the conference site, and the safety of Commissioners and staff. The Commission will formalize these procedures.

<u>Inadequate Documentation</u>

Good internal control requires procedures to ensure amounts reimbursed to employees and Commissioners for travel expenses are supported by adequate documentation.

COMMENTS AND RECOMMENDATIONS

3. Internal Control Over Travel Expenses (Concluded)

One document tested lacked adequate documentation to support the reimbursement to a Commissioner for an airline ticket. The only documentation was the Commissioner's credit card statement, which listed the vendor, date purchased, and amount. The Commission could not ensure the airline ticket was used for State business as the documentation did not include the destination, the dates of arrival and departure, and actual cost of one ticket. Credit card statements generally do not contain enough detailed information to be considered adequate documentation.

Without adequate procedures to ensure proper documentation is on file for travel expenses, the risk that the Commission could pay for unreasonable expenses or expenses not related to Commission business greatly increases.

> We recommend the Commission implement procedures to ensure adequate documentation is on file prior to payment of travel reimbursement expenses.

Commission's Response: The Business Manager usually receives adequate documentation when reimbursement for expenses is requested. Occasionally, adequate documentation is unavailable, as was the case in the instance noted. If adequate documentation is not available, it will be noted on the request.

Auditors' Response: Adequate documentation should be provided for the reimbursement of travel expenses. If adequate documentation is not available, the Commission should consider the risk of fraud or abuse associated with reimbursing travel expenses without proper documentation.

4. Internal Control Over Receipts

Good internal control requires procedures and records in order to provide reliable financial information. Good internal control also requires a segregation of duties so that one person is not in a position to both perpetrate and conceal errors or irregularities. Additionally, good internal control requires procedures to ensure all money due the Commission is received and deposited.

We noted the following concerns related to the internal control over the Commission's receipts:

- Neb. Rev. Stat. Section 86-1305(1)(a) R.R.S. 1999 states, "Each telephone company in Nebraska shall collect from each of the telephone subscribers a surcharge not to exceed twenty cents per month on each telephone access line in Nebraska, including cellular

COMMENTS AND RECOMMENDATIONS

4. Internal Control Over Receipts (Continued)

telephone service." Neb. Rev. Stat. Section 86-1305(4) R.R.S. 1999 states, "The proceeds from the surcharge shall be remitted to the commission monthly no later than thirty days after the end of the month in which they were collected together with forms provided by the commission." The telephone companies report their number of access lines in Nebraska and remit twenty cents for each line reported. The proceeds are used to fund the Nebraska Telecommunications Relay System Fund. The Fund provides a statewide telecommunications relay system and administers a statewide voucher program to provide specialized telecommunications equipment to qualified deaf, hard of hearing, and speech-impaired persons in Nebraska. Neb. Rev. Stat. Section 86-1305(5) R.R.S. 1999 states, "The commission may require an audit of any telephone company collecting the surcharge pursuant to the act."

The Commission was not authorized to regulate wireless telephone companies in Nebraska. The Commission did not have adequate procedures to ensure all wireless telephone companies in Nebraska collected and remitted the surcharge to the Commission. Additionally, the Commission did not conduct any audits of the telecommunications companies who remitted the surcharge to verify the companies reported the correct number of access lines. There were no alternate procedures performed by the Commission to ensure the amounts reported by the telephone companies were accurate. The Commission received $989,376 during the fiscal year for the surcharge.

The Commission indicated they lacked the necessary staff to perform the audits due to the number of complaints received from consumers regarding telephone companies.

The risk the Commission is not collecting all money due for the surcharge increases without adequate procedures to determine whether all companies are remitting the surcharge and whether the companies are reporting an accurate number of access lines.

> We recommend the Commission implement procedures to ensure all money due the Commission for the surcharge is remitted and to ensure the telephone companies are reporting an accurate number of access lines.

Commission's Response: Legislation, originally proposed by the Commission, is pending (as of April 9, 2001) that would require all wireless carriers to register with the Commission. The registration requirement would help allow the Commission to ensure that all remittances from wireless carriers are being received.

COMMENTS AND RECOMMENDATIONS

4. <u>Internal Control Over Receipts</u> (Continued)

The Commission at present does not have sufficient staff or resources to audit the internal records and verify access line counts of the telecommunications carriers with access lines in Nebraska, several of which are headquartered outside the state. Therefore, the Commission at present must rely on the counts provided by the carriers pursuant to requests specifically pertaining to the Relay system and in annual reports, unless suspect.

The Commission will investigate the cost and feasibility of conducting periodic audits of access line information provided by telecommunications carriers.

- The Housing Department was responsible for protecting the health and safety of those living in or using manufactured homes, modular housing units, and recreational vehicles. Each manufactured home is required to be inspected before it leaves the factory. The Department issued seals to indicate the unit was inspected. Most modular housing units are also inspected and issued seals. However, inspections are not required on modular housing units in Nebraska. There is one recreational vehicle factory in the State. The manufacturing process at this facility is inspected approximately four times per year. Again, an inspection is not required for each recreational vehicle.

  There was a lack of segregation of duties over the receipt process in the Housing Department. One individual opened the mail, created an initial control log of monies received, recorded the monies into the Commission's AS400 computer system, maintained the seals ledger, issued seals, issued "no-charge" replacement seals, and reconciled the receipts per the AS400 system to the Nebraska Accounting System (NAS) posted transaction report. There was no independent verification all funds were actually deposited for each seal issued.

  The risk of misuse of Commission funds increases without an independent verification that all funds were deposited for each seal issued.

  > We recommend the Commission implement procedures to ensure an adequate segregation of duties over the receipt process in the Housing Department. There should be an independent verification to ensure funds were deposited for each seal issued.

Commission's Response: The Commission will implement a procedure to periodically verify the inventory of seals with the revenue received.

- The Transportation Department issued Public Service Commission license plates to household goods movers and passenger carriers. The movers and carriers receive new plates every three years. Every year the vehicles are also registered by the Commission.

COMMENTS AND RECOMMENDATIONS

4. <u>Internal Control Over Receipts</u> (Continued)

There was no verification that money received in the Transportation Department was actually deposited. One individual in the Department opened the mail, a second individual recorded the funds into the Commission's AS400 system, and a third individual prepared the deposit. There was no verification to ensure the third individual actually deposited all funds received.

The Commission had written procedures to ensure proper controls over the receipt process in each department. However, these procedures were not properly applied in the Transportation Department.

The risk of loss or misuse of Commission funds increases without adequate procedures to ensure all amounts received were deposited.

> We recommend the Commission implement procedures to ensure written policies regarding the control over receipts are followed.

Commission's Response: The Commission has applied the same verification processes for a number of years without suggested changes from the Auditor. The Commission has reviewed its procedures for daily deposit and entry activities. These procedures generally have been followed. The Commission will strive, with existing staff, to daily verify that all funds received are properly accounted for and deposited.

Auditors' Response: Again, the Commission staff was not properly following Commission policy for the daily deposit and entry activities.

- The Grain Warehouse Department licensed grain dealers and also licensed and inspected grain warehouses. The Department also inspected grain moisture test devices called moisture meters. A sticker is placed on the meter to indicate it was inspected.

  The Department did not have adequate procedures to ensure all money due was received or to ensure all money received was actually deposited.

  The moisture meter inspection sticker numbers were not reconciled to NAS to ensure money was received for all stickers issued. The inspectors in the Department could receive cash for the moisture meter inspection stickers.

  Additionally, a listing of all receipts was printed each day in the Department from the AS400 system, but this list was not compared to NAS to ensure all money received for licenses and stickers was actually deposited.

COMMENTS AND RECOMMENDATIONS

4. Internal Control Over Receipts (Concluded)

Again, the Commission had written procedures to ensure proper controls over the receipt process in each department. However, these procedures were not properly applied in the Grain Warehouse Department.

The risk of loss or misuse of Commission funds increases without adequate procedures to ensure all amounts due the Commission are received and to ensure all amounts received are actually deposited.

> We recommend the Commission implement procedures to ensure all money due the Commission is received and all money received by the Commission is deposited. Moisture meter inspection stickers issued should be reconciled to the amount deposited in NAS to account for all stickers issued. We also recommend written policies regarding the control over receipts be followed.

Commission's Response: Written procedures do exist, and the Commission will strive, with the staff and resources it has, to ensure that these procedures are followed.

5. Excessive Cash Fund Balance

Sound business practice requires the Commission to analyze the cost of providing services to ensure fees charged are reasonable.

The Manufactured Homes and Recreational Vehicle Fund balance at June 30, 2001 was $711,527. During the year $344,586 was disbursed from the Fund. It appears the Commission was charging too much for services provided by this Fund. The fund balance was enough to cover over two years' disbursements without additional receipts.

Without proper documentation of the costs used to provide services, the Commission cannot determine if fees are excessive.

> We recommend the Commission implement procedures to document the costs of providing services for each department. These costs should be evaluated to ensure any fees charged for services are reasonable.

COMMENTS AND RECOMMENDATIONS

5. **Excessive Cash Fund Balance** (Concluded)

Commission's Response: Revenues from the sale of seals in the Manufactured Homes program are affected by the economy. In recent years, with a booming economy, the industry's outputs have been high and, consequently, seal fee revenues have been up, leading to larger than expected balances. Most recent statistics, however, reflect a 40% reduction in the seal fee revenues from 2000 to 2001. Seal fee changes in this program are made through a Rule and Regulation process; and a preliminary review to establish new seal fees began prior to the start of the audit.

Moreover, some of the balance is due to the absence of any allocation of indirect administrative or overhead costs. Legislation introduced this year (pending as of April 9, 2001) would allocate some of those indirect costs to the housing department, which would eat into the noted balance.

6. **Internal Control Over Disbursements**

Good internal control requires procedures to ensure documents are properly coded for financial statement presentation and also requires procedures to ensure disbursements are supported by adequate documentation.

One document tested was incorrectly coded. The payment to a vendor totaled $88,428 and was recorded as a liability account rather than as a disbursement. There was no review to ensure all payments were properly coded.

One document tested did not have adequate documentation to support the amount paid. The payment on a contract totaled $83,972. There was no documentation to support $64,338 paid in salaries for the contract.

The risk of financial statements being misstated increases without adequate procedures to ensure transaction coding is correct. The risk of loss or misuse of Commission funds increases without procedures to ensure adequate documentation is on file prior to making payments on contracts.

> We recommend the Commission implement procedures to ensure all transactions are properly recorded. We also recommend the Commission implement procedures to ensure documentation is on file prior to making payments on contracts.

Commission's Response: The first item noted was an administrative error, which we do not believe points to any larger administrative problem. The Commission will implement procedures to ensure documentation is on file prior to making payments on contracts.

COMMENTS AND RECOMMENDATIONS

6. Internal Control Over Disbursements (Concluded)

Auditors' Response: Without adequate reviews to ensure all transactions are properly coded, there is still the risk that similar errors could occur and remain undetected by management.

7. Internal Control Over Fixed Assets

Good internal control requires procedures and records to safeguard assets and provide reliable financial information. A good system of internal control requires an adequate segregation of duties so no one individual is in a position to both perpetrate and conceal errors or irregularities.

Neb. Rev. Stat. Section 81-1118.02(3) R.R.S. 1999 requires all State property be tagged, marked, or stamped.

We noted several areas where the internal control over fixed assets of the Commission should be improved:

- There was a lack of segregation of duties over fixed assets. One individual was capable of handling all phases of a transaction from beginning to end. There were also no controls to compensate for this lack of segregation of duties. There was no review of items added or deleted from the listing by a person independent of the process to ensure any changes made to the system were authorized. The risk of loss or theft of State assets increases without adequate segregation of duties or compensating controls.

- Assets were added to the fixed asset list before the item was received and paid for. Eleven items were added to the list during the fiscal year which were not actually paid for until the next fiscal year. The total cost of the 11 items was $38,127. One laptop computer was added to the list before the fiscal year began, but was not received and paid for until the fiscal year. This computer cost $4,102. Fixed assets may be misstated if they are recorded other than when they are purchased.

- Items were deleted from the fixed asset list without adequate documentation to support the deletion. Thirty-one assets were deleted from the list in error during the fiscal year. The total cost of the assets was $10,832. All assets were located in the Commission office. Six assets were included on the prior year's list, but the dollar value had been removed from the current list. The total cost of the items was $2,362. Two items were removed from the list during the fiscal year, but were not actually surplused until October 2001. The total cost of the two items was $2,091. Four items were deleted from the fixed asset listing during the fiscal year, but were actually surplused in 1997. The total

COMMENTS AND RECOMMENDATIONS

7. Internal Control Over Fixed Assets (Continued)

cost of these four items was $1,610. There was no documentation in the current year to support the deletion. Again, the risk of loss or theft of State assets increases without proper documentation to support all items removed from the asset list. Additionally, fixed assets could be misstated if items are removed from the list in an incorrect fiscal year.

- Eleven assets purchased in the fiscal year were not added to the fixed asset list. The 11 items, including a printer, a scanner, computers, and other computer hardware, cost just under $9,000. If assets are not recorded on the fixed asset listing, the risk of loss or theft of those assets greatly increases.

- The Commission did not have a formal, written fixed asset capitalization policy. The Commission indicated they followed the former Department of Administrative Services guideline of capitalizing assets greater than $300. However, we noted items on the listing less than $300. The total cost of these items was $7,368. We also noted the Commission coded items less than $300 to the capital outlay account codes on the Nebraska Accounting System (NAS). The NAS manual states that items less than the capitalization policy should be coded to office supplies expense.

- For one document tested, the invoice indicated the purchase of a moisture meter for $2,895. There was also a discount for the trade-in of two moisture meters for $1,400. Only one meter should have been added at a cost of $1,495. Two meters were added to the list in error with a cost of $1,448 each or $2,896 total. We also noted other items included on the list at the item's value. Items added to the list should be added at cost, or less any trade-ins, discounts, or credits. Again, fixed assets could be misstated if they are not recorded correctly on the list or are not valued at their actual cost.

- Serial numbers were not included on the list for 1 printer, 18 computers, and 17 monitors purchased in the fiscal year. Therefore, exact items purchased could not be traced to the list.

- One of five items tested was not properly tagged. The computer and monitor were purchased and added to the list during the fiscal year, but the assets did not have tags indicating they were property of the State of Nebraska, as required by statute. The risk of loss or theft increases without identifying assets as the property of the State of Nebraska.

- Surplus property notification forms did not always contain serial numbers or tag numbers of the assets being surplused. Therefore, it is very difficult to determine the actual items on the list that were deleted.

COMMENTS AND RECOMMENDATIONS

7. <u>Internal Control Over Fixed Assets</u> (Continued)

- The fixed asset list did not include the fund of origination for each item purchased. This information should be included to ensure the correct fund is credited when items are sold. This was also a comment in the audit for the fiscal year ended June 30, 1999.

The fixed assets of the Commission were adjusted to reflect the actual fixed assets on hand at June 30, 2001.

> We recommend the Commission implement procedures to ensure a proper segregation of duties over fixed assets. If a segregation of duties is not possible, controls should be developed to compensate for the lack of segregation of duties. We also recommend:

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. The Commission has in the past lacked, and continues to lack, the staff and resources needed to segregate the duties regarding fixed assets. With the implementation of the NIS system, the Commission will reevaluate the fixed assets procedures to make the necessary corrections.

Auditors' Response: If adequate segregation of duties is not possible, other controls should be implemented to compensate for the lack of segregation of duties. This would include a review of fixed assets changes to ensure all were proper.

> - The Commission implement procedures to ensure all assets are correctly added to the fixed asset list when they are purchased and that the dollar amount added is the actual cost of the item.

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. The items noted involving timing of additions of fixed assets to the inventory were the result of a misunderstanding by the individual who was doing the actual recording of the inventory. After visiting with the Auditors office, this misunderstanding was cleared up.

> - The Commission implement procedures to ensure proper documentation exists for all assets removed from the list.

COMMENTS AND RECOMMENDATIONS

7. <u>Internal Control Over Fixed Assets</u> (Continued)

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. The Commission will reevaluate the procedures regarding the deletion of items from the inventory. This will include ensuring there is adequate documentation and independent review of items removed.

- The Commission implement procedures to ensure assets are removed from the list in the correct fiscal year.

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. The Commission will reevaluate the procedures regarding the deletion of items from the inventory. This will include ensuring there is adequate documentation and independent review of items removed.

- The Commission formally approve a fixed asset capitalization policy and implement procedures to ensure the policy is followed.

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. A formal fixed asset capitalization policy will be adopted.

- The Commission include serial numbers or other identifying information on the fixed asset list to ensure the actual item purchased can be traced and located.

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. The Commission will reevaluate these procedures.

- The Commission implement procedures to ensure all items are properly tagged property of the State of Nebraska when they are received, in accordance with statute.

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. The Commission will reevaluate these procedures.

COMMENTS AND RECOMMENDATIONS

7. <u>Internal Control Over Fixed Assets</u> (Concluded)

- The Commission include tag numbers on the surplus property notification forms to ensure all items removed from the list are properly accounted for.

Commission's Response: The Commission's procedures in this regard have not changed significantly since prior audit reports, which did not comment on such procedures. The Commission will reevaluate the procedures regarding the deletion of items from the inventory. This will include ensuring there is adequate documentation and independent review of items removed.

- The fund of origination be added to the fixed asset listing.

Commission's Response: The fixed asset listing will include the fund of origination.

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NEBRASKA PUBLIC SERVICE COMMISSION

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Public Service Commission 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 Commission'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 Public Service Commission, 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 Public Service Commission 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 February 28, 2002, on our consideration of the Nebraska Public Service Commission'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 combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

February 28, 2002 Manager

NEBRASKA PUBLIC SERVICE COMMISSION

COMBINED STATEMENT OF ASSETS AND FUND BALANCES AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP

June 30, 2001

	Governmental Fund Types		Fiduciary Fund Type	Account Group	
	General	Special Revenue	Elevator Trust	General Fixed Assets	**Totals** (Memorandum Only)
Assets					
Cash in State Treasury	$ -	$ 48,285,891	$ 103	$ -	$ 48,285,994
Securities on Deposit	-	-	535,000	-	535,000
Deposit with Vendors	3,446	-	-	-	3,446
Customer Deposits	300	-	-	-	300
Property, Plant, and Equipment	-	-	-	501,169	501,169
Total Assets	$ 3,746	$ 48,285,891	$ 535,103	$ 501,169	$ 49,325,909
Fund Balances and Other Credits					
Other Credits:					
Investment in Fixed Assets	$ -	$ -	$ -	$ 501,169	$ 501,169
Fund Balances:					
Reserved For Postage	3,446	-	-	-	3,446
Reserved for Customer Deposits	300	-	-	-	300
Reserved for Securities Held for Others	-	-	535,000	-	535,000
Unreserved, Undesignated	-	48,285,891	103	-	48,285,994
Total Fund Balances and Other Credits	$ 3,746	$ 48,285,891	$ 535,103	$ 501,169	$ 49,325,909

The accompanying notes are an integral part of the financial statements.

NEBRASKA PUBLIC SERVICE COMMISSION

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types		Fiduciary Fund Types		
	General	Special Revenue	Expendable Trust Elevator Trust	Nonexpendable Trust Permanent School	**Totals** (Memorandum Only)
RECEIPTS:					
Appropriations	$ 2,299,406	$ -	$ -	$ -	$ 2,299,406
Consumers' Use Taxes	-	56,121,866	-	-	56,121,866
Intergovernmental	1,059	23,987	-	-	25,046
Sales and Charges	148,352	304,610	-	-	452,962
Miscellaneous	658	3,283,305	103	64,385	3,348,451
TOTAL RECEIPTS	2,449,475	59,733,768	103	64,385	62,247,731
DISBURSEMENTS:					
Personal Services	1,723,145	559,074	-	-	2,282,219
Operating	424,313	1,002,334	-	-	1,426,647
Travel	88,646	37,578	-	-	126,224
Capital Outlay	63,302	11,469	-	-	74,771
Government Aid	-	36,629,054	-	-	36,629,054
TOTAL DISBURSEMENTS	2,299,406	38,239,509	-	-	40,538,915
Excess of Receipts Over (Under) Disbursements	150,069	21,494,259	103	64,385	21,708,816
OTHER FINANCING SOURCES (USES):					
Deposits to Permanent School Fund	-	-	-	(64,385)	(64,385)
Deposits to State General Fund	(150,069)	-	-	-	(150,069)
Transfer to State General Fund per Statute	-	(39,281)	-	-	(39,281)
Distributive Activity:					
Ins (Credits)	2,325	-	38,907	-	41,232
Outs (Debits)	(2,700)	-	(115,607)	-	(118,307)
TOTAL OTHER FINANCING SOURCES (USES)	(150,444)	(39,281)	(76,700)	(64,385)	(330,810)
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(375)	21,454,978	(76,597)	-	21,378,006
FUND BALANCE, JULY 1, 2000	4,121	26,830,913	611,700	-	27,446,734
FUND BALANCE, JUNE 30, 2001	$ 3,746	$ 48,285,891	$ 535,103	$ -	$ 48,824,740

The accompanying notes are an integral part of the financial statements.

NEBRASKA PUBLIC SERVICE COMMISSION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

General and Cash Funds

For the Fiscal Year Ended June 30, 2001

	GENERAL FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Appropriations		$ 2,299,406	
Consumers' Use Taxes		-	
Intergovernmental		1,059	
Sales and Charges		148,352	
Miscellaneous		658	
TOTAL RECEIPTS		2,449,475	
DISBURSEMENTS:			
Personal Services		1,723,145	
Operating		424,313	
Travel		88,646	
Capital Outlay		63,302	
Government Aid		-	
TOTAL DISBURSEMENTS	$ 2,486,707	2,299,406	$ 187,301
Excess of Receipts Over (Under) Disbursements		150,069	
OTHER FINANCING SOURCES (USES):			
Deposit to State General Fund		(150,069)	
Transfer to State General Fund per Statute		-	
Distributive Activity:			
Ins		2,325	
Outs		(2,700)	
TOTAL OTHER FINANCING SOURCES (USES)		(150,444)	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		(375)	
FUND BALANCES, JULY 1, 2000		4,121	
FUND BALANCES, JUNE 30, 2001		$ 3,746	

The accompanying notes are an integral part of the financial statements.

CASH FUNDS			TOTALS (MEMORANDUM ONLY)		
BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
	$ -			$ 2,299,406	
	56,121,866			56,121,866	
	23,987			25,046	
	304,610			452,962	
	3,283,305			3,283,963	
	59,733,768			62,183,243	
	559,074		$ 2,461,317	2,282,219	$ 179,098
	1,002,334		1,650,553	1,426,647	223,906
	37,578		127,905	126,224	1,681
	11,469		185,145	74,771	110,374
	36,629,054		78,508,998	36,629,054	41,879,944
$ 80,447,211	38,239,509	$ 42,207,702	$ 82,933,918	40,538,915	$ 42,395,003
	21,494,259			21,644,328	
	-			(150,069)	
	(39,281)			(39,281)	
	-			2,325	
	-			(2,700)	
	(39,281)			(189,725)	
	21,454,978			21,454,603	
	26,830,913			26,835,034	
	$ 48,285,891			$ 48,289,637	

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Public Service Commission are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity. The Nebraska Public Service Commission (Commission) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The financial statements include all funds of the Commission. The Commission has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Commission, or the significance of their relationship with the Commission 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 Commission 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 Commission.

These financial statements present the Nebraska Public Service Commission. No component units were identified. The Nebraska Public Service Commission 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 Commission are maintained and the Commission'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 Combined Statement of Assets and Fund Balances for all funds of the Commission. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds and expendable trust 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. All nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

1. Summary of Significant Accounting Policies (Continued)

Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total 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 (GAAP), which requires the use of the modified accrual basis for governmental and expendable trust fund types and the accrual basis for nonexpendable trust 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. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when the liability is incurred.

C. Fund Accounting. The accounts and records of the Commission 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 types and account group presented on the financial statements are those required by GAAP, and include:

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by State government and which are not accounted for in any other fund.

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

Trust and Agency Funds. Reflect transactions related to assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

General Fixed Assets Account Group. Used to account for general fixed assets of the Commission.

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

1. Summary of Significant Accounting Policies (Continued)

The fund types established by the Nebraska Accounting System that are used by the Commission are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

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

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

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 Commission and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust funds. 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.

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.

1. Summary of Significant Accounting Policies (Continued)

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. For fiscal year 2001, the Legislature passed a deficit appropriation bill which increased the allowable disbursement level in two of the programs.

All State budgetary disbursements for the general and cash fund types 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 general and cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill.

The Commission 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 Commission's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - 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 Commission'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.

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.

1. Summary of Significant Accounting Policies (Continued)

There are no annual budgets prepared for Trust Funds, and, as a result, no budgetary comparisons are presented.

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2001, follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES PRIMARY GOVERNMENT		
	Total	General	Special Revenue	Trust and Agency
PERSPECTIVE DIFFERENCES:				
Classifications of budgetary fund balances into Financial Statement fund structure:				
General	$ 3,746	$ 3,746	$ -	$ -
Cash	48,285,891	-	48,285,891	-
Budgetary fund balances classified into Financial Statement fund structure	$ 48,289,637			
Entity Difference:				
Record funds not budgeted		-	-	535,103
Financial Statement Fund Balances, June 30, 2001		$ 3,746	$ 48,285,891	$ 535,103

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. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2001 have been recorded at cost or estimated cost by the Commission. Generally, equipment which has a cost in excess of $300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure, such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

1. Summary of Significant Accounting Policies (Continued)

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. All of the funds of the Commission, except for Fund 6142, the Elevator Trust Fund, were designated for investment during fiscal year 2001.

G. Distributive Activity. Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Commission which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.

H. Compensated Absences. All permanent employees working for the Commission earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission 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.

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

Appropriations. Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Consumers' Use Taxes. Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. For the Commission, this consisted of the receipts of the Nebraska Universal Service Fund surcharge.

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

1. Summary of Significant Accounting Policies (Concluded)

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

Miscellaneous. Receipts from sources not covered by other major categories. Investment interest made up almost $2.2 million of the miscellaneous receipts. The dual party relay surcharge accounted for an additional $989,376.

J. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Commission 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.

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

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

L. Securities on Deposit. The Commission accepted certain securities in lieu of a Grain Warehouse Licensing Bond. These securities are held in the Commission's name; therefore, they are shown on the financial statements. The Commission maintained these securities on the Nebraska Accounting System (NAS) at face value. At June 30, 2001, the market value of the securities was greater than face value.

2. 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 since interfund balances and transactions have not been eliminated.

3. Contingencies and Commitments

Risk Management. The Commission 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 Commission, as part of the primary government for the State, 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

3. Contingencies and Commitments (Concluded)

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 Public Service Commission's financial statements.

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

4. 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 Commission 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 $71,238 and the Commission contributed $111,132.

5. Distributive Activity

The Commission's net distributive activity for the audit period consists of:

In (Credits)	Out (Debits)	Explanation
General Fund:		
$ 2,325	$ 2,700	Collections and refunds of cost bonds from all persons appealing the Commission's decisions to the Supreme Court.
Elevator Trust Fund:		
$ 38,907		Amount collected in the fiscal year related to the failure of Gering Valley Grain & Commodities.
	$ 38,907	Amount paid out in the fiscal year to claimant of Gering Valley Grain & Commodities.
		Withdrawals of securities held in safekeeping for grain dealers or grain warehouses.
	$ 76,700	
$ 38,907	$ 115,607	Total Elevator Trust Fund Distributive Activity

6. Fixed Assets

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Equipment	$ 485,182	$ 73,018	$ 57,031	$ 501,169

7. Full Accountability of the General Fund

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedule reflects appropriations. Appropriations do not represent cash transactions.

General Fund

Beginning (Reappropriated) Balance July 1, 2000	$ 114,460
New Appropriations	2,372,247
Total Appropriations	2,486,707

7. Full Accountability of the General Fund (Concluded)

General Fund (Continued)	
Disbursements	(2,299,406)
Lapse of Appropriations	(148,494)
Ending (Appropriations) Balance June 30, 2001	$ 38,807

8. Grain Warehouse and Grain Dealer Securities

Neb. Rev. Stat. Section 88-530 R.R.S. 1999 states that grain warehouse applicants shall file with the Commission security "in the form of a bond, a certificate of deposit, an irrevocable letter of credit, United States bonds or treasury notes, or other public debt obligations of the United States which are unconditionally guaranteed. . . . The security shall run to the State of Nebraska for the benefit of each person who stores grain in such warehouse and of each person who holds a check for purchase of grain stored in such warehouse which was issued by the warehouse licensee not more than five business days prior to the cutoff date of operation of the warehouse, which shall be the date the Commission officially closes the warehouse." The security may not be less than $25,000 or more than $500,000, and is based on the capacity of bushels. The Commission had securities on file from grain warehouse licensees totaling $41,815,700 at June 30, 2001. These securities are not held in the Commission's name; therefore, they are not shown on the financial statements.

Neb. Rev. Stat. Section 75-903(4) R.S.Supp., 2000 states that in order to procure and maintain a license, a grain dealer shall "file security which may be a bond issued by a corporate surety company and payable to the commission, an irrevocable letter of credit, or a certificate of deposit, subject to the approval of the commission, for the benefit of any producer or owner within this State who files a valid claim arising from a sale to or purchase from a grain dealer." The security shall be in the amount of $35,000 or 7%, whichever is greater, of grain purchases by the grain dealer in the preceding license year, not to exceed $150,000. The Commission had securities on file from grain dealer licensees totaling $8,872,000 at June 30, 2001. These securities are not held in the Commission's name; therefore, they are not shown on the financial statements.

9. Transfer to General Fund per Statute

Neb. Rev. Stat. Section 89-1,104.01 R.R.S. 1999 states the State Treasurer shall credit any fees in excess of twenty thousand dollars in the Moisture Testing Examination Fund to the General Fund.

10. Permanent School Nonexpendable Trust Fund

The Permanent School Fund is a common fund which is shared with several other State agencies in the Nebraska Accounting System. All amounts contributed to this Fund by participating State agencies are reflected in fund balances of the Fund's custodial agency, the Nebraska Board of Educational Lands and Funds.

The Commission collects civil and administrative penalties, which per Statutes, are required to be credited to the Permanent School Fund.

11. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The State of Nebraska is planning to implement the Statement for the fiscal year ending June 30, 2002. The new accounting and reporting standards will impact the State's revenue and expenditure recognition, and assets, liabilities, and fund equity reporting. The financial statements will be reformatted to reflect the new standards.

NEBRASKA PUBLIC SERVICE COMMISSION

COMBINING STATEMENT OF ASSETS AND FUND BALANCES

ARISING FROM CASH TRANSACTIONS

ALL SPECIAL REVENUE FUNDS

June 30, 2001

	Grain Warehouse Surveillance Fund 2140	Telephone Relay System Fund 2141	Moisture Testing Exam Fund 2142	Grain Warehouse Auditing Fund 2143	Modular Housing Fund 2144	Manufactured Homes and Recreation Vehicles Fund 2145	Universal Service Fund 2146	**Total Special Revenue Funds**
Assets								
Cash in State Treasury	$ 18,121	$ 316,652	$ 20,427	$ 8,597	$ 243,146	$ 711,527	$ 46,967,421	$ 48,285,891
Fund Balances								
Unreserved, Undesignated	$ 18,121	$ 316,652	$ 20,427	$ 8,597	$ 243,146	$ 711,527	$ 46,967,421	$ 48,285,891

NEBRASKA PUBLIC SERVICE COMMISSION

COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
ALL SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2001

	Grain Warehouse Surveillance Fund 2140	Telephone Relay System Fund 2141	Moisture Testing Exam Fund 2142	Grain Warehouse Auditing Fund 2143
RECEIPTS:				
Consumers' Use Taxes	$ -	$ -	$ -	$ -
Intergovernmental	-	-	-	-
Sales and Charges	-	-	14,080	6,072
Miscellaneous	1,074	1,017,221	3,106	468
TOTAL RECEIPTS	1,074	1,017,221	17,186	6,540
DISBURSEMENTS:				
Personal Services	-	22,316	-	-
Operating	-	941,257	1,031	1,500
Travel	-	263	-	-
Capital Outlay	-	-	3,281	-
Government Aid	-	177,188	-	-
TOTAL DISBURSEMENTS	-	1,141,024	4,312	1,500
Excess of Receipts Over (Under) Disbursements	1,074	(123,803)	12,874	5,040
OTHER FINANCING SOURCES (USES):				
Transfer to State General Fund per Statute	-	-	(39,281)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(39,281)	-
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	1,074	(123,803)	(26,407)	5,040
FUND BALANCE, JULY 1, 2000	17,047	440,455	46,834	3,557
FUND BALANCE, JUNE 30, 2001	$ 18,121	$ 316,652	$ 20,427	$ 8,597

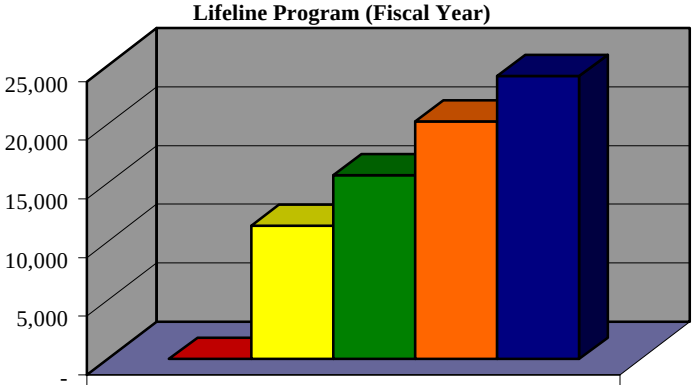
Modular Housing Fund 2144	Manufactured Homes and Recreation Vehicles Fund 2145	Universal Service Fund 2146	**Total Special Revenue Funds**
$ -	$ -	$ 56,121,866	$ 56,121,866
-	23,987	-	23,987
108,080	176,378	-	304,610
32,176	121,343	2,107,917	3,283,305
140,256	321,708	58,229,783	59,733,768
95,189	296,884	144,685	559,074
13,856	22,542	22,148	1,002,334
14,188	22,999	128	37,578
1,236	2,161	4,791	11,469
-	-	36,451,866	36,629,054
124,469	344,586	36,623,618	38,239,509
15,787	(22,878)	21,606,165	21,494,259
-	-	-	(39,281)
-	-	-	(39,281)
15,787	(22,878)	21,606,165	21,454,978
227,359	734,405	25,361,256	26,830,913
$ 243,146	$ 711,527	$ 46,967,421	$ 48,285,891

NEBRASKA PUBLIC SERVICE COMMISSION

COMMUNICATIONS DEPARTMENT

(UNAUDITED)

Lifeline Program (Fiscal Year)

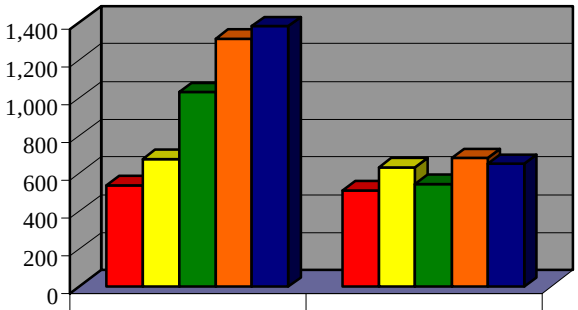


	Households Served
1997	N/A
1998	11,355
1999	15,649
2000	20,256
2001	24,107

Note: The households served is a cumulative figure. The Lifeline Program began January 1, 1998.

The purpose of the Nebraska Lifeline Service Program shall be to promote the provision of universal service to low-income households by local exchange carriers. Support provided by the program shall be specifically targeted to maintain affordable rates for residential basic local exchange services supported by Federal and State universal service mechanisms.

Consumer Complaints and Filing and Review of Rate Lists



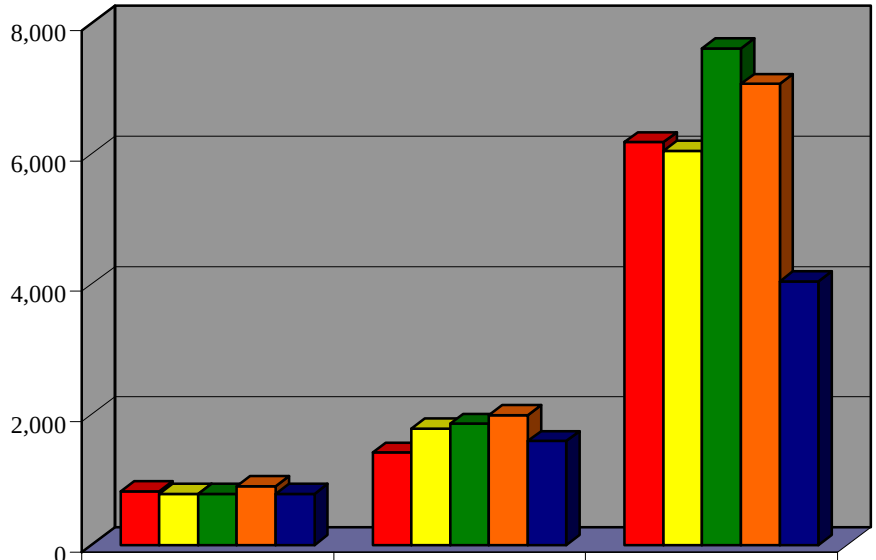
	Consumer Complaints	Filing and Review of Rate Lists
1997	538	510
1998	675	631
1999	1,031	544
2000	1,314	681
2001	1,379	650

NEBRASKA PUBLIC SERVICE COMMISSION

MODULAR HOUSING UNIT DEPARTMENT

(UNAUDITED)

Housing Department
Number of Seals Issued by Fiscal Year



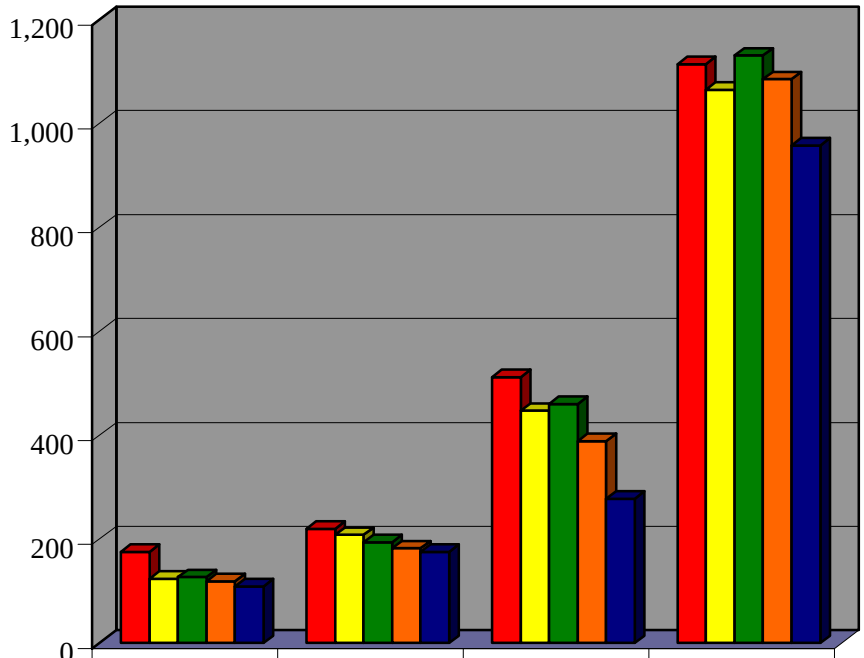
	Modular Housing	Recreational Vehicles	Manufactured Homes
1997	821	1,415	6,174
1998	779	1,783	6,042
1999	785	1,856	7,611
2000	897	1,990	7,069
2001	785	1,589	4,035

Neb. Rev. Stat. Section 71-1559 R.S.Supp., 2000 requires every modular housing unit, except those constructed or manufactured by any school district or community college area as part of a buildings trade or other instructional program offered by such district or area, manufactured more than six months after July 10, 1976, and before May 1, 1998, which is sold, offered for sale, or leased in this State to comply with the seal requirements of the state agency responsible for regulation of modular housing units as such requirements existed on that date of manufacture. Every modular housing unit, except those constructed or manufactured by any school district or community college area as part of a buildings trade or other instructional program offered by such district or area, manufactured on or after May 1, 1998, which is sold, offered for sale, or leased in this State shall bear a seal issued by the Commission certifying that the construction and the structural, plumbing, heating, and electrical systems of such modular housing unit have been installed in compliance with its standards applicable at the time of manufacture.

Neb. Rev. Stat. Section 71-4604.01 R.S.Supp., 2000 requires every manufactured home or recreational vehicle manufactured more than four months after May 27, 1975, and before May 1, 1998, which is sold, offered for sale, or leased in this State to comply with the seal requirements of the state agency responsible for regulation of manufactured homes or recreational vehicles as such requirements existed on the date of manufacture. Every manufactured home or recreational vehicle manufactured on or after May 1, 1998, which is sold, offered for sale, or leased in this State shall bear a seal issued by the Commission certifying that the body and frame design and construction and the plumbing, health in, and electrical systems in compliance with the standards adopted by the Commission, applicable at the time of manufacture.

NEBRASKA PUBLIC SERVICE COMMISSION
GRAIN WAREHOUSE DEPARTMENT
(UNAUDITED)

Licenses Issued and Inspections Performed by Fiscal Year



	Grain Dealer Licenses	Grain Warehouse Licenses	Grain Warehouse Inspections	Moisture Meter Inspections
1997	175	220	512	1,114
1998	124	208	447	1,065
1999	127	194	460	1,131
2000	119	182	389	1,085
2001	109	175	278	958

Neb. Rev. Stat. Section 75-903 R.S.Supp., 2000 requires all grain dealers doing business in the State to be licensed by the Commission.

Neb. Rev. Stat. Section 88-527(1) R.R.S. 1999 states that no person shall operate a warehouse nor act as a warehouseman without a license pursuant to the Grain Warehouse Act. Warehouses, except warehouses which are licensed under the Unites States Warehouse Act, shall be licensed and regulated by the Commission.

Neb. Rev. Stat. Section 88-527(1) R.R.S. 1999 also requires such warehouses be inspected by the Commission at least once every twelve months.

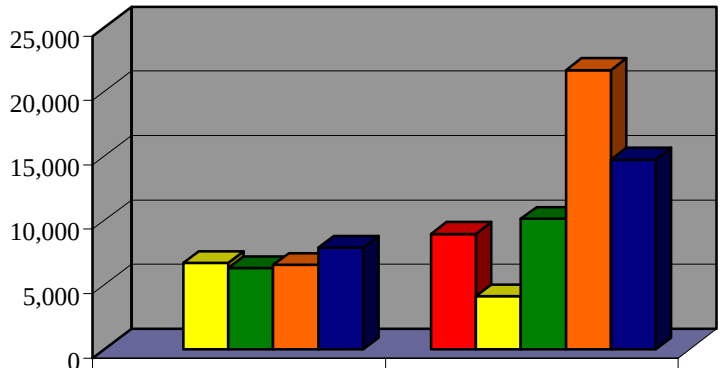
Neb. Rev. Stat. Section 89-1,104 R.R.S. 1999 requires the Commission to make or cause to be made all inspections and may establish tolerances and specifications for grain moisture measuring devices.

NEBRASKA PUBLIC SERVICE COMMISSION

TRANSPORTATION DEPARTMENT

(UNAUDITED)

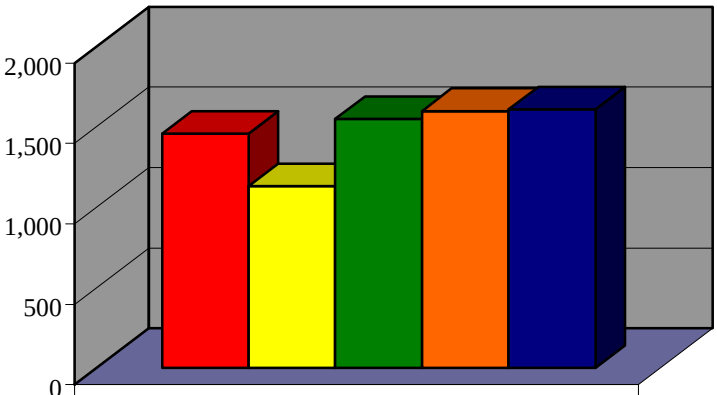
Railroad Division



	Railroad Track Units Inspected	Freight Cars and Locomotives Inspected
1997	N/A	8,962
1998	6,704	4,103
1999	6,300	10,142
2000	6,543	21,673
2001	7,884	14,723

Note: These figures are on a calendar year basis.

Number of PSC License Plates Issued



	Number of PSC Plates Issued
1997	1,457
1998	1,129
1999	1,546
2000	1,597
2001	1,609

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NEBRASKA PUBLIC SERVICE COMMISSION

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 Public Service Commission as of and for the year ended June 30, 2001, and have issued our report thereon dated February 28, 2002. 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 Public Service Commission. 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 Public Service Commission'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 an instance of noncompliance that is required to be reported under Government Auditing Standards, and is described in the Comments Section of our report as Comment Number 1 (Nebraska Universal Service Fund (NUSF) Receipts). We also noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Public Service Commission in the Comments Section of this report as Comment Number 2 (NUSF Disbursements), Comment Number 3 (Internal Control Over Travel Expenses), and Comment Number 7 (Internal Control Over Fixed Assets).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Public Service Commission'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Public Service Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Nebraska Universal Service Fund (NUSF) Receipts), Comment Number 2 (NUSF Disbursements), Comment Number 3 (Internal Control Over Travel Expenses), Comment Number 4 (Internal Control Over Receipts), Comment Number 6 (Internal Control Over Disbursements), and Comment Number 7 (Internal Control Over Fixed Assets).

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Comment Number 1 (Nebraska Universal Service Fund (NUSF) Receipts) and Comment Number 2 (NUSF Disbursements) to be material weaknesses.

This report is intended solely for the information and use of the Commission, 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.

Pat Reding, CPA

February 28, 2002 Manager