ATTESTATION REPORT
OF THE
NEBRASKA PUBLIC SERVICE COMMISSION

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on March 24, 2006

NEBRASKA PUBLIC SERVICE COMMISSION

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NEBRASKA PUBLIC SERVICE COMMISSION

BACKGROUND

The Public Service Commission was created in 1906 by a constitutional amendment as the Nebraska State Railway Commission. The name of the Commission was changed to the Nebraska 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 is a list of the current Commissioners:

Commissioner	District	Term Expires
Frank E. Landis	District 1	January 2007
Anne Boyle	District 2	January 2009
Lowell C. Johnson, Chair	District 3	January 2007
Rod Johnson	District 4	January 2011
Gerald L. Vap	District 5	January 2011

The constitutional powers and duties of the Public Service Commission include regulatory authority over certain aspects of the following industries: grain warehouses and grain dealers; manufacturers and sellers of manufactured homes, modular homes, and recreational vehicles; motor transportation carriers of household goods and passengers; natural gas utilities; private water companies; railroads; and telecommunication carriers.

The grain warehouse department regulates grain storage and sale.

The housing and recreational vehicle department regulates construction of manufactured (mobile) homes, modular housing units, and recreations vehicles.

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 good and passenger carriers (rates, service, territory, safety, and insurance).

The natural gas department regulates natural gas utilities, not including natural gas utilities owned or operated by a city or metropolitan utilities district. The department also regulates natural gas pipeline extensions in the areas surrounding Omaha, where a metropolitan utilities district and another natural gas utility both serve.

The communications department regulates telephone companies; the Nebraska Relay Service, a communication system for the speech and hearing impaired; electrical transmission lines; and private water companies.

The universal service fund department is responsible for ensuring all Nebraskans have access to telecommunications services at affordable prices. The Commission accomplishes this through two programs: the high cost program and the Nebraska Telephone Assistance Program.

The wireless enhanced 911 department regulates wireless enhanced 911 service, which allows 911 call centers to identify and locate emergency calls originating from wireless phones.

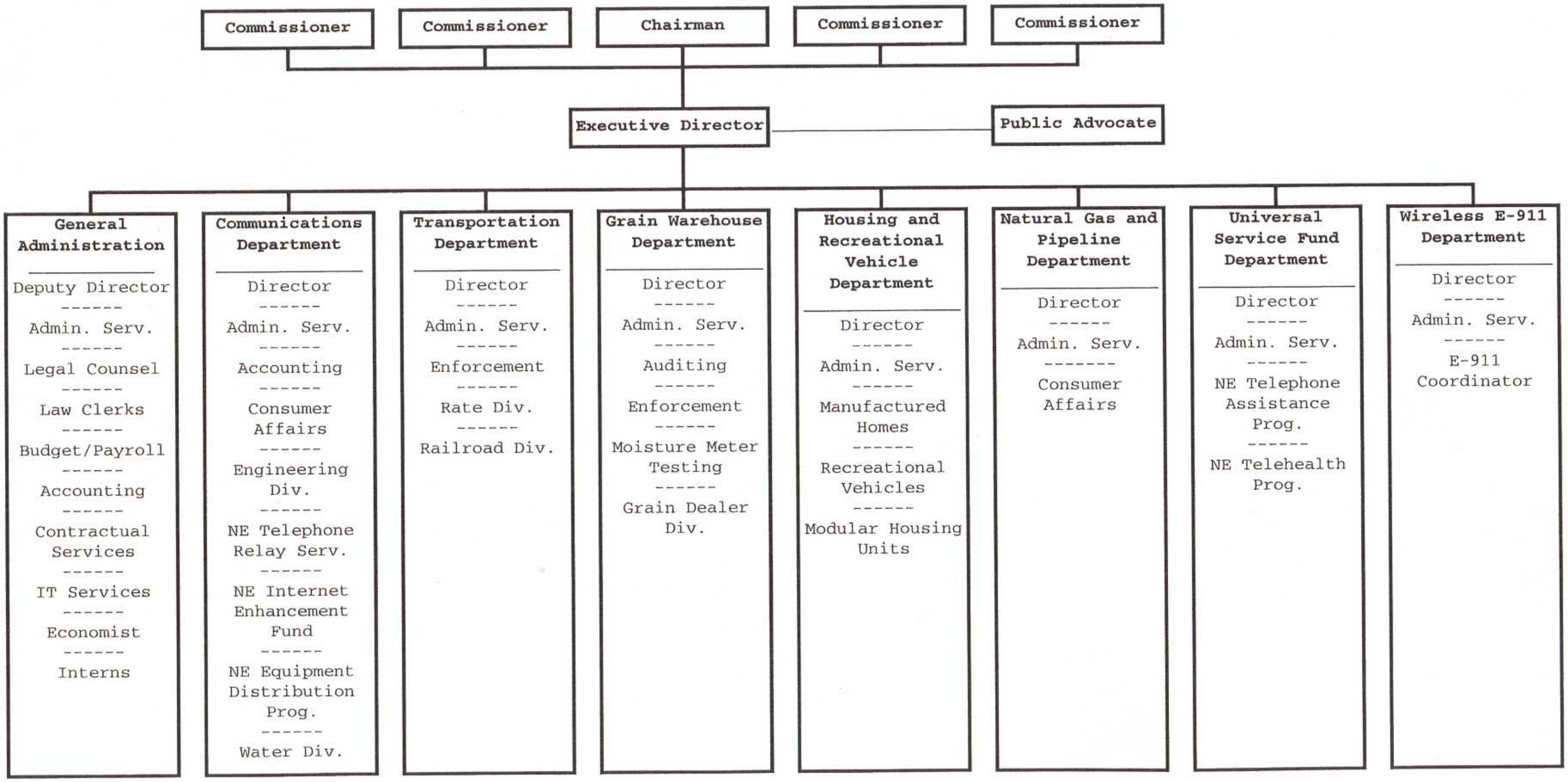
NEBRASKA PUBLIC SERVICE COMMISSION

MISSION STATEMENT

The mission of the Nebraska Public Service Commission is to assure Nebraskans receive high quality, safe and reliable public services at fair and affordable rates.

NEBRASKA PUBLIC SERVICE COMMISSION

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held February 16, 2006, with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Public Service Commission were:

NAME	TITLE
Lowell C. Johnson	Commission Chair
Jerry Vap	Commissioner
Andy Pollock	Executive Director
John Burvainis	Accountant
Brenda Wicken	Business Manager
Steve Stovall	Staff Accountant
Jeff Pursley	NUSF Director

SUMMARY OF COMMENTS

During our examination 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.

1. ***Nebraska Universal Service Fund Remittances:*** The Commission received $61,205,319 from the universal service surcharge; however, the Commission was unable to ensure the billing collection and remittance of a surcharge for universal service was in accordance with statutes.

2. ***Nebraska Universal Service Fund Disbursements:*** The Commission disbursed $68,699,673 in aid from the universal service fund. The Commission did not receive an attestation that companies were using the funds in accordance with Commission rules and regulations. There were several areas in which the Commission could improve the documentation of the review of the fund disbursements.

3. ***Enhanced Wireless 911 Services Remittances:*** The Commission was unable to ensure all money owed to the Commission was actually collected. The Commission did not record the surcharge in the proper fund in a timely manner. The Commission did not collect unpaid surcharges by customers.

4. ***Enhanced Wireless 911 Services Disbursements:*** There was a lack of documentation to support compliance with Commission rules and regulations. There was also a lack of internal controls and procedures over enhanced wireless 911 payments.

5. ***Telecommunications Relay System Remittances:*** The Commission has not audited any of the companies who remitted the surcharge. The Commission did not contact registered companies that were not remitting the surcharge. Finally, the Commission did not collect surcharges from customers who refused payment to the telecommunications companies.

6. ***Internal Control Over Revenues:*** We noted several areas where internal control over the money received by the Commission could be improved.

7. ***Internal Control Over Payroll:*** We noted several areas where internal control over the payroll process could be improved.

8. ***Internal Control Over Expenditures:*** The Commission did not have adequate documentation to support the allocation of expenses between funds and programs. There were also other areas where internal control over the expenditure process could be improved.

SUMMARY OF COMMENTS
(Continued)

9. ***Travel Expenditures:*** One document tested exceeded the Federal guideline for meals, which was not reasonable and also contained reimbursement for a meal that was not allowable. Two documents tested were not completed in accordance with statutory provisions. Finally, one document was for lodging in Nebraska and could have been direct billed so the sales, use, and lodging taxes were avoided.

10. ***Commission-Owned Vehicles Mileage Logs:*** The Commission could not provide the mileage logs for 4 of its 14 vehicles. The mileage driven for the time period without a log ranged from 266 miles to 4,627 miles.

11. ***Internal Control Over Fixed Assets:*** There was a lack of segregation of duties over the fixed asset process. We also noted several other areas where internal control over the fixed asset process of the Commission could be improved.

12. ***Penalties:*** The Commission followed the language in the statutes and deposited penalties assessed and collected into the Permanent School Fund. There is a conflict between the Commission statutes and the Nebraska Constitution.

13. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

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

Draft copies of this report were furnished to the 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 examination.

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

COMMENTS AND RECOMMENDATIONS

1. <u>Nebraska Universal Service Fund Remittances</u>

The purpose of the Nebraska Telecommunications Universal Service Fund Act is 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 telecommunications services at affordable prices. During fiscal year 2005, the Commission collected $61,205,319 from the universal service surcharge.

Neb. Rev. Stat. Section 86-324(2)(d) R.S.Supp., 2004, states "The commission shall require, as reasonably necessary, an annual audit of any telecommunications company to be performed by a third-party certified public accountant to insure the billing, collection, and remittance of a surcharge for universal service. The costs of any audit required pursuant to this subdivision shall be paid by the telecommunications company being audited."

Commission Rule and Regulation, Title 291 NAC 10-003.05 states "A telecommunications company whose assessable revenue is greater than one million dollars in a given fiscal year shall have all information used in determining its assessable revenue audited. Such audit must be performed on an annual basis and a written report of the results of such audit shall be provided to the Department before the end of the fiscal year next following the audit period."

Good internal control requires procedures to ensure all companies providing service in Nebraska are properly remitting the surcharge to the Commission.

We noted the following related to the remittance of the universal service surcharge:

- The Commission was unable to ensure the billing, collection, and remittance of a surcharge for universal service is in accordance with statute. The Commission only requires audits of companies with over $1 million in assessable revenue each year. The Auditor of Public Accounts sent letters dated May 23, 2003, to the Commissioners and on September 3, 2003, to the Director of the Nebraska Universal Service Fund indicating we felt strongly that the audit procedures should not be limited only to those companies whose assessable revenue is greater than $1 million. Every company which has remitted a surcharge should undergo the same procedures at some point. During fiscal year 2005, there were 221 companies remitting the surcharge and only 39 companies were required to submit an audit. The 39 companies accounted for 96% of the total amount received from the surcharge; however, companies remitting $2.5 million were not subject to the audit requirement.

- Additionally, 1 of the 3 companies tested who remitted the universal service surcharge, had in excess of $1 million in assessed revenue and did not submit a third party audit to the Commission before the end of the fiscal year following the audit period as required by Commission rules and regulations.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Nebraska Universal Service Fund Remittances (Continued)

- The Commission did not have procedures to ensure all amounts collected for the Nebraska universal service surcharge were remitted. Telecommunications companies are required to register with the Commission. Companies who remit the surcharge receive correspondence from the Commission annually to remind them of the Commission orders for surcharges and the requirements of the remittance; however, the Commission did not contact companies who have registered with them, but had not remitted the surcharge. Many companies registered with the Commission, but did not provide service in Nebraska.

We noted a similar finding in our prior audit.

Without adequate procedures to ensure the billing, collection, and remittance of a surcharge for universal service by all companies, the risk that all monies owed to the State are not collected significantly increases.

> We recommend the Commission implement procedures to ensure the billing, collection, and remittance of the universal service surcharge by all companies. We recommend the Commission continue to require the annual audit of companies with over $1 million in assessable revenue each year; however, we recommend the Commission communicate to the remaining companies that they will also be subjected to the annual audit requirement on a test basis and that additional audits of these companies will be performed on a rotating basis. We recommend the Commission implement procedures to ensure all required third-party audits are received and reviewed in accordance with rules and regulations. Finally, we recommend the Commission implement procedures to ensure all registered companies are contacted annually and reminded of the surcharge remittance requirements.

Commission's Response: The Commission will enhance its procedures to ensure the billing, collection, and remittance of the universal service surcharge by all companies. The Commission will retain annual audit requirements for companies with over $1 million in assessable revenue during a year. There are nearly 200 companies that are below the $1 million threshold. Approximately 80 of these companies remit less than $100 per month to the fund and costs of an outside audit would in most likelihood well exceed their annual remittance. The Commission will undertake to implement a program to perform audits of smaller companies on some basis. The Commission will consider contracting with an independent third party to perform audits on

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Nebraska Universal Service Fund Remittances (Concluded)

Commission's Response, Concluded:
its behalf. The average cost of a remittance audit is approximately $2,500 per company. If the Commission would audit the remaining 200 companies on a rotating basis, it would incur costs of at least $100,000 per year. Any company that files it audit late will be subject to Commission action per our policy.

The Commission has processes and procedures in place to fine companies that do not file their audits on a timely basis. Since 2003 the Commission has imposed administrative penalties totaling in excess of $30,000.

Currently, every company, not just those companies that remit monies, is contacted multiple times during each year. All companies are contacted and required to update their contact information annually, and receive many orders during the year, including the annual order that sets the NUSF surcharge.

2. Nebraska Universal Service Fund Disbursements

The purpose of the Nebraska Telecommunications Universal Service Fund Act is 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 telecommunications services at affordable prices. During fiscal year 2005, the Commission disbursed $68,699,673 in aid from the Nebraska Universal Service Fund (NUSF).

Compliance with NUSF Rules and Regulations

Title 291 NAC 10-004.04 states that NUSF funding shall be used by telecommunications companies solely for the provision, maintenance, and upgrading of facilities and services for which support is intended. Title 291 NAC 10-004.06 states that a telecommunications company that receives NUSF funding shall have an independent third-party perform, and attest to the validity of, an audit pursuant to the requirements of this Rule. Title 291 NAC 10-004.06B states, "The audit shall include an attestation regarding the use of NUSF funding and whether such use was in accordance with Rule 004.04."

The Commission did not receive any attestations regarding the use of NUSF funding and whether such use was in accordance with its rules and regulations. The NUSF Director indicated this was an oversight by the department and would be corrected. The corrective action described by the NUSF Director included procedures to obtain signed and notarized affidavits from the

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Nebraska Universal Service Fund Disbursements</u> (Continued)

<u>Compliance with NUSF Rules and Regulations</u> (Concluded)

companies which received support that would attest to the use of the funds for the appropriate time periods since the effective date of the rule on September 16, 2002. According to the NUSF Director, this procedure is similar to the Federal government procedure for Federal universal service fund support. The NUSF Director indicated it was not the intention of the Commission to have an independent third-party attest to the use of the funds, but rather to have the independent third-party obtain the attestation from the company. The NUSF Director also indicated the Commission may revise the rule to more accurately reflect the Commission's intent.

The proposed procedure described by the NUSF Director is not adequate, in our opinion, to determine the companies who received aid used the funds solely for the provision, maintenance, and upgrading of facilities and services for which support is intended. The proposed procedure of having the company attest to the use of the funds would not provide adequate assurance the funds were used as intended.

Without adequate procedures to ensure the universal service funds are used solely for the provision, maintenance, and upgrading of facilities and services for which support is intended, there is a significant risk that universal service funds are not being used as intended and there is also an increased risk for loss or misuse of funds.

> We strongly recommend the Commission implement procedures to ensure an independent third-party attest to the use of the universal service funds by all companies.

Commission's Response: The EARN-Form, which is subject to an independent third party audit, is the best and most accurate tool to determine the use of, and need for, NUSF support. The EARN-Form measures costs, as determined by a company's investment and expenses; and then compares these costs to a company's revenue to determine if a company should receive all or any of the support allocated to it by the NUSF model based on how it has used all sources of funding, not just NUSF support. NUSF high cost funds are neither grants nor traditional governmental support, but rather are used to recover costs that otherwise would be assigned to consumer's rates. These costs are derived from many different types of capital investments and are recovered over their respective depreciable lives. These costs are accounted for based on Federal Communications Commission rules and that accounting is shown on the EARN-Form. The attestation described above does not replace the EARN-Form audit and was designed for the purpose of ensuring management was aware of the requirements and purpose of NUSF funding.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. **<u>Nebraska Universal Service Fund Disbursements</u>** (Continued)

Commission's Response, Concluded:
The EARN-Form appropriately demonstrates the use of NUSF funding and is subject to an approved set of agreed-upon procedures annually to verify its accuracy. EARN-Form audits had been collected at the time of the audit, and the attestations have since been obtained.

APA's Response: We understand the EARN-Form is used to determine the need for NUSF support; however, we do not believe this independent third-party audit is designed to ensure the funding shall be used by the telecommunications companies solely for the provision, maintenance, and upgrading of facilities and services for which support is intended, as required by rules and regulations. So, again, we recommend the Commission implement procedures to ensure the proper use of the universal service funds by all companies.

<u>Documentation of Reviews</u>

Good internal control requires procedures designed to safeguard assets and provide reliable financial information. A good system of internal control would include procedures to ensure the Commission's review of information used in determining the universal service fund disbursements are documented. Good internal control also requires all department policies, procedures, directives, interpretations of Commission orders, and support waiver program guidelines be properly documented.

There are three basic components of the universal service fund payments to telecommunications companies. High cost support is used to aid telephone companies which provide universal service in areas where the costs of doing business are higher. The Nebraska Lifeline Service Program is to promote the provision of universal service to low-income households by local exchange carriers. Support for this program shall be specifically targeted to maintain affordable rates for residential basic local exchange services supported by Federal and State universal service mechanisms. The Telehealth plan is to help hospitals and medical providers defray the costs of data communication. Under the approved plan, telecommunications companies provide credits on the hospitals' monthly bills and the credits are then reimbursed to the companies with funds from the NUSF.

Effective on payments processed after January 1, 2005, the Commission implemented a complex computer model to calculate the high cost portion of universal service payments to telecommunications companies. There was detailed testimony before the Commission by the NUSF Department staff and telecommunications companies regarding the computer model proposed and adopted by the Commission. The Commission annually determined payment

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Nebraska Universal Service Fund Disbursements (Continued)

Documentation of Reviews (Continued)

amounts to each company for high cost support based on the computer model. The NUSF Department staff converted the annual amount determined by the computer model to a monthly payment. We noted the following related to documentation and reviews of information used in the payment of NUSF funds to companies:

- There was no documented review of the final approved computer model developed from Commission order or subsequent updates due to revised input data. Documentation was also not available to support the regression information used by the computer model to calculate support amounts.

  The Commission initially approved the disbursement of $65,000,000 from the fund on June 29, 2004, to be used in the computer model for high cost support. This amount was adjusted to $66,500,000 by the Commission on January 19, 2005, based on staff recommendations. The computer model was updated for the revised total support amount, but there was no documented review by a second individual that the update was accurate prior to payment to telecommunication companies.

  There were other instances that required inputs into the model to be revised; and again, there was no documented review of the revised model and calculations by a second individual prior to the payment to the telecommunications companies. According to testimony presented to the Commission, a Commission staff member spent several days developing the regression data to be input into the computer model. The Commission staff member did not maintain documentation to support the regression data used was the most appropriate.

- The Commission did not have procedures to conduct an independent, periodic review of the model to ensure it is consistent with Commission directives. There were also no procedures to ensure any changes to the model are documented.

- The Commission used several spreadsheets to perform numerous reoccurring calculations. The spreadsheets may be used for extended periods of time. There was no documented review of the various spreadsheets used to calculate NUSF support disbursements periodically to ensure they were accurate.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Nebraska Universal Service Fund Disbursements</u> (Continued)

<u>Documentation of Reviews</u> (Concluded)

- There was no documented review of monthly NUSF support disbursement calculations. A staff member converted the annual amount determined by the computer model to a monthly amount and calculated other applicable support program disbursement amounts. The same staff member input the information on NIS for payment. The NUSF Director approved the payment on NIS, but did not review the underlying calculations.

- There were certain department policies, directives, interpretations of Commission orders, and waiver program guidelines used to determine NUSF disbursements that were not properly documented. These included waivers of NUSF-7 grants to telecommunications companies (Commission order allowed rural carriers to seek a modification of the funding mechanism set forth in the original order for NUSF payments), partial payment of Lifeline payments, and compliance by telecommunication companies with all Commission orders.

Without procedures to ensure adequate reviews are completed and properly documented, there is an increased risk of possible misuse of State funds.

> We recommend the Commission implement policies and procedures to ensure appropriate reviews be conducted and documented during the disbursement process to ensure the accuracy of the payments from the universal service fund. We recommend the Commission implement procedures to ensure the model is periodically reviewed by an independent party to ensure the model is consistent with Commission directives. We also recommend the Commission ensure all changes to the model are adequately documented. We also recommend the Commission implement procedures to ensure all policies, procedures, directives, interpretations of Commission Orders, and waiver program guidelines used to determine support disbursements are adequately documented.

Commission's Response: The NUSF model has been and will continue to be reviewed by an independent party. Dr. David Rosenbaum, an economist from the University of Nebraska-Lincoln's Bureau of Business Research, has been contracted by the Commission for among other things to review all aspects of the NUSF model and has been doing so during the entire

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Nebraska Universal Service Fund Disbursements</u> (Concluded)

Commission's Response, Concluded:
development of the NUSF model. The Commission will have those reviews formally documented. In other areas, the Commission will implement policies and procedures where practical to perform and document such reviews.

3. <u>Enhanced Wireless 911 Services Remittances</u>

Enhanced wireless 911 service means a telephone exchange communications service by which wireless carriers can provide automatic number identification, pseudo-automatic number identification, and wireless automatic location identification information to a public safety answering point which has the capability of providing selective routing, selective transfer, fixed transfer, automatic number identification, and wireless automatic location identification. The Commission collected $5,956,909 for this service during the fiscal year.

Neb. Rev. Stat. Section 86-459 R.S.Supp., 2004, states "The commission may at its own expense require an audit of any wireless carrier's books and records concerning the collection and remittance of the surcharge pursuant to the Enhanced Wireless 911 Services Act."

Good internal control requires procedures to ensure monies received are deposited timely to the correct fund. Good internal control also requires procedures to ensure all monies due to the Commission are received.

Title 291 NAC 5-005.02C states "The Commission may take any legal action as it deems necessary to collect unpaid surcharges in its own name, as a real party in interest, or by assigning such debt for collection to a third party."

We noted the following related to the remittance of the enhanced wireless 911 services surcharge:

- The Commission has not audited any wireless telecommunications companies who collect the surcharge. Therefore, the Commission was unable to ensure all surcharge monies owed were actually collected. The companies were required to file remittance worksheets with the surcharge monies that identified the number of lines for which the company remitted the surcharge. The worksheets for the enhanced wireless 911 were the same worksheets used by companies to report the Nebraska universal service surcharge. In other words, companies report the universal service surcharge information and the enhanced wireless 911 information on the same worksheet; however, only the universal

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Enhanced Wireless 911 Services Remittances (Continued)

service surcharge information is audited. The Commission requires companies to pay for the cost of the audit of the Nebraska universal service surcharge information. Without adequate procedures to ensure all companies are properly remitting the surcharge, there is a significant risk that all money due the Commission is not being collected.

- The Commission received the surcharge from companies via Automated Clearinghouse (ACH) transactions, which means the Commission either directs the State Treasurer to debit the companies' bank accounts or the companies remit the funds electronically directly to the State's bank account. The Commission is responsible for ensuring the monies are properly credited to their funds. It has been the practice of the Commission to record all ACH transactions to the Universal Service Cash Fund, regardless of the purpose of the surcharge received. For 5 of 8 company remittances tested, the funds were credited to the Universal Service Cash Fund ranging from 4 to 12 business days after the State Treasurer received the funds. These deposits ranged from $177,809 to $1,275,307. Without procedures to ensure ACH transactions are properly credited to the Commission funds, the Commission does not earn interest on those funds, until they were deposited.

  The Commission then transfers the money from the Universal Service Cash Fund to the Enhanced Wireless 911 Cash Fund. These transfers were not made timely for 6 of 8 company remittances tested. The transfers did not take place for 15, 19, 28, 56, and 76 calendar days after it was deposited to the Universal Service Cash Fund. The same dollar amounts as noted above were involved. Without procedures to ensure the surcharges are properly credited to the correct fund, the Enhanced Wireless 911 Cash Fund does not receive all interest earned on those funds, instead the interest remained in the Universal Service Cash Fund.

- Companies who remit the surcharge receive correspondence from the Commission annually, reminding them of Commission orders for surcharges and the requirements of the remittance; however, the Commission did not contact companies who had registered, but had not remitted the surcharge. Many companies registered with the Commission, but did not provide service in Nebraska and were not required to remit. Without adequate procedures to ensure all companies providing service in Nebraska are remitting the surcharge, there is an increased risk the Commission is not collecting all money owed.

- The Commission did not have procedures to collect unpaid surcharges by the customers. For one of nine company remittances tested, the company reported 115,262 lines served for one month, but only collected the surcharge on 108,021 lines. Therefore, more than

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Enhanced Wireless 911 Services Remittances (Continued)

7,000 lines in one month, for one company, were not collected. Again, without adequate procedures to ensure customers are remitting the surcharge for all lines, there is a significant risk that all money due the Commission is not being collected.

> We recommend the Commission implement procedures to ensure all money due the Commission is remitted. We recommend the Commission consider statutory or rule and regulation changes to make the audit requirements of the enhanced wireless 911 services consistent with the Nebraska universal services surcharge requirements. We also recommend the Commission implement procedures to ensure ACH transactions are deposited to the Commission's funds timely and the Commission record the ACH transactions into the correct fund upon receipt, rather than record them all to the Universal Service Cash Fund to ensure the proper interest is received by the Enhanced Wireless 911 Cash Fund. We recommend the Commission contact all registered wireless carriers on an annual basis and obtain written assurance the company is not providing service in Nebraska, if they are not remitting the surcharge. Finally, we recommend the Commission implement procedures to ensure all unpaid surcharges by customers are collected.

Commission's Response: The Commission does have procedures in place concerning remittances. In August 2005, the Commission hired an additional accountant, who will compare remittances with reporting data from the carriers to ensure all money is remitted. Provisions in LB 1222 that the Commission proposed would further empower the Commission to ensure that money due the Commission is remitted.

The Commission will consider seeking additional legislation in the future that would make carriers ultimately responsible for remittances, as is the case under the NUSF Act.

The Commission will implement procedures to ensure that ACH transactions are deposited timely and recorded into the fund upon receipt. The addition of the accountant position in August 20005 will help in this regard as well.

The Commission will contact registered wireless carriers that are not remitting the surcharge and seek to obtain written assurance that the carrier is not providing service in Nebraska.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Enhanced Wireless 911 Services Remittances (Concluded)

APA's Response: We strongly recommend the Commission implement procedures to ensure audits are required on telecommunications companies to ensure all remittances are properly received, similar to the Nebraska universal service fund audit requirements.

4. Enhanced Wireless 911 Services Disbursements

There are four levels of 911 service within the State. There is basic service in which any land-line call received by a 911 center has no ability to identify the caller with either a phone number or address. The caller is required to provide this information in order to receive assistance. There is enhanced 911 service in which any land line call received by a local call center is identified by a telephone number and directed to the appropriate public safety answering point (PSAP) who is able to obtain the caller's name and address. Any county that has enhanced 911 service is able to implement Phase I wireless service. Phase I provides the enhanced 911 service and also provides the address of the cell tower and the call back number for the person using a cellular/wireless phone. The highest level of 911 service is Phase II service. This provides enhanced 911 service, Phase I service, and also enables a PSAP to receive the latitude and longitude of the caller on a cellular/wireless phone to obtain a precise location of the caller. Only two counties in Nebraska have the highest level of 911 service. The Commission distributed $2,846,159 in aid to either public service answering points, wireless carriers, or to local exchange carriers to help in the implementation of their Phase I services. We noted the following in our review of this program:

Lack of Documentation to Support Compliance with Rules and Regulations

Title 291 NAC 5-005.12 requires the Commission to determine the most efficient method for providing enhanced wireless 911 service. Such determination may include, but shall not be limited to: 1) The minimum and maximum number of PSAPs statewide to receive disbursements from the fund; 2) A determination of the PSAPs that should receive disbursements from the fund based on the geographic location of the PSAP; 3) Available technology for the provisioning and delivery of enhanced wireless 911 services; and 4) Cost determinations of technology for the provisioning and delivery of enhanced wireless 911 services.

The Commission did not provide documentation to indicate compliance with this rule and regulation. There were 82 PSAPs when the funding was put on hold due to a legislative study. There was not a documented minimum or maximum number of PSAPs. Additionally, the Commission had granted funding at 100% of each request, so there was not a determination of

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Enhanced Wireless 911 Services Disbursements</u> (Continued)

<u>Lack of Documentation to Support Compliance with Rules and Regulations</u> (Concluded)

the PSAPs that should receive funding based on the geographic location of the PSAP. There was also no documentation to support the available technology or cost determinations of technology for the provisioning and delivery of enhanced wireless 911 services.

Without adequate documentation to support compliance with rules and regulations, there is an increased risk for loss or misuse of funds.

> We recommend the Commission implement procedures to ensure there is adequate documentation to support compliance with rules and regulations.

Commission's Response: The Commission will consider repeal of rule 005.12, which may not comport with state law, which mandates that the Commission pay 100% cost recovery to all PSAPs and wireless carriers. State law also does not allow the Commission discretion, on a geographic, numeric basis or otherwise, to limit the number of PSAPs recovering costs. Passage of LB 1222 would allow the Commission this discretion, and the Commission would conduct itself accordingly. State law does not require standardized technologies for provisioning and delivery of enhanced wireless 911 services. Different carriers utilize and different vendors provide different technologies.

APA's Response: We feel it is important for the Commission to determine the proper technology and acceptable costs of the technology and communicate this to the telecommunications companies to ensure costs being reimbursed are not excessive.

<u>Lack of Internal Controls and Procedures Over Enhanced 911 Services Payments</u>

Title 291 NAC 5-005.06 requires the Commission, in consultation with the Enhanced Wireless 911 Advisory Board, to establish eligibility standards and criteria for (a) disbursement applications and (b) the level of fund disbursement for each application. In establishing such criteria and standards, the following purposes shall be eligible for funding: costs incurred or to be incurred by wireless carriers to implement enhanced wireless 911 service pursuant to a service agreement with a public service answering point or pursuant to a request for service from a public safety answering point. Such costs shall include, but not be limited to, the portion of the costs for new equipment used for providing enhanced wireless 911 service, costs to lease another vendors equipment or services to provide enhanced wireless 911 service, costs to create or maintain any database or database elements used solely for enhanced wireless 911 service, and other costs of establishing enhanced wireless 911 service. The portion of the costs of equipment or services used in the wireless carriers' main infrastructure resulting in revenue to the wireless carrier shall not be eligible for funding.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Enhanced Wireless 911 Services Disbursements (Continued)

Lack of Internal Controls and Procedures Over Enhanced 911 Services Payments (Continued)

The practice of the Commission since inception of the Enhanced Wireless 911 Services Act has been to provide funding at 100% of the amount requested from the PSAPs, wireless carriers, and local exchange carriers. We noted the following related to the payment of funds under this Act:

- There was a lack of segregation of duties over the approval of applications, the review of information submitted by companies, and the comparison of invoices to the approved plans. One individual was responsible for all phases of processing a payment. The Commission approved the applications for funding based on the recommendation of the E911 Director, the Director reviewed information submitted by counties, and the Director reviewed invoices submitted by the companies and approved the invoices for payment. It did not appear there were appropriate procedures for approval of applications or invoices in the absence of the Director. It appeared the Director was the only individual with adequate knowledge of emergency services operations to ensure applications, information, and invoices were adequate for payment under Commission rules and regulations.

- There was not adequate documentation over the application processes. The Commission did not have approved equipment lists that detailed an approximate cost of each type of equipment.

- The Commission had not established service standards, repair standards, replacement standards, or upgrade standards that companies were required to follow. There were also no requirements of the companies on the timing of the submitting of the invoices.

- The invoices, request for funding, and implementation plans were not all clearly marked to indicate they had been reviewed and approved for payment by Commission staff.

- The information required by the Commission was not consistent. Two wireless service providers tested submitted requests for funding and invoices for each county or PSAP it served. Another provider tested only submitted an overall request for funding and invoice and was not required to provide the detail of expenses by county.

- The payments to wireless companies and local exchange carriers were based, in part, on the number of subscribers. There were no procedures to ensure the number of subscribers reported were accurate.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Enhanced Wireless 911 Services Disbursements</u> (Continued)

<u>Lack of Internal Controls and Procedures Over Enhanced 911 Services Payments</u> (Continued)

- We tested six payments to the PSAPs, wireless carriers, or local exchange carriers and noted the payment to one local exchange carrier was incorrect. The local exchange carrier requested funding for one county based on the county having three wireless service providers; however, a subsequent Commission order withdrew one of the wireless service providers. Therefore, the Commission overpaid the local exchange carrier based on information submitted by the company.

- One payment tested included payment for past invoices that were not paid pending verification that a tower was operating. There was no documentation provided to indicate the tower was operating. The total amount of the payment was $48,650.

- One local exchange carrier changed tariff rates in March 2004, after the Commission approved their original request for funding. Tariff rates are used in the monthly recurring costs of the local exchange carrier. The companies agreements with the PSAPs were not amended; therefore, the agreement between the PSAP and the local exchange carrier did not agree to the payment made by the Commission to the local exchange carrier on the PSAPs behalf.

- One wireless service provider was reimbursed an amount that was in excess of the amount stated in the implementation plan that was approved by the Commission. The plan for one county included software charges totaling $24,930. The Commission reimbursed the provider $28,981 based on invoices received from the provider. The amount paid to the wireless service provider on behalf of this one county exceeded the request for funding for the county.

- There was not a requirement for the entities receiving funds to provide an independent third-party attestation on the use of the funds. The Commission was not able to determine if the PSAPs, wireless carriers, or local exchange carriers used the funds as intended by law.

Without adequate internal controls and procedures over the payment of program funds, there is an increased risk for loss or misuse of funds.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Enhanced Wireless 911 Services Disbursements (Continued)

Lack of Internal Controls and Procedures Over Enhanced 911 Services Payments (Concluded)

We recommend the Commission:

- implement procedures to ensure an adequate segregation of duties over the approval and review of information in the application process, and the comparison of invoices to approved plans. We also recommend the Commission ensure the implementation plans, requests for funding, and invoices are clearly marked to indicate the review by Commission staff and that Commission staff have adequate knowledge of emergency services operations;

- implement procedures to ensure adequate documentation is provided in the application process. The Commission should consider including approved equipments lists and costs of the equipment, as well as service, repair, replacement, or upgrade standards in the application process;

- implement procedures to ensure subscriber counts are accurate when the counts are used to determine recurring or other costs;

- ensure information received from companies is consistent and detailed to include the specific costs for each entity the company is providing service to and the information is sufficiently reviewed by Commission staff prior to payment. All reviews should be documented; and

- establish procedures to ensure the entities receiving the funds have an independent, third-party attest to the use of the funds on a periodic basis.

Commission's Response: In August 2005, the Commission hired an additional accountant. This position will allow for further segregation of duties over the approval and review of information in the application process. The Commission will document its review of implementation plans, requests for funding and invoices.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Enhanced Wireless 911 Services Disbursements</u> (Continued)

Commission's Response, Concluded:
The Commission currently has procedures to ensure proper documentation is provided in the application process. Those procedures are set forth in Progression Order No. 5, July 16, 2002, Docket No. 91-001/PI-51. State law does not require standardized equipment, technologies, hardware or software.

The Commission does have procedures in place concerning subscriber counts. The accountant hired in August 2005 will assist in ensuring that these counts are accurate. The Commission has requested legislation (encompassed in LB 1222), which will enhance this requirement.

The Commission will endeavor to ensure that information received from wireless carriers contains sufficient detail prior to payment.

Third party attestation of use of funds is unnecessary. Payments are paid based upon invoices submitted to the Commission for costs actually and previously incurred.

APA's Response: We disagree with the Commission that an independent third-party audit is unnecessary. We strongly recommend the Commission implement procedures to ensure an independent third-party attest to the use of the funds on a periodic basis. During our review of the information submitted by the telecommunication companies, it was apparent that the telecommunications companies are the ones supplying the invoice or other documentation of expenses. If a company purchased new software, for example, the telecommunications company would prepare an invoice to the Commission indicating the software was purchased. There was no independent verification that the company actually purchased the software. Additionally, the funds are also used for monthly recurring expenses, and the Commission is relying on the expenses reported by the companies, rather than having an independent party verify the expenses were actually incurred for the amount reported by the company.

<u>Proposed Legislation</u>

Legislative Bill (LB) 1222 was introduced to the Legislature in January 2006. The original bill would define the maximum number of public safety answering points based on county population. It would also require the Commission to promulgate rules and regulations regarding the standard equipment for 911 service and enhanced 911 service, including grade of service standards, 911 service technical standards, repair standards, system reliability standards, database design and management, equipment safeguards, replacement standards, and upgrade standards. The original bill would also require the Commission to designate a 911 coordinator who shall develop a statewide 911 and an enhanced 911 implementation plan. The original bill

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Enhanced Wireless 911 Services Disbursements (Concluded)

Proposed Legislation (Concluded)

also allows the Commission to audit the number of subscribers of each telecommunications common carrier and telecommunications contract-carrier and the respective resellers of each and the amount of service surcharge revenue attributable to each subscriber base of such entities. The LB also better defines the uses of the funds - to lease, lease-purchase, purchase, or maintain enhanced-911 equipment, including telephone equipment; recording equipment; computer hardware; computer software for database provisioning, addressing and mapping and any other software necessary for automatic location identification or local location identification; trunk lines; selective routing equipment; signs, posts or markers related to addressing or any costs associated with the installation or maintenance of signs, posts, or markers; and the master street address guide. Such funds shall not be spent on leasing of real estate or cosmetic additions to or remodeling of communications centers, mobile communications vehicles, fire engines, ambulances, law enforcement vehicles, fire engines, ambulances, law enforcement vehicles, or other emergency vehicles. The LB also adds a requirement for the Commission, in consultation with the advisory board, to establish a mechanism for determining the level of funding available to each public safety answering point and wireless carrier for costs determined to be eligible by the Commission. The LB adds that the level of funding available to each public safety answering point and wireless carrier for eligible costs compensation may be limited based upon the mechanism established by the Commission.

We believe if this legislation is passed and implemented by the Commission, it would enhance the Commission's ability to better monitor payments made from this program.

Without adequate procedures for the application, approval, and disbursement of enhanced wireless 911 funds, there is a significant risk the funds will not be used as intended.

> We recommend the Commission continue to pursue and support the legislative changes as noted above; however, we also recommend the Commission strengthen its current policies and procedures related to the enhanced wireless 911 payments to ensure adequate documentation is prepared and maintained to support the application, approval, and payment of grant funds to recipients.

Commission's Response: The Commission continues to support LB 1222.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Telecommunications Relay System Remittances

The purpose of the Telecommunications Relay System Act is to provide a statewide telecommunications relay system and a statewide voucher program for the provision of specialized telecommunications equipment for qualified deaf, hard of hearing, or speech-impaired persons in Nebraska which enables them to communicate twenty-four hours per day, seven days per week, with other persons who use conventional telephone systems. During fiscal year 2005, the Commission collected $1,428,959 for this purpose.

Neb. Rev. Stat. Section 86-313(5) R.S.Supp., 2004 states, "The Commission may require an audit of any telephone company collecting the surcharge pursuant to the act."

Good internal control requires procedures to ensure all companies are properly collecting and remitting the surcharge per statute.

Neb. Rev. Stat. Section 86-313(1)(b) R.S.Supp., 2004 states, "The telephone companies are not liable for any surcharge not paid by a subscriber and are not obligated to take legal action to collect the surcharge."

We noted the following related to the remittance of the telecommunications relay system surcharge:

- The Commission has not audited any telecommunications companies who collected the surcharge. Therefore, the Commission was unable to ensure all surcharge monies owed were actually collected.

- Companies who remit the surcharge receive correspondence from the Commission annually, reminding them of Commission orders for surcharges and the requirements of the remittance; however, the Commission did not contact companies who had registered, but had not remitted the surcharge. Many companies registered with the Commission, but did not provide service in Nebraska.

- Per statute, the telephone companies were not liable for surcharges not paid by the subscriber. Therefore, the Commission should collect the surcharges from customers who refused to pay the surcharge to the telephone company.

Without adequate procedures to ensure all companies are properly collecting and remitting the surcharge per statute, there is an increased risk that all monies owed to the State are not collected.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Telecommunications Relay System Remittances (Concluded)

> We recommend the Commission implement procedures to ensure all monies due for the telecommunications relay system are collected. The Commission should consider whether audit procedures could be done in conjunction with the audits for the Nebraska universal service surcharge, but at a minimum should communicate to all companies they are subject to an annual audit. We also recommend the Commission implement procedures to ensure all registered companies are contacted annually and reminded of the surcharge requirements.

Commission's Response: The Communications staff will begin writing procedures for off-site audit reviews of telephone companies. These procedures will incorporate data requests of billing records or other statistical line data to substantiate the remittances previously filed with the Commission.

Regarding the contact requirement, each year the Commission will submit a notification of carrier responsibilities to local carriers to coincide with the annual report requirement. This notification will also include the statistical worksheet that should accompany the monthly payment. For wireless carriers, the wireless registry will be used for the point of contact regarding their surcharge responsibilities.

6. Internal Control Over Revenues

Good internal control requires procedures to ensure all money due to the Commission is received and deposited to the State accounting system.

We noted several areas where the internal control over money received by the Commission could be improved:

- The Grain Warehouse Department's mail was opened by one individual and a second individual recorded the money into the AS400 system. The Department did not compare individual receipt amounts to the Detailed Deposit listing from the AS400 system to ensure all money received was entered into the system. Additionally, the same person who entered the money into the AS400 system issued the stickers. Again, there was no control to ensure all money received was actually deposited. The Grain Warehouse Department collected over $1.9 million during the fiscal year.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. <u>Internal Control Over Revenues</u> (Continued)

- The Communications Department's mail was opened by one individual who created a calculator tape of the monies received. A second individual entered the receipts into the AS400 system. The deposit entry into the accounting system was prepared by a third person. The amount received was reconciled to the amount deposited by the third person, but the first two individuals would not know if all the money they received was deposited. The third person would not know if he received and entered all money received at the Commission. Therefore, there was no control that all money received was actually deposited. The Communications Department collected over $1.5 million during the fiscal year.

- The Housing Department's mail was opened by one individual who also recorded the money into the AS400 system and issued the seals. There was no reconciliation of the pre-numbered seals to ensure all money received was actually deposited. Additionally, the same individual was responsible for preparing invoices and also applied the cash remitted to the invoices. There was no control to ensure all receivable amounts were actually deposited. The Housing Department collected over $388,000 during the fiscal year.

- The Natural Gas Department's mail was opened by one individual who also recorded the money into the AS400 system and reviewed the amount deposited to the accounting system. There was no control to ensure that all money received was actually deposited. The Natural Gas Department collected over $200,000 during the fiscal year.

- The Transportation Department's mail was opened by one individual and a second individual recorded the money into the Commission's internal AS400 system used to record receipts. The person who entered the money into the AS400 system also issued the stickers, cards, or plates. There was no control to ensure all money received was actually deposited. The Transportation Department collected approximately $88,000 during the fiscal year.

We noted a similar issue in the prior audit.

There is an increased risk of fraud, loss, or misuse of State funds without procedures to ensure all money due to the State is received and deposited.

> We recommend the Commission implement procedures to establish adequate controls to ensure all money received by the Commission is actually deposited. We also recommend the

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Internal Control Over Revenues (Concluded)

> Commission consider whether two individuals could be involved in opening the mail and recording all money received either manually or in the AS400 system. A review of all money received should be compared to the information on the Nebraska Information System (NIS) to ensure all monies received were deposited. The specific information received with the funds could then be sent to the individual departments for processing.

Commission's Response: The Commission will be evaluating the feasibility of implementing additional procedures over the receipt of monies. A tentative plan would include two people independent of the input function opening the mail and recording the receipts by department into a spreadsheet. An independent review of all money received could be compared to the NIS deposit documents to ensure all monies received were deposited.

In reference to the above comments regarding reconciliation of the pre-numbered seals in the Housing Department, there will be a semi-annual reconciliation and documentation of the review for the seals. The employee performing this review currently does periodic checks on the depositing of seal revenue. These duties will be expanded to include review of the receivables.

7. Internal Control Over Payroll

Good internal control requires procedures and records to provide reliable financial information. A system of internal control should ensure no one individual is in a position to both perpetrate and conceal errors or irregularities. When allocations to different funds and programs are used, proper records should exist to support the allocation.

Title 273 NAC 9-006.01 require the adjustment of the service date for any employee who has a leave of absence which exceeds 14 consecutive days. Title 273 NAC 4-006.02 allows part-time employees to earn benefits on a prorated basis equal to the total yearly FTE for their positions. NIS is the official accounting system for the State of Nebraska and records employee leave earnings and usage.

We noted the following related to the internal control over payroll:

- There was no independent review of leave earned and used in the system to ensure all leave was being properly recorded on NIS. There was also no review to ensure there were no one-time overrides completed by individuals with access to payroll.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Internal Control Over Payroll (Continued)

- One of eight employee's adjusted service dates tested was incorrect on NIS. The employee had a break in service equal to 164 days and their adjusted service date was not adjusted by the Commission. Therefore, their leave earnings were not accurate. Without adequate procedures to ensure the adjusted service dates are accurate, there is an increased risk for employees to be earning at greater rates than allowed.

- One employee had two overrides on NIS for vacation and sick earnings. It did not appear the individual was set up correctly at hire to earn the proper leave; therefore, the leave was adjusted to get the correct earnings. Without adequate procedures to review leave overrides on NIS, there is an increased risk for misuse of leave recorded on NIS.

- One employee did not have their leave payout recorded correctly on NIS. The employee recorded 56 hours of vacation leave and six hours of sick leave on their last timesheet. This leave was not recorded on NIS. The employees vacation and comp balances totaled 54.88 hours, so the Commission overpaid the employee in excess of one hour for vacation and comp time. Without adequate procedures to ensure all leave is correctly recorded on NIS, the Commission is vulnerable to additional requests for payments from employees.

- One part-time employee did not pay the appropriate share of health insurance. In January 2004, the employee changed from working 75% of the time to working 50% of the time. However, the employee continued to pay only 25% of the State's share of health insurance from January 2004 to November 2005. The total amount of underpayment by the employee was approximately $5,400, the amount of the insurance paid by the Commission instead of the employee. The employee paid the Commission less than 50% of the amount owed to settle the issue.

- There was not adequate documentation to support the allocation payroll between the State General Fund and the Commission cash funds in all four employees tested who were paid from more than one fund. The employees estimate the amount of time spent on each activity, but the estimate is never compared to the actual amount of time each employee spent on each program. The Director accumulates and reviews these estimates. The allocation for two of the four employees tested did not agree to the estimates accumulated by the Director. A similar issue was noted in the prior audit.

- One employee did not have the proper amounts allocated to the correct fund for leave costs and State share of benefit costs. The costs for leave and the State share of insurance costs were paid entirely by the State General Fund, as opposed to being charged in accordance with the employee's general allocation for payroll. The labor distribution on

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Internal Control Over Payroll (Concluded)

NIS was not accurate for this individual until January 2005. Without adequate procedures to review the allocation of all payroll costs to the correct fund and program, there is an increased risk for incorrect costs to be charged to the Commission funds or programs.

Without adequate internal controls over the payroll process, including an independent review of the information on NIS and documentation to support the allocation of payroll costs to more than one fund, there is an increased risk for loss or misuse of State funds due to errors, as noted above.

> We recommend the Commission implement procedures to ensure all leave earned and used on NIS is correctly recorded, that payroll records are reviewed to ensure there were no unauthorized overrides, that the adjusted service dates of Commission staff are accurate, that all employees pay the appropriate share of health insurance, and that adequate documentation is maintained to support and review the allocation of payroll costs between more than one fund. The Commission should document any independent review of this information on NIS.

Commission's Response: In August 2005, the Commission hired an additional accountant. This accountant will assist in reviewing payroll records for accuracy and help ensure payroll calculations are being computed and entered into NIS accurately. Payroll entries into NIS will be reviewed by two individuals on an ongoing basis, and such review will be documented. The Commission will evaluate the current procedure used to allocate payroll cost between multiple funds and assess the feasibility of modifications to this procedure.

8. Internal Control Over Expenditures

Good internal control requires procedures to ensure the allocation of expenditures to more than one fund or program is adequately supported. Legislative appropriation bills provide the available allotment for expenditures by fund and program. Sound accounting practice requires the allocation of expenditures to be in compliance with the allotment stated in the appropriate legislative bills.

Good internal control also requires procedures to ensure invoices are entered into the accounting system timely and are properly marked to prevent reuse, procedures to ensure a proper review of documents and coding in the accounting system, and procedures to ensure reports from the accounting system are properly reviewed.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. <u>Internal Control Over Expenditures</u> (Continued)

We noted the following related to the internal control over Commission expenditures:

- Two of three journal entries tested and one capital asset expense tested did not have adequate documentation to support the allocation of the expenses between the State General Fund and Commission cash funds. Two journal entries tested had documentation attached which showed the percentages used to allocate the expenditures between funds and programs. One of the journal entries used estimated figures from fiscal year 2003 to allocate $1,028 in expenses between funds and the other journal entry did not have documentation to support the allocation of $2,978 to the funds. One half of the expenses were paid from the State General Fund and the rest were evenly distributed between the Commission cash funds. The capital asset expenditure was for six printers and each printer was coded to a separate fund or program. There was no documentation to support this allocation. The printers were for the Commissioners and the Executive Director. This was a prior audit point.

- Invoices were not entered into NIS immediately upon receipt, in some cases departments entered invoices into the accounting system one to two weeks after receipts. Additionally, some invoices were not marked in order to prevent reuse.

- Individual business units (providing the fund and program to which expenses are coded) are not reviewed during the batch approval process, in all instances.

- The pre-audit verification report and the general ledger report from NIS were not properly reviewed by the Commission.

Without adequate documentation to support the allocation of expenses between funds and programs, there is an increased risk for noncompliance with appropriation authorization or loss or misuse of State funds. Additionally, without procedures to ensure invoices are entered timely and are properly marked to prevent reuse, there is an increased risk the State's liabilities will not be properly recorded and an increased risk that an invoice could be reused resulting in the loss of State funds. Without adequate procedures to review the coding of each document and to review NIS reports, there is an increased risk for miscoding between funds and programs or loss or misuse of State funds.

> We recommend the Commission implement procedures to ensure adequate documentation is maintained to support the allocation of expenditures between more than one fund or program. We also recommend invoices be entered into NIS immediately upon receipt

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Internal Control Over Expenditures (Concluded)

in order to properly report the payables for the State. We also recommend all invoices be stamped or initialed to prevent unauthorized reuse. Finally, we recommend the Commission implement procedures to ensure the coding of each document is properly reviewed during the approval process in the State accounting system and implement procedures to ensure the pre-audit verification report and the general ledger detail report are appropriately reviewed and the review is documented.

Commission's Response: The Commission will provide documentation to support the allocation of expenditures between funds. We will work to improve the timeliness of entering documents into the NIS System. The Commission will reevaluate the procedure currently being used to ensure the proper review of documents is being performed.

9. Travel Expenditures

Good internal control requires procedures to ensure all reimbursements are reasonable and necessary expenses and that adequate supporting documentation is maintained.

Nebraska State Accounting Manual describes when certain meals are allowed to be reimbursed. Lunch is reimbursable when the employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400.

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 regarding travel reimbursements states, "Whenever any state officer, employee, or member of any commission, council, committee, or board of the state is entitled to be reimbursed for actual expenses incurred by him or her in the line of duty, he or she shall be required to present a request for payment or reimbursement each month to the Director of Administrative Services. Each request shall be fully itemized, including when, where, and why the expense was incurred and the actual amount involved."

Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 4 states "Sales to the State of Nebraska and its agencies are exempt from Nebraska sales, use, and lodging taxes."

We tested 12 travel expenses documents and noted the following:

- One document exceeded Federal guidelines for meals, which is not reasonable, and contained a reimbursement that was not allowable under State accounting policy. The

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Travel Expenditures (Concluded)

amount reimbursed to the employee was $58 and $46 for two days' meals. The Federal guideline was $39 per day. These expenses are not a reasonable use of State funds. The document also contained reimbursement for a meal that was not reimbursable according to the Department of Administrative Services Accounting Manual. The employee was reimbursed $8 for lunch when he returned from travel at 1300. The employee did reimburse the Commission for the lunch. A similar issue was noted in the prior report.

- Two expense reimbursement documents were not properly completed. One expense document did not include start and stop times for travel as required by statute and a second document was submitted for a full year, instead of monthly as required by statute.

- One reimbursement for lodging in Nebraska was made to an employee when the hotel could have direct billed. When hotels in Nebraska direct bill, the State is exempt from sales, use, and lodging tax. A similar issue was noted in the prior report.

Without proper controls to ensure travel reimbursements are reasonable, necessary, and in compliance with statute or accounting policies, there is an increased risk of loss or misuse of State funds.

> We recommend the Commission ensure disbursements are reasonable, necessary, and in accordance with State guidelines.

Commission's Response: The Commission will continue its efforts to ensure that disbursements are reasonable, necessary and in accordance with State guidelines.

10. Commission-Owned Vehicles Mileage Logs

Good internal control requires mileage logs for Commission-owned vehicles be maintained and properly completed to ensure miles driven in the vehicles are reasonable and are for Commission business. Good internal control also requires logs be properly approved each month.

The Commission owned 15 vehicles during the fiscal year; however, one of the vehicles was not driven during the fiscal year. The Commission could not provide each monthly mileage log for 4 of their 14 vehicles. We were unable to determine if the mileage logs were ever prepared or if they were simply misplaced. We noted the following:

- One vehicle did not have logs available for July 1, 2004, to March 31, 2005. The vehicle was driven 4,627 miles during this period.

COMMENTS AND RECOMMENDATIONS
(Continued)

10. Commission-Owned Vehicles Mileage Logs (Concluded)

- One vehicle did not have logs available for October 1, 2004, to December 31, 2004. The vehicle was driven 1,569 miles during this period.
- One vehicle did not have logs available for July 1, 2004, to August 31, 2004. The vehicle was driven 1,260 miles during this period.
- One vehicle did not have logs available for October 1, 2004, to January 31, 2005. The vehicle was driven 266 miles during this period.

We also noted there was limited review of mileage logs during the fiscal year. The logs were reviewed and signed by either the department directors or the Executive Director, but neither individual checked the mileage driven to ensure it was reasonable. This was also noted in the prior audit.

There is a significant risk for misuse of State vehicles without adequate procedures to maintain and review all mileage logs on a monthly basis.

> We recommend the Commission implement procedures to maintain mileage logs for all vehicles for all miles driven. We also recommend the mileage logs be reviewed and signed by a supervisor on a regular basis to indicate miles driven are reasonable.

Commission's Response: The Commission will review its policies and procedures to ensure that proper documentation and review of mileage logs are being performed.

11. Internal Control Over Fixed Assets

Good internal control requires an adequate segregation of duties to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires a documented review of all applicable fixed asset reports from NIS on a periodic basis and all fixed assets with unique serial numbers be recorded on NIS.

Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 states, "Each executive, department, commission, or other state agency, including the Supreme Court, the Board of Regents of the University of Nebraska, the State Board of Community Colleges, and the Board of Trustees of the Nebraska State Colleges, shall annually make or cause to be made an inventory of all

COMMENTS AND RECOMMENDATIONS
(Continued)

11. Internal Control Over Fixed Assets (Continued)

property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission, or other state agency as of June 30 and shall be completed and filed with the materiel administrator by August 31 of each year."

Neb. Rev. Stat. Section 81-161.04 R.R.S. 2003 states ". . . the proceeds of the sales shall be deposited with the State Treasurer and credited to the General Fund unless the using agency certifies to the materiel division that the property was purchased in part or in total from either cash accounts or federal funds or from a percentage of such accounts or funds, in which case the proceeds of the sale to that extent shall be credited to the cash or federal account in the percentage used in originally purchasing the property." Good internal control requires split coding attachments be used to record the fund of origination when the purchase is made from more than one fund to ensure the proceeds can be deposited in compliance with statute.

We noted the following related to the internal control over the Commission's fixed asset processes:

- There was not an adequate segregation of duties, as one individual could perform all capital asset transactions on NIS, including the maintenance of records and the addition and deletion of fixed assets from the records. An independent review of the Additions and Retirements Report, Unposted Fixed Asset Transaction Report, and the Fixed Asset No Cost Report from NIS was not performed. The Additions and Retirements Report shows the additions and retirements to NIS for a selected period of time. The Unposted Fixed Asset Transaction Report shows all transactions that have been posted in the General Ledger, but have not yet been posted to a fixed asset master record. The Fixed Asset No Cost Report shows assets posted without a cost. A documented independent review of the reports by an individual without access to fixed assets functions on NIS would ensure that no one individual is in a position to perpetrate and conceal errors or irregularities. We noted a similar finding in the prior audit.

- The F/A Category Omissions Report and the F/A No Attachment Report have not been reviewed by the Commission. Review of the Unposted Fixed Asset Transaction Report and the F/A No Cost Report by Commission staff was not documented regularly. The Fixed Asset Category Code Omissions Report shows assets with blank category code fields. The Fixed Asset No Attachment Report shows split code attachments (different funding sources) that were not set up.

COMMENTS AND RECOMMENDATIONS
(Continued)

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

- One fixed asset, a computer, traced to the capital asset list on NIS, but did not have the computer's unique serial number recorded. We also observed other fixed assets (15 computers, 7 monitors, 3 printers, 3 other computer items, and 1 automobile) on the fixed asset list on NIS that also did not have unique serial numbers recorded. We noted a similar finding in the prior audit.

- Documentation of the annual inventory conducted by the Commission did not include the signature or initials of the individual(s) who performed the inventory, or the date the inventory was completed. The Commission submitted a copy of their inventory to the Department of Administrative Service (DAS) Surplus Property Division on August 14, 2004. The copy of the inventory maintained by the Commission did not indicate who performed the inventory or what date the inventory was completed on. To ensure an adequate segregation of duties, the inventory should be completed by an individual who does not have access to the fixed assets function on NIS, or by more than one individual with access to the fixed assets function on NIS.

- The Commission did not properly credit the proceeds from the sale of surplus property to the fund(s) that the asset was originally purchased from or use split coding attachments to record the fund of origination when the purchase of fixed assets is made from more than one fund. DAS Surplus Property Division is responsible for the sale of all State surplus property. DAS Surplus Property Division is responsible for crediting an agency's General Fund with the proceeds from the sale of State property. It is then the Commission's responsibility to ensure these proceeds are distributed to the fund the assets were purchased from through journal entries on NIS. Split coding attachments were also not used by the Commission to record the fund of origination when the purchase is made from more than one fund.

Without an adequate segregation of duties, documented periodic reviews of all applicable fixed asset reports, and the recording of unique serial numbers on NIS, there is an increased risk of misappropriation of State assets. Additionally, without adequate procedures to ensure proceeds are deposited to the fund of origination, the Commission is not in compliance with State statutes.

> We recommend the Commission implement procedures to ensure an adequate segregation of duties to include a documented, independent review of the Additions and Retirements Report, Unposted Fixed Asset Transaction Report, and the Fixed Asset No Cost Report from NIS. We also recommend the Commission ensure other fixed asset reports are periodically reviewed and

COMMENTS AND RECOMMENDATIONS
(Continued)

11. Internal Control Over Fixed Assets (Concluded)

documented and all fixed asset records include the serial number on NIS. We recommend the Commission implement policies and procedures to ensure adequate documentation of the annual inventory process is maintained. Finally, we recommend the Commission develop and implement policies and procedures to ensure proceeds from the sale of surplus property are properly credited to the fund(s) the property was originally purchased from, in compliance with State statute.

Commission's Response: The Commission will review and document the review of necessary reports on a monthly basis. We will also add serial numbers to the fixed asset records and document the annual inventory process. The Commission will develop procedures to ensure proceeds from the sale of surplus property are credited to the fund of origination.

12. Penalties

The Nebraska Constitution Article VII, Section 5 (1) states, ". . . all fines, penalties, and license money arising under the general laws of the state . . . shall belong and be paid over to the counties respectively where the same may be levied or imposed . . . All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue . . ."

Neb. Rev. Stat. Section 79-1035.01 R.R.S. 2003 created the Permanent School Fund and states the principal balance of the fund "shall be held and invested in perpetuity by the state in trust for the support of its common schools. The annual interest and other income, but not the principal, is subject to use for the support and maintenance of the common schools in each public school district of the state as the Legislature provides in accordance with Article VII, Section 9, of the Constitution of Nebraska."

Neb. Rev. Stat. Section 75-158 R.R.S. 2003 refers to civil penalties assessed pursuant to Section 75-156 and states, "Any civil penalties unpaid shall constitute a debt to the State of Nebraska which may be collected in the proper form of action in the name of the State of Nebraska." The statute also states, "All funds received under this section shall be remitted to the State Treasurer for credit to the permanent school fund." Neb. Rev. Stat. Sections 75-309.01 and 86-209 also authorize the Commission to remit penalties and proceeds to the Permanent School Fund.

COMMENTS AND RECOMMENDATIONS
(Continued)

12. Penalties (Concluded)

The Commission followed the language provided in the statutes for the deposit of penalties assessed and collected. The Commission deposited $29,425 in penalties into the Permanent School Fund during the fiscal year ended June 30, 2005.

There is a conflict between the Commission statutes and the Nebraska Constitution. If fines and penalties are deposited into the Permanent School Fund as provided by statute, the monies are not being distributed as required by the Nebraska Constitution.

> We recommend the Commission request a legal opinion from the Attorney General requesting guidance for the appropriate fund to deposit all fines and penalties. We also recommend the Commission work with the Legislature to resolve the apparent conflict between State statutes and the Nebraska Constitution.

Commission's Response: The Commission will cooperate with any efforts to resolve the apparent conflict noted by the Auditor.

13. Reconciliation of Bank Records to the Nebraska Information System

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both the Nebraska Information System (NIS) and the Nebraska Accounting System (NAS), system before NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. The APA's previous comments noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although State Accounting continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of December 19, 2005 to be as follows:

> State Accounting has worked on the reconciliation process, but continued progress is needed. State Accounting's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. State Accounting has completed their reconciliation process for the

COMMENTS AND RECOMMENDATIONS
(Continued)

13. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of $3,425,381, $3,405,702, and $3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

> We recommend State Accounting continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of State Accounting; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

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NEBRASKA PUBLIC SERVICE COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Public Service Commission
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Public Service Commission (Commission) for the fiscal year ended June 30, 2005. The Commission's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Public Service Commission for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

Don Dunlap CPA

February 16, 2006 — Assistant Deputy Auditor

NEBRASKA PUBLIC SERVICE COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2005

	General Fund 10000	Enhanced Wireless E-911 Fund 20450	Internet Enhancement Fund 20460	NE Competitive Telephone Market Fund 20470	Grain Warehouse Surveillance Fund 21400	Municipal Rate Negotiation Revenue Fund 21408	Natural Gas Regulation Fund 21409	Telephone Relay System Fund 21410
REVENUES:								
Appropriations	$ 1,996,221	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Intergovernmental	-	-	-	-	-	-	-	-
Sales & Charges	273,815	-	-	-	-	-	8,185	-
Miscellaneous	308	6,279,832	72,495	28,971	599	7,251	194,286	1,443,336
TOTAL REVENUES	2,270,344	6,279,832	72,495	28,971	599	7,251	202,471	1,443,336
EXPENDITURES:								
Personal Services	1,668,875	159,152	8,064		6,130	-	112,544	72,349
Operating	218,953	15,790	1,121	-	2,483	-	65,200	895,655
Travel	77,444	3,227	184	156	20	-	3,493	1,404
Capital Outlay	30,949	952	-	-	-	-	862	61
Government Aid	-	2,846,159	2,950	-	-	-	-	368,569
TOTAL EXPENDITURES	1,996,221	3,025,280	12,319	156	8,633	-	182,099	1,338,038
Excess (Deficiency) of Revenues Over (Under) Expenditures	274,123	3,254,552	60,176	28,815	(8,034)	7,251	20,372	105,298
OTHER FINANCING SOURCES (USES):								
Sales of Assets	-	-	-	-	-	-	-	-
Deposit to General Fund	(274,123)	-	-	-	-	-	-	-
Deposit to/from Common Fund	-	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	30,000	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(274,123)	-	-	-	-	30,000	-	-
Net Change in Fund Balances	-	3,254,552	60,176	28,815	(8,034)	37,251	20,372	105,298
FUND BALANCES, JULY 1, 2004	3,746	7,446,795	307,963	55,722	17,748	175,636	36,501	314,852
FUND BALANCES, JUNE 30, 2005	$ 3,746	$ 10,701,347	$ 368,139	$ 84,537	$ 9,714	$ 212,887	$ 56,873	$ 420,150
FUND BALANCES CONSIST OF:								
General Cash	$ -	$ 10,701,347	$ 368,139	$ 84,537	$ 9,714	$ 212,887	$ 56,873	$ 421,627
Petty Cash	300	-	-	-	-	-	-	-
NSF Items	-	-	-	-	-	-	-	-
Deposits with Vendors	3,446	-	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-	-	-	-
Short-Term Investments	-	-	-	-	-	-	-	-
Due to Vendors	-	-	-	-	-	-	-	(1,477)
Deposits	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	$ 3,746	$ 10,701,347	$ 368,139	$ 84,537	$ 9,714	$ 212,887	$ 56,873	$ 420,150

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA PUBLIC SERVICE COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2005

	Moisture Testing Examination Fund 21420	Grain Warehouse Auditing Fund 21430	Modular Housing Fund 21440	Manufact. Homes and Recreational Vehicles Fund 21450	Universal Service Fund 21460	PSC Elevator Trust Fund 61420	Permanent School Fund Fund 63340	**Total (Memorandum Only)**
REVENUES:								
Appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,996,221
Intergovernmental	-	-	-	4,053	-	-	-	4,053
Sales & Charges	15,945	9,450	201,184	146,178	200	-	-	654,957
Miscellaneous	759	439	8,145	29,237	63,526,977	1,753,433	29,425	73,375,493
TOTAL REVENUES	16,704	9,889	209,329	179,468	63,527,177	1,753,433	29,425	76,030,724
EXPENDITURES:								
Personal Services	-	-	229,895	183,094	363,866	3,866	-	2,807,835
Operating	13,443	-	19,615	58,524	150,548	1,175,055	-	2,616,387
Travel	-	-	17,091	10,158	2,786	-	-	115,963
Capital Outlay	12,250	-	294	588	2,027	-	-	47,983
Government Aid	-	-	-	-	68,699,673	-	-	71,917,351
TOTAL EXPENDITURES	25,693	-	266,895	252,364	69,218,900	1,178,921	-	77,505,519
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,989)	9,889	(57,566)	(72,896)	(5,691,723)	574,512	29,425	(1,474,795)
OTHER FINANCING SOURCES (USES):								
Sales of Assets	11,691	-	-	-	-	-	-	11,691
Deposit to General Fund	-	-	-	-	-	-	-	(274,123)
Deposit to/from Common Fund	-	-	-	-	-	-	(29,425)	(29,425)
Operating Transfers In	-	-	-	-	-	-	-	30,000
TOTAL OTHER FINANCING SOURCES (USES)	11,691	-	-	-	-	-	(29,425)	(261,857)
Net Change in Fund Balances	2,702	9,889	(57,566)	(72,896)	(5,691,723)	574,512	-	(1,736,652)
FUND BALANCES, JULY 1, 2004	17,636	8,764	243,711	444,456	65,633,887	1,166,371	-	75,873,788
FUND BALANCES, JUNE 30, 2005	$ 20,338	$ 18,653	$ 186,145	$ 371,560	$ 59,942,164	$ 1,740,883	$ -	$ 74,137,136
FUND BALANCES CONSIST OF:								
General Cash	$ 20,338	$ 18,426	$ 186,166	$ 370,399	$ 59,942,164	$ 1,740,883	$ -	$ 74,133,500
Petty Cash	-	-	-	-	-	-	-	300
NSF Items	-	227	-	-	-	-	-	227
Deposits with Vendors	-	-	-	-	-	-	-	3,446
Accounts Receivable Invoiced	-	-	-	1,204	-	-	-	1,204
Short-Term Investments	-	-	-	-	-	795,000	-	795,000
Due to Vendors	-	-	(21)	(43)	-	-	-	(1,541)
Deposits	-	-	-	-	-	(795,000)	-	(795,000)
TOTAL FUND BALANCES	$ 20,338	$ 18,653	$ 186,145	$ 371,560	$ 59,942,164	$ 1,740,883	$ -	$ 74,137,136

The accompanying notes are an integral part of the schedule. (Concluded)

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

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

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the State of Nebraska Director of Administrative Services duties include "The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Commission was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

NIS also records other liabilities in an account titled Deposits. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals or private organizations. The recording of those liabilities reduces the fund balance/equity.

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

The fund types established by NIS that are used by the Commission are:

> **10000 – General Fund** – accounts for all financial resources not required to be accounted for in another fund.
>
> **20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Continued)

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

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

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

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

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

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income, enhanced wireless 911 surcharge, telephone relay system surcharge, universal service fund surcharge, and proceeds from the sale of grain of failed grain warehouses.

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

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

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

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

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

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

NOTES TO THE SCHEDULE
(Continued)

1. <u>Criteria</u> (Concluded)

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

> **Assets –** Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and short term investments. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts, deposits with vendors, and short term investments are also included in fund balance and are reported as recorded on NIS.
>
> **Liabilities –** Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for the Commission's funds at June 30, 2005, included Deposits. The activity of these accounts are not recorded on the Schedules of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.
>
> **Other Financing Sources –** Operating transfers and proceeds of fixed asset dispositions.

2. <u>State Agency</u>

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 schedule includes all funds of the Commission.

The Nebraska Public Service Commission is part of the primary government for the State of Nebraska.

3. <u>Totals</u>

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

4. <u>Capital Assets</u>

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Commission's values all capital assets at cost where historical records are

NOTES TO THE SCHEDULE
(Continued)

4. Capital Assets (Concluded)

available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of $300 at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Machinery and equipment and furniture and office equipment are depreciated using the straight-line method with estimated useful lives of ten years. Computer hardware equipment is depreciated using the straight-line method with estimated useful lives of three years.

Capital asset activity of the Commission for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Equipment	$ 653,304	$ 47,984	$ 82,242	$ 619,046
Less accumulated depreciation for:				
Equipment				476,384
Total capital assets, net of depreciation				$ 142,662

5. Changes in Deposits

Fund	Balance July 1, 2004	In	Out	Balance June 30, 2005
PSC Elevator Trust Fund 61420	$ (1,559,466)	$ (265,000)	$ 1,029,466	$ (795,000)

These securities are accepted by the Commission in lieu of a grain warehouse licensing bond. These securities are held in the Commission's name and are shown on the statement.

6. Deposits to/from Common Funds

Neb. Rev. Stat. Section 75-156 R.S.Supp., 2005 authorizes the Commission to assess civil penalties for violations of statute, Commission order, terms, conditions, or limitations of any certificate or permit issued by the Commission, any rule, regulation, or order of the Commission, under certain sections of statutes. Neb. Rev. Stat. Section 75-158 R.R.S. 2003 requires the Commission to transmit within 30 days from receipt to the State Treasurer for credit to the Permanent School Fund.

NOTES TO THE SCHEDULE
(Continued)

7. Grain Warehouse and Grain Dealer Securities

Neb. Rev. Stat. Section 88-530 R.S.Supp., 2004 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 shall be an amount set by the Commission pursuant to rules and regulation, but shall not be less than $25,000. The Commission had securities on file with grain warehouse licensees totaling $38,289,400 at June 30, 2005. These securities are not held in the Commission's name; therefore, they are not shown on the schedule.

Neb. Rev. Stat. Section 75-903(4) R.S.Supp., 2005 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% of grain purchases by the grain dealer in the preceding license year, whichever is greater, not to exceed $300,000. The Commission had securities on file from grain dealer licensees totaling $28,210,000 at June 30, 2005. These securities are not held in the Commission's name; therefore, they are not shown on the schedule.

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NEBRASKA PUBLIC SERVICE COMMISSION

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

Nebraska Public Service Commission
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Public Service Commission for the fiscal year ended June 30, 2005, and have issued our report thereon dated February 16, 2006. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Remittances), Comment Number 2 (Nebraska Universal Service Fund Disbursements), Comment Number 3 (Enhanced Wireless 911 Services Remittances), Comment Number 4 (Enhanced Wireless 911 Services Disbursements), Comment Number 5 (Telecommunications Relay System Remittances), and Comment Number 13 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

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

We also noted certain additional items that we reported to management of the Nebraska Public Service Commission in the Comments Section of this report as Comment Number 6 (Internal Control Over Revenues), Comment Number 7 (Internal Control Over Payroll), Comment Number 8 (Internal Control Over Expenditures), Comment Number 9 (Travel Expenditures), Comment Number 10 (Commission-Owned Vehicle Mileage Logs), Comment Number 11 (Internal Control Over Fixed Assets), and Comment Number 12 (Penalties).

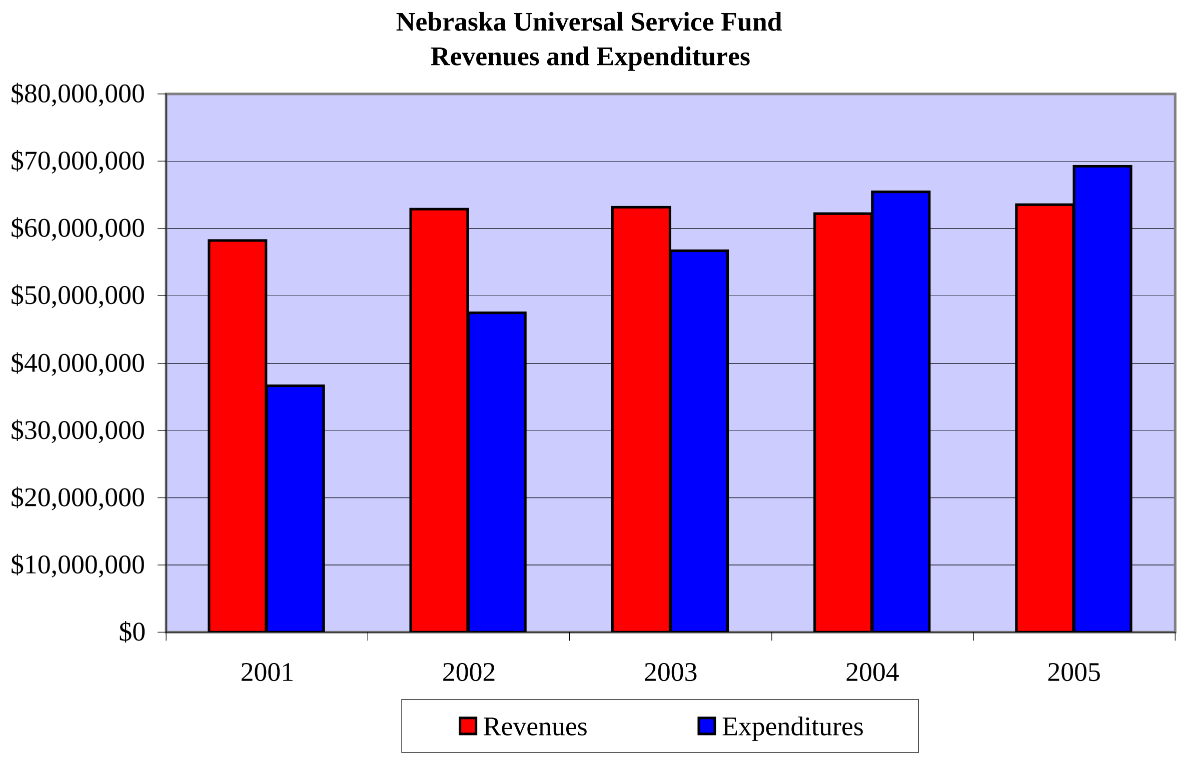
This report is intended solely for the information and use of the Commission and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

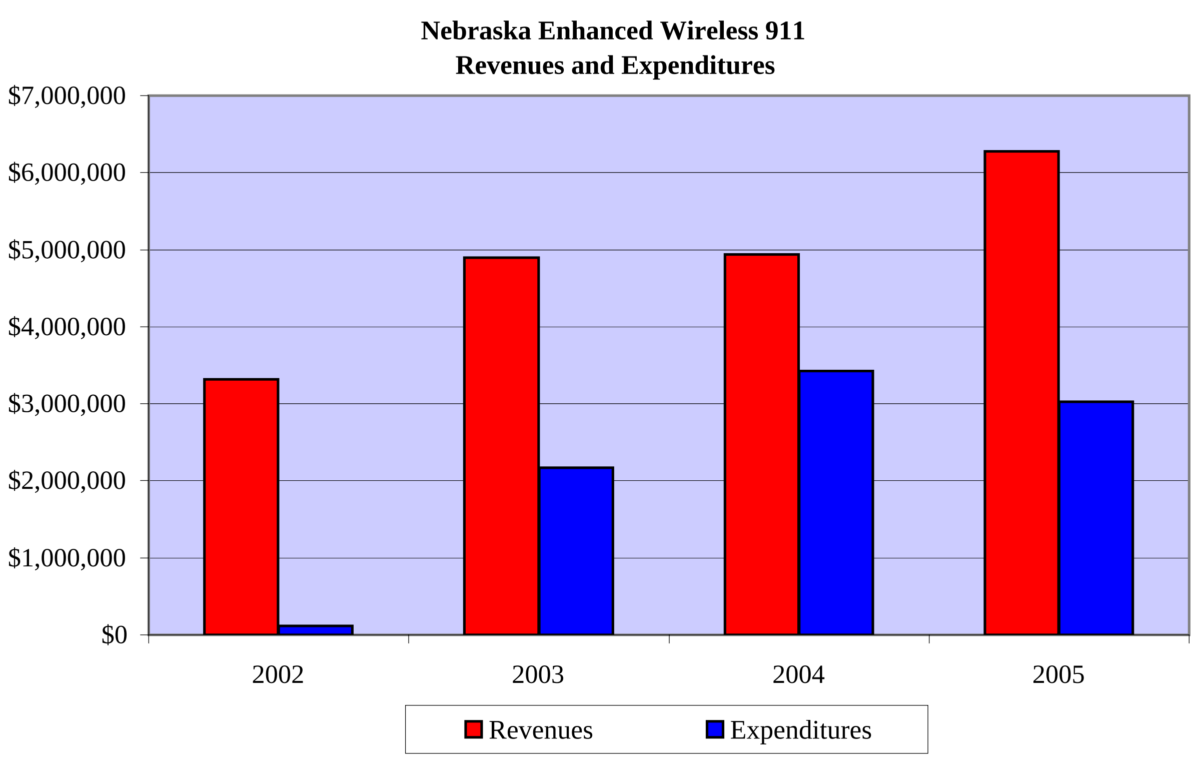
Don Dunlap CPA

February 16, 2006 Assistant Deputy Auditor

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.





Note: The Nebraska Enhanced Wireless 911 Fund was established April 18, 2001.

Source: Nebraska Accounting System and Nebraska Information System.

NEBRASKA PUBLIC SERVICE COMMISSION

SCHEDULE OF STATISTICAL INFORMATION

Fiscal Year Ended June 30, 2001 Through 2005

	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005
Grain Warehouses:					
Licenses	170	165	156	138	125
Inspections	278	269	280	231	244
Moisture Meter Inspections	958	1,167	1,081	1,023	1,003
Grain Dealer Licenses	109	96	102	174	158
Railroad Tracks:					
Units inspected	6,975	6,731	6,793	6,329	5,603
Number of defects	396	551	489	546	535
Communications:					
Certificate applications	93	79	56	74	24
Local Exchange Applications	31	10	11	13	14
Other applications	103	104	150	169	178
Dialer Permits	5	27	6	9	7
Informal complaints	1,379	2,379	1,810	2,150	1,451
Equipment Distribution Program- Households Served (Cumulative)	340	444	585	762	950
Motor Carrier Appl. Processed	85	102	61	26	29
PSC License Plates Issued	1,609	1,622	1,584	1,672	1,632
Manufactured Homes:					
Manuf. Homes-Seals	4,035	3,176	2,700	1,000	725
Rec. Vehicles-Seals	1,589	1,723	2,500	2,128	2,218
Modular Housing-Seals	785	980	1,100	1,324	1,315
Universal Service					
Lifeline Participation- Applications processed (Cumulative)	24,107	27,833	31,950	39,248	47,350
Natural Gas					
Formal Complaints	N/A*	N/A*	-	2	-
Rate Cases	N/A*	N/A*	1	-	-
Commission Initiated Dockets	N/A*	N/A*	-	5	3
Other Applications	N/A*	N/A*	-	16	6
Pipeline Dockets	N/A*	N/A*	1	1	2
Informal Complaints	N/A*	N/A*	2	199	220

* This program began in the Commission effective May 31, 2003.