

**ATTESTATION REPORT
OF THE
NEBRASKA ETHANOL BOARD
JULY 1, 2004 THROUGH JUNE 30, 2005**

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the Auditor of Public Accounts.**

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Issued on June 20, 2006

NEBRASKA ETHANOL BOARD

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NEBRASKA ETHANOL BOARD

BACKGROUND

The Nebraska Ethanol Board, previously known as the Nebraska Gasohol Committee, establishes and promotes a grain alcohol fuels industry in the State. The Board consists of seven members appointed by the Governor with the approval of a majority of the Legislature. Four members shall actually be involved in farming in the State, one in general farming, and one each in the production of corn, wheat, and sorghum. One member shall be actively engaged in business in the State. One member shall represent labor interests in the State. One member shall represent Nebraska petroleum marketers in the State.

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

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

- Establish, with cooperation of private industry, procedures and processes necessary to the manufacture and marketing of fuel containing agricultural ethyl alcohol;
- Establish procedures for entering blended fuel into the marketplace by private enterprise;
- Analyze the marketing process and testing of marketing procedures to assure acceptance in the private marketplace of blended fuel and byproducts resulting from the manufacturing process;
- Cooperate with private industry to establish privately owned agricultural ethyl alcohol manufacturing plants in Nebraska to supply demand for blended fuel;
- Sponsor research and development of industrial and commercial uses for agricultural ethyl alcohol and for byproducts resulting from the manufacturing process;
- Promote State and national air quality improvement programs and influence Federal legislation that requires or encourages the use of fuels oxygenated by the inclusion of agricultural ethyl alcohol or its derivatives;
- Promote the use of renewable agricultural ethyl alcohol as a partial replacement for imported oil and for the energy and economic security of the nation;
- Participate in the development and passage of national legislation dealing with research, development, and promotion of United States production of fuels oxygenated by the inclusion of agricultural ethyl alcohol or its derivatives, access to potential markets, tax incentives, imports of foreign-produced fuel, and related concerns that may develop in the future; and

NEBRASKA ETHANOL BOARD

BACKGROUND

(Continued)

- As the Board may otherwise direct to fulfill the goals set forth under the Ethanol Development Act, including monitoring contracts for existing ethanol program commitments consummated pursuant to the law in existence prior to September 1, 1993, and the solicitation of Federal funds.

The Board also pays tax credits earned by ethanol producers on each gallon of ethanol produced in the State from the Ethanol Production Incentive Cash Fund. The Nebraska Department of Revenue notifies the Nebraska State Treasurer at the end of each month the amount of motor fuel tax that was not collected in the preceding month due to the credits described. The Nebraska State Treasurer shall transfer from the Ethanol Production Incentive Cash Fund to the Highway Trust Fund an amount equal to such credits.

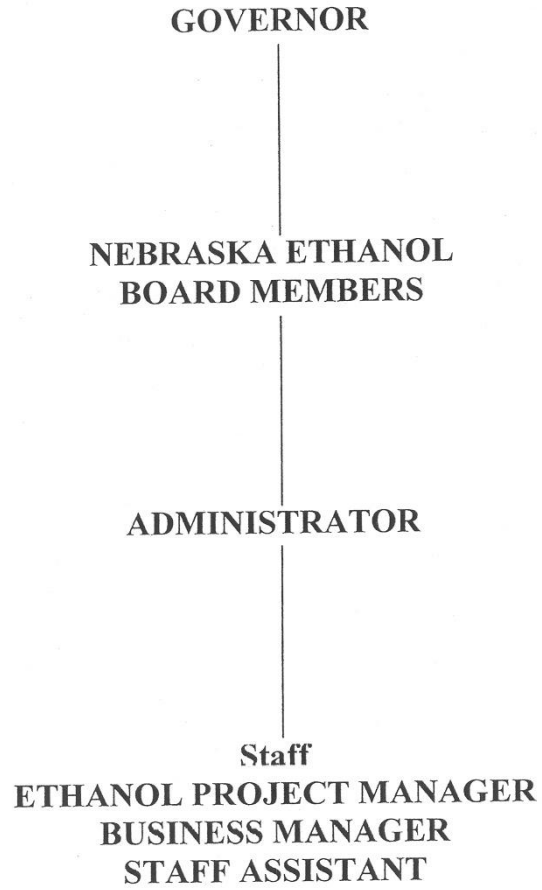
MISSION STATEMENT

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

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

NEBRASKA ETHANOL BOARD

ORGANIZATIONAL CHART



NEBRASKA ETHANOL BOARD

EXIT CONFERENCE

An exit conference was held May 19, 2006, with the Board to discuss the results of our examination. Those in attendance for the Nebraska Ethanol Board were:

NAME	TITLE
Todd Sneller	Administrator
Gerri Monahan	Business Manager
Steve Sorum	Project Manager
Jim Hendrix	Technical Adviser
Kylie Meyer	Staff Assistant

NEBRASKA ETHANOL BOARD

SUMMARY OF COMMENTS

During our examination of the Nebraska Ethanol Board, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Lack of Internal Controls:*** There was a lack of segregation of duties over transactions processed by the Board. In addition, the Board did not document their review of various Nebraska Information System (NIS) reports.
2. ***No Legal Review of Contracts:*** The Board's contracts did not undergo a legal review prior to the execution of the contracts.
3. ***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 Board 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. 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.

NEBRASKA ETHANOL BOARD

COMMENTS AND RECOMMENDATIONS

1. Lack of Internal Controls

Good internal control requires an adequate segregation of duties so no one individual can prepare, approve, and post their own batches. A system of internal control includes a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end. Good internal control also requires procedures to ensure reviews of all reports are adequately documented.

The Board's normal process for accounts payable transactions on the Nebraska Information System (NIS) generally involved three individuals; however, there was a lack of segregation of duties, as all four employees of the Board with NIS Batch Management authorization were authorized to prepare and approve/post their own batches for expenditure and revenue transactions. This did not allow for a proper segregation of duties, as any one of these individuals could process a transaction from beginning to end.

The Board staff accumulated various NIS reports monthly for review by staff and Board members, but there was no documentation to indicate who actually reviewed the reports.

- The accounts payable training on the NIS website indicates agencies should review the Pre-Audit Verification Report during the pre-audit process. The Board staff did not review or utilize the Pre-Audit Verification Report, which provides specific voucher data including alternate payee, handling code, posting information, and will also show warnings of possible problems with individual documents. The Board staff reviewed the Voucher Journal Report from NIS that did not indicate any possible problems with the individual documents. Without proper procedures to review and retain the Pre-Audit Verification Report during the pre-audit process, there is an increased risk that payments will not process properly.
- Staff also did not review the Posted Batch Report, which is generated after each batch is posted and can only be viewed by the individual who posted the batch. Board staff reviewed payments on NIS after they processed to obtain payment dates and payment numbers; however, this review would not include journal entry transactions. Without a review of the Posted Batch Report, there is an increased risk batches will not properly post. We did note one journal entry processed by the Board for \$1,591 did not properly post.
- Staff did not document their review of detailed transactions that posted to their accounts. Staff indicated they reviewed the Transaction Journal Report on NIS, which shows individual transactions, but there was no documentation to indicate who reviewed the report.

NEBRASKA ETHANOL BOARD

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Lack of Internal Controls** (Concluded)

We recommend the Board implement procedures to ensure an adequate segregation of duties over revenue and expenditure transactions. No one individual should have the authority to prepare and approve/post their own batches. Reports reviewed by Board staff should be documented to ensure a proper segregation of duties.

Board's Response: The Nebraska Ethanol Board (NEB) is a four-person agency. Total segregation of duties is a challenge to agencies with limited staffing. Cross training of duties is necessary to process documents and meet deadlines when there is lack of staff in the office at certain times due to business travel, conferences, speaking engagements, and leave requests. The NEB's normal practice does include segregation of duties even though the NIS Batch Management Security would have permitted an individual to prepare, approve and post documents. The NEB has taken steps to ensure that no employee can prepare, approve and post their own batches.

Although documents may not have been specifically initialed each time a staff member reviewed, all accounting documents are reviewed by at least three of four staff members before payment. No instance of fraud activity has appeared or been reported.

3 points specifically noted:

1 – pre-audit verification report – The report was not utilized in the past and is now used in the NIS accounts payable process. Documents not processing in a timely manner are caught and corrections are made when necessary.

2 – posted batch report – The report was not fully utilized in the past and is now used in the NIS process.

3 – staff did not document review of detailed transactions - Although documents may not have been initialed each time a staff member did a review; specific documents were processed, printed, reviewed, utilized, and filed according to their internal reporting purposes and summaries.

APA's Response: This section of the comment refers to the review of NIS generated reports not being documented, not individual documents. The Board staff did not document their review of the NIS reports.

Board's Response, Concluded: The Board uses best business practices for the agency and accepts past audit control recommendations.

NEBRASKA ETHANOL BOARD

COMMENTS AND RECOMMENDATIONS

(Continued)

2. No Legal Review of Contracts

Good internal control requires procedures to ensure a legal review of contracts is completed before they are executed to ensure the State's interests are adequately protected by the contract and to ensure there are adequate remedies in the event of a breach of the contract. If the Board uses a contract template, the template should be reviewed by legal counsel periodically.

All three contracts tested did not include documentation of a legal review of the contract prior to execution. The Board staff did not provide documentation to indicate when the last review of the contract template occurred. The total amount paid for these contracts during fiscal year 2005 was \$115,465.

Without a legal review of contracts, there is an increased risk the State may not be adequately protected under the contract. In addition, the contract may not provide adequate remedies in the event of a breach of contract which may result in a loss or misuse of State funds.

We recommend the Board implement procedures to ensure there is a documented, legal review of contracts or the template used to create contracts prior to the execution of the contract.

Board's Response: The agency has requested a legal review of the standard contract template with audit controls at several times in the past. Representatives of the Attorney General's staff indicated the template complied with legal form and financial controls. It was agreed that review of each contract was not an efficient use of time provided the contract template included the appropriate controls. The audit did not cite an example of any contract that lacked appropriate controls or review.

APA's Response: The Board staff was aware of the three contracts tested which were found to have lacked a legal review. Supporting documentation for the contracts and the monitoring spreadsheets were obtained from Board staff and at least one of the contracts was discussed during the exit conference; therefore, the staff was fully aware of the contracts in question. We asked Board staff for documentation of the legal review provided by the Attorney General's Office and the Board did not provide this information.

3. 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

NEBRASKA ETHANOL BOARD

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Reconciliation of Bank Records to the Nebraska Information System (Continued)

(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 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.

NEBRASKA ETHANOL BOARD

COMMENTS AND RECOMMENDATIONS

(Continued)

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

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.

Board's Response: The Board appreciates this disclosure and feels that resolving the shortage is the responsibility of DAS in conjunction with the Governor and Legislature. We are aware that State Accounting continues efforts to resolve the problem. Any financial variances would be easily identified in a small agency. The Board would like to go on record to emphasize the fact that there were no findings of variance in the agency's accounting records during this audit. The Board and staff recognize that appropriate audit controls are a necessary part of agency operations but that objective is balanced with the necessary focus on agency role and mission as directed in statute.

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NEBRASKA ETHANOL BOARD

INDEPENDENT ACCOUNTANT'S REPORT

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

Pat Reding, CPA
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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.

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In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Ethanol Board for the 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2006, on our consideration of the Nebraska Ethanol Board'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 Board and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

May 19, 2006

NEBRASKA ETHANOL BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	Agricultural Alcohol Fuel Tax Fund 21600	Ethanol Production Incentive Cash Fund 26020	USDA Federal Grant Fund 46010	Totals (Memorandum Only)
REVENUES:				
Taxes	\$ 250,024	\$ -	\$ -	\$ 250,024
Intergovernmental	-	-	150,000	150,000
Miscellaneous	15,380	194,426	548	210,354
TOTAL REVENUES	265,404	194,426	150,548	610,378
EXPENDITURES:				
Personal Services	272,728	-	-	272,728
Operating	126,732	-	150,000	276,732
Travel	27,498	-	-	27,498
TOTAL EXPENDITURES	426,958	-	150,000	576,958
Excess (Deficiency) of Revenues Over (Under) Expenditures	(161,554)	194,426	548	33,420
OTHER FINANCING SOURCES (USES):				
Deposit to/from Common Fund	183,349	7,515,193	-	7,698,542
Operating Transfers In	-	3,000,000	-	3,000,000
Operating Transfers Out	-	(13,027,300)	-	(13,027,300)
TOTAL OTHER FINANCING SOURCES (USES)	183,349	(2,512,107)	-	(2,328,758)
Net Change in Fund Balances	21,795	(2,317,681)	548	(2,295,338)
FUND BALANCES, JULY 1, 2004	467,457	8,169,554	15,906	8,652,917
FUND BALANCES, JUNE 30, 2005	<u>\$ 489,252</u>	<u>\$ 5,851,873</u>	<u>\$ 16,454</u>	<u>\$ 6,357,579</u>
FUND BALANCES CONSIST OF:				
General Cash	\$ 489,700	\$ 5,851,873	\$ 16,454	\$ 6,358,027
Deposits with Vendors	459	-	-	459
Due From Other Government	(907)	-	-	(907)
TOTAL FUND BALANCES	\$ 489,252	\$ 5,851,873	\$ 16,454	\$ 6,357,579

The accompanying notes are an integral part of the schedule.

NEBRASKA ETHANOL BOARD

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Ethanol Board 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 Board 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.

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

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

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

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

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

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Board consists of tax credit allowed against a purchaser’s Nebraska income tax liability of one and one-quarter cents per gallon of gasoline or motor vehicle fuel for which credits have been approved.

NEBRASKA ETHANOL BOARD

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

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

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

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

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

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

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

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded 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 Financing Sources – Operating transfers and Deposits to/from Common Fund.

2. State Agency

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

The Nebraska Ethanol Board is part of the primary government for the State of Nebraska.

NEBRASKA ETHANOL BOARD

NOTES TO THE SCHEDULE
(Continued)

3. Totals

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

4. Capital Assets

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 Board values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,500 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.

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

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Equipment	\$ 9,417	-	-	\$ 9,417
Less accumulated depreciation for:				
Equipment				9,087
Total capital assets, net of depreciation				\$ 330

5. Transfers

Operating Transfers In

The Ethanol Production Incentive Cash (EPIC) Fund received an operating transfer from the State General Fund in the amount of \$1,500,000 pursuant to Neb. Rev. Stat. Section 66-1345.04(2)(d) R.R.S. 2003.

NEBRASKA ETHANOL BOARD

NOTES TO THE SCHEDULE

(Continued)

5. Transfers (Concluded)

The EPIC Fund also received an operating transfer from the Petroleum Remedial Action Cash Fund in the amount of \$1,500,000 pursuant to Neb. Rev. Stat. Section 66-1519(3) R.S.Supp., 2004.

For fiscal year 2005, a total of \$3,000,000 was transferred into the EPIC Fund, pursuant to the statutes noted above.

Operating Transfers Out

The EPIC Fund included an operating transfer to the Highway Trust Fund in an amount of \$13,004,650 pursuant to Neb. Rev. Stat. Section 66-1345(2) R.S.Supp., 2004. The amount of the transfer is calculated by the Nebraska Department of Revenue and reported to the Nebraska State Treasurer for the amount of motor fuel tax that was not collected due to the ethanol credits provided in Neb. Rev. Stat. Section 66-1344 R.S.Supp., 2004.

The EPIC Fund also included an operating transfer to the Management Services Expense Revolving Fund as provided in Neb. Rev. Stat. Section 66-1345.02(4) R.R.S. 2003, in an amount of \$22,650 pursuant to Neb. Rev. Stat. Section 66-1345.02(3) R.R.S. 2003. The amount of the transfer is calculated by the Nebraska Department of Agriculture and reported to the Nebraska Department of Administrative Services for the costs in collecting and enforcing the excise tax provided in Neb. Rev. Stat. Section 66-1345.01 R.S.Supp., 2004.

For fiscal year 2005, a total of \$13,027,300 was transferred out of the EPIC Fund, pursuant to the statutes noted above.

6. Deposits to/from Common Funds

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

Neb. Rev. Stat. Section 66-1345.01 R.S.Supp., 2005, authorizes an excise tax to be levied upon all corn and grain sorghum sold through commercial channels in Nebraska or delivered in Nebraska. For any sale or delivery of corn or grain sorghum on or after October 1, 2001, and before October 1, 2004, the tax was one-half cent per bushel for corn and one-half cent per hundredweight for grain sorghum. For any sale or delivery of corn or grain sorghum on or after October 1, 2004, and before October 1, 2005, the tax was three-fourths cent per bushel for corn and three-fourths cent per hundredweight for grain sorghum. The tax shall be collected, administered, and enforced by the Nebraska Department of Agriculture. The Nebraska Department of Agriculture deposited \$7,424,436 to the EPIC Fund in fiscal year 2005, pursuant to Neb. Rev. Stat. Section 66-1345.02(3) R.R.S. 2003.

NEBRASKA ETHANOL BOARD

NOTES TO THE SCHEDULE

(Continued)

6. Deposits to/from Common Funds (Concluded)

Neb. Rev. Stat. Section 66-4,124 R.S.Supp., 2004, allows credits against purchaser's Nebraska income tax liability for the amount of tax so paid during the taxable year of purchase of the fuel by the taxpayer, less two and one-quarter cents per gallon through December 31, 2004, and less than three and one-half cents per gallon commencing January 1, 2005. This statute was repealed with an operative date of January 1, 2005. Neb. Rev. Stat. Section 66-4,134 R.S.Supp., 2004, requires the Nebraska Department of Revenue to transmit monthly to the Nebraska State Treasurer a report of the number of gallons of tax credit gasoline or motor fuel for which credits have been approved, and the Nebraska State Treasurer shall transfer from the General Fund to the Agricultural Alcohol Fuel Tax Fund one and one-quarter cents per gallon approved for credit through December 31, 2004. This statute was also repealed with an operative date of January 1, 2005. Even though these statutes were repealed, credits on 2004 tax returns still showed up during fiscal year 2005, when they were filed. The Nebraska State Treasurer transferred \$92,591.92 to the Agricultural Alcohol Fuel Tax Fund in fiscal year 2005.

Neb. Rev. Stat. Section 66-489(2) R.S.Supp., 2004, requires each producer of ethanol to pay an excise tax of one and one-quarter cents per gallon through December 31, 2004, and two and one-half cents per gallon commencing January 1, 2005, on natural gasoline purchased for use as a denaturant by the producer at an ethanol facility. All taxes, interest, and penalties collected under this subsection shall be remitted to the Nebraska State Treasurer for credit to the Agricultural Alcohol Fuel Tax Fund, except that commencing January 1, 2005, one and one-quarter cents per gallon of such excise tax shall be credited to this fund. The Nebraska State Treasurer deposited \$90,672 to the EPIC Fund and \$90,672 to the Agricultural Alcohol Fuel Tax Fund in fiscal year 2005.

Neb. Rev. Stat. Section 66-726 R.S.Supp., 2004, authorizes the Nebraska Department of Revenue to refund tax paid on motor fuels used for agricultural, quarrying, industrial, or other non-highway use. The Nebraska Department of Revenue transmits monthly to the Nebraska State Treasurer a report of the number of gallons of motor vehicle fuel for which refunds have been approved. Through December 31, 2004, the Nebraska State Treasurer transferred from the Highway Trust Fund to the Agricultural Alcohol Fuel Tax Fund one and one-quarter cents per gallon approved for refund, and as of January 1, 2005, the Nebraska State Treasurer transferred from the Highway Trust Fund to the Ethanol Production Incentive Cash Fund one and one-quarter cents per gallon approved for refund and to the Agricultural Alcohol Fuel Tax Fund one and one-quarter cents per gallon approved for refund. The Nebraska State Treasurer transferred \$85 to the EPIC Fund and \$85 to the Agricultural Alcohol Fuel Tax Fund in fiscal year 2005.

For fiscal year 2005, a total of \$7,515,193 was deposited into the EPIC Fund and a total of \$183,349 was deposited into the Agricultural Alcohol Fuel Tax Fund, pursuant to the statutes noted above.

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NEBRASKA ETHANOL BOARD **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**

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Don Dunlap, CPA
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Ethanol Board for the fiscal year ended June 30, 2005, and have issued our report thereon dated May 19, 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.

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Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Ethanol Board'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 Ethanol Board'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 (Lack of Internal Controls) and Comment Number 3 (Reconciliation of Bank Records to the Nebraska Information System).

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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 Ethanol Board'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 an additional item that we reported to management of the Nebraska Ethanol Board in the Comments Section of this report as Comment Number 2 (No Legal Review of Contracts).

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

Pat Reding, CPA

Assistant Deputy Auditor

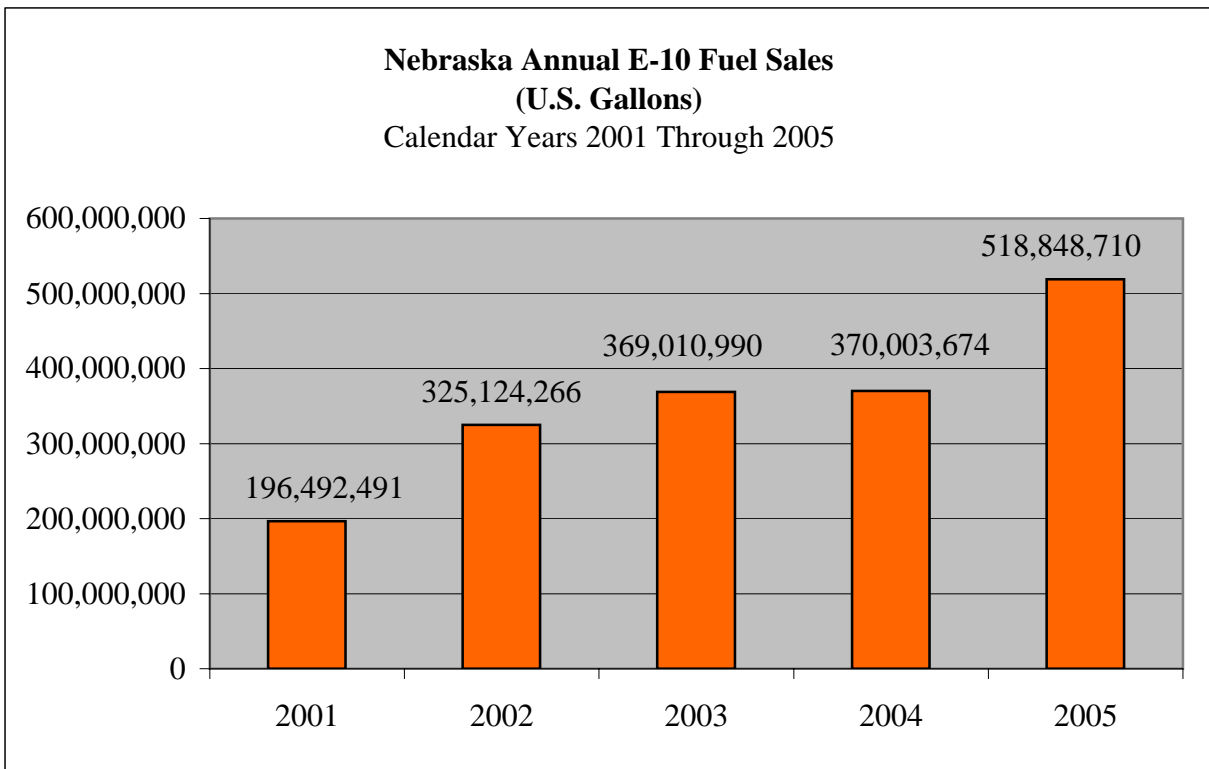
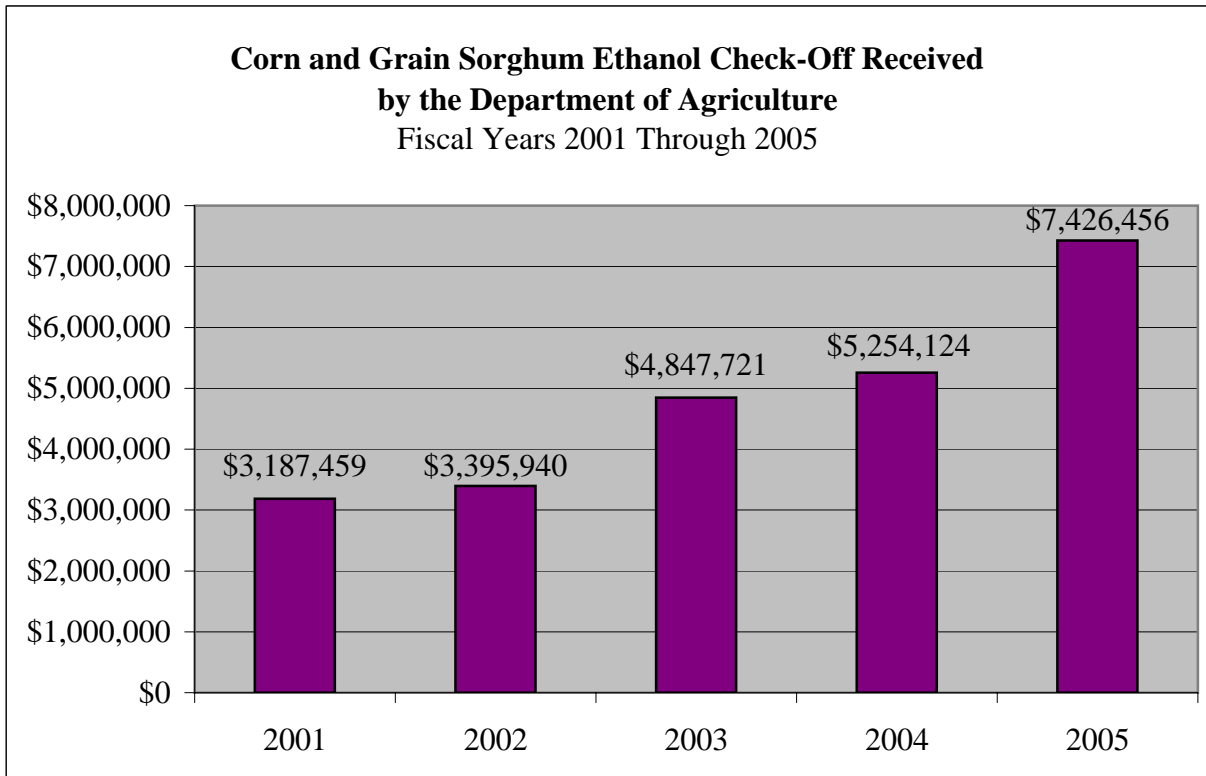
May 19, 2006

NEBRASKA ETHANOL BOARD

STATISTICAL SECTION

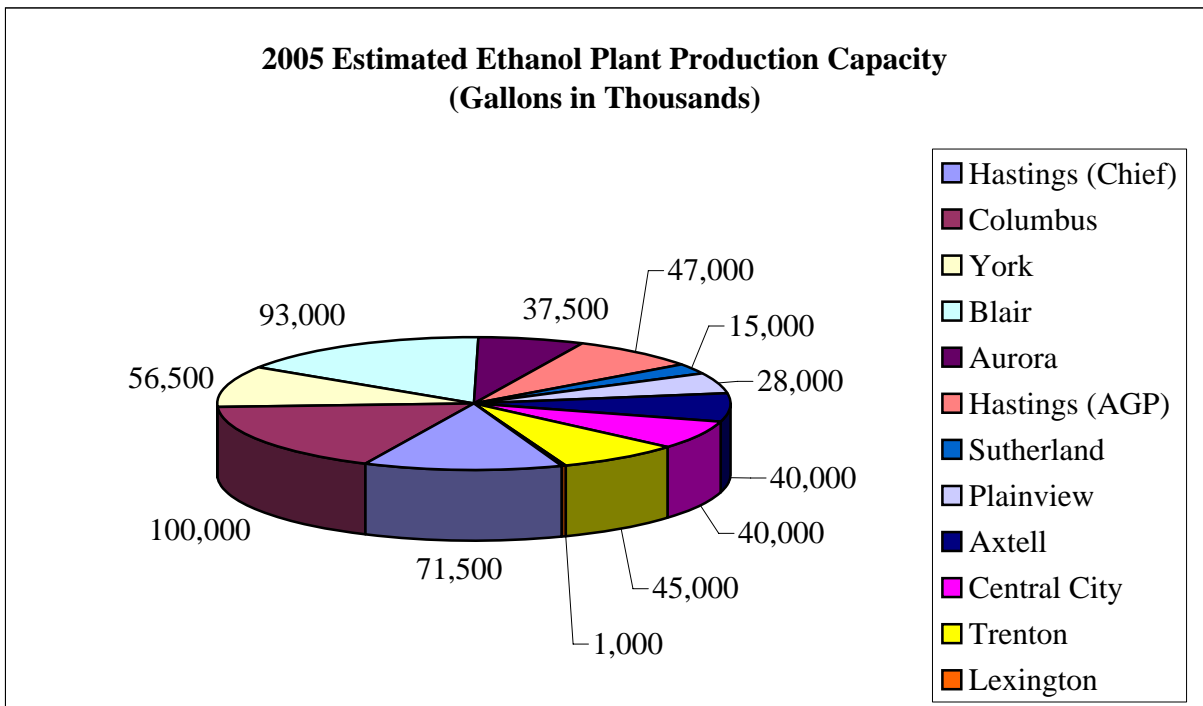
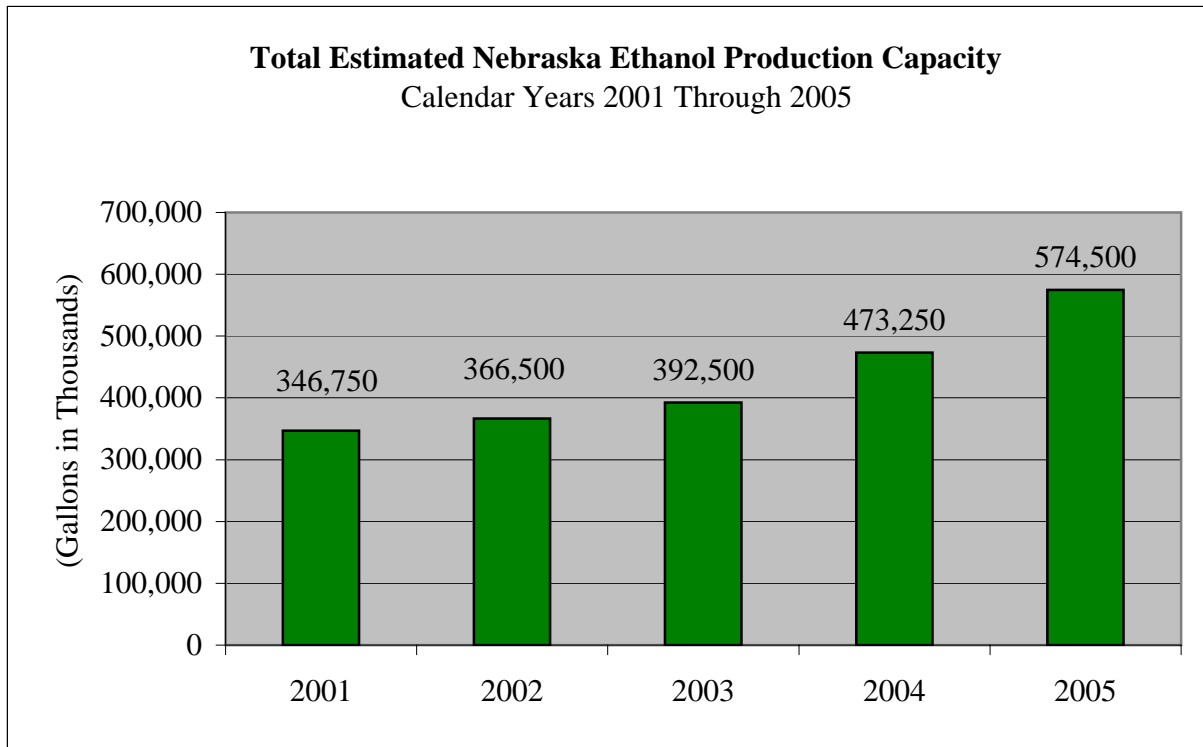
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

NEBRASKA ETHANOL BOARD



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

NEBRASKA ETHANAL BOARD



Source: Nebraska Ethanol Board - Estimated Nebraska Ethanol Production Capacity (U.S. Gallons).