

**ATTESTATION REPORT
OF THE
NEBRASKA STATE ELECTRICAL DIVISION
APRIL 1, 2011 THROUGH MARCH 31, 2012**

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Issued on June 13, 2012

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Audit Staff Working On This Examination

Krista Davis – Audit Manager

Steve Fricke – Auditor

Diane Holtorf, CPA – Auditor

Emily Turek – Auditor

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Nebraska Auditor of Public Accounts

State Capitol, Suite 2303

P.O. Box 98917

Lincoln, Nebraska, 68509

Phone: 402-471-2111

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NEBRASKA STATE ELECTRICAL DIVISION

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NEBRASKA STATE ELECTRICAL DIVISION

BACKGROUND

The Nebraska State Electrical Division (Division) includes a State Electrical Board, which directs the Division's Executive Director and sets Division policy. The State Electrical Board (Board), established in 1969, is a seven-member regulatory board which enforces the State Electrical Act. Members are appointed by the Governor to five-year terms. Members include a journeyman electrician, an electrical contractor or master electrician, a certified electrical inspector, a licensed professional electrical engineer, a State public power district or rural electrical cooperative representative, a State municipal electric system representative, and a seventh member who may represent any of the above groups.

The Board is responsible for the inspection of new electrical wiring and electrical systems installed in buildings for compliance with the adopted electrical code. Existing residential and rural electrical facilities are inspected upon request. Electrical accidents and fatalities are investigated where possible. Practicing electricians and electrical contractors are tested, and, if qualified, are licensed by the Board. The Division is funded with cash funds received from occupational examination and license fees, inspection fees, and code training session fees.

NEBRASKA STATE ELECTRICAL DIVISION

EXIT CONFERENCE

An exit conference was held June 11, 2012, with the Division to discuss the results of our examination. Those in attendance for the Nebraska State Electrical Division were:

NAME	TITLE
Randy Anderson	Executive Director
Cory Mueller	Board President
Melissa Hamilton	Administrative Assistant
Lynda Roesler	State Accounting
Ken Rouch	State Accounting

NEBRASKA STATE ELECTRICAL DIVISION

SUMMARY OF COMMENTS

During our examination of the Nebraska State Electrical Division (Division), we noted certain deficiencies in internal control and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Internal Control Over Receipts:*** The individuals handling cash and checks were also involved in processing and approving applications for permits and licenses. This creates a situation in which one employee can handle all phases of the initial processing of cash receipts. Sales and charges revenues totaled \$1,176,479 for the year ended March 31, 2012. A similar comment was noted during the fiscal year 2006 attestation report.
2. ***Review of Fixed Asset Reports:*** The Division did not have adequate policies and procedures to ensure no one individual was able to perform all functions of the fixed asset process. Furthermore, errors noted in fixed asset reports were not corrected timely. The Division had fixed assets totaling \$71,010 at March 31, 2012. A similar comment was noted during the fiscal year 2006 attestation report.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature as it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Nebraska State Electrical Division.

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

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

1. Internal Control Over Receipts

A good internal control plan requires adequate policies and procedures to ensure no one individual is in a position to both perpetrate and conceal errors and irregularities. A good internal control plan also requires all receipts be adequately tracked to ensure all monies received are deposited.

During testing of receipts received by the Division, totaling \$1,176,479 for the year ended March 31, 2012, we noted the following:

- The individuals handling cash and checks were not independent of the function of processing and approving applications for permits and licenses. One individual opened the mail, made the initial record of money received, and processed license or permit applications.
- The individuals handling cash and checks also had access to void entries without approval and voided licenses were deleted from the Nebraska State Electrical Division Application (NSEDA) system. Permits or licenses printed and subsequently voided were not maintained on file and, therefore, no subsequent review could be performed of the voids.
- The individual who processed the permits also handled accounts receivables, which included invoicing and applying payments in the NSEDA system.
- License renewals were not issued in sequential order and the license and permit stock was not adequately monitored and inventoried periodically.

The Division did not have compensating controls, such as reviewing NSEDA system reports, to ensure all monies received and licenses or permits issued were properly accounted for and deposited. The Division also did not review the general ledger detail report to ensure all monies received were properly deposited.

There is an increased risk for errors and fraud when individuals who handle cash received also issue permits and licenses, and there are no compensating controls to ensure all monies received are deposited. A similar comment was noted during the fiscal year 2006 attestation report.

We recommend the Division implement policies and procedures to ensure a proper segregation of duties exists between the handling of cash, the issuance of permits and licenses, and the monitoring of receivables. We also recommend the Division compare NSEDA system reports of permits and licenses issued to monies deposited to ensure the deposits are complete and accurate. Voids should be kept on file for subsequent inspection, and the supply of licenses and permits should be monitored and periodically inventoried.

NEBRASKA STATE ELECTRICAL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Review of Fixed Asset Reports

A good internal control plan requires adequate policies and procedures to ensure no one individual is in a position to both perpetrate and conceal errors and irregularities. A good internal control plan also requires an adequate review of accounting system reports to ensure transactions are proper.

During our review of fixed assets, we noted one individual was responsible to add and delete fixed assets in the accounting system and reviewed reports from the system. There was not a review of accounting system reports by a separate individual to ensure transactions were proper. The Division had fixed assets totaling \$71,010 at March 31, 2012.

Furthermore, the procedures to review integrity reports, which record errors in the accounting system, were not performed timely. The Division only reviewed the reports annually. We noted three report exceptions dating back to September 2011, November 2011, and February 2012, which had not been corrected as of April 2012.

Without a proper segregation of duties and a separate review of fixed asset reports, there is an increased risk of loss or misuse of Division assets. Furthermore, there is an increased risk asset records are not complete and accurate in the accounting system. A similar comment was noted during the fiscal year 2006 attestation report.

We recommend the Division establish procedures to ensure an adequate segregation of duties exists for fixed assets. This would include a documented review of the fixed asset reports by someone other than the individual maintaining the fixed asset records. We also recommend the Division review errors noted in the reports timely.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA STATE ELECTRICAL DIVISION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Electrical Division
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska State Electrical Division (Division) for the fiscal year ended March 31, 2012. The Division's management is responsible for the schedule of revenues, expenditures, and changes in fund balance. 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 balance 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 balance of the Nebraska State Electrical Division for the year ended March 31, 2012, based on the accounting system and procedures prescribed by the State of Nebraska Director of the Department of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the schedule of revenues, expenditures and changes in fund balance and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the schedule of revenues, expenditures, and changes in fund balance is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the schedule of revenues, expenditures, and changes in fund balance or on compliance and other matters; accordingly we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, the Nebraska State Electrical Board, others within the Division, and the appropriate regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

June 11, 2012

Mike Foley
Auditor of Public Accounts

NEBRASKA STATE ELECTRICAL DIVISION
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE**
 For the Year Ended March 31, 2012

	State Electrical Board Cash Fund 21210
REVENUES:	
Sales & Charges	\$ 1,176,479
Miscellaneous	25,231
TOTAL REVENUES	1,201,710
EXPENDITURES:	
Personal Services	1,160,402
Operating	164,454
Travel	164,531
Capital Outlay	4,321
TOTAL EXPENDITURES	1,493,708
Excess (Deficiency) of Revenues Over (Under) Expenditures	(291,998)
OTHER FINANCING SOURCES (USES):	
Operating Transfers Out	(101,698)
TOTAL OTHER FINANCING SOURCES (USES)	(101,698)
Net Change in Fund Balances	(393,696)
FUND BALANCE, MARCH 31, 2011	853,914
FUND BALANCE, MARCH 31, 2012	\$ 460,218
FUND BALANCE CONSISTS OF:	
General Cash	\$ 458,199
Deposits with Vendors	1,549
Accounts Receivable Invoiced	470
TOTAL FUND BALANCE	\$ 460,218

The accompanying notes are an integral part of the schedule.

NEBRASKA STATE ELECTRICAL DIVISION

NOTES TO THE SCHEDULE

For the Year Ended March 31, 2012

1. Criteria

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

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the State of Nebraska Director of the Department 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.”

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balance was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. 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 expenditures and related accounts payables recorded in the general ledger as of March 31, 2012, include only those payables posted in the general ledger before March 31, 2012, and not yet paid as of that date. The amount recorded as expenditures as of March 31, 2012, **does not** include amounts for goods and services received before March 31, 2012, which had not been posted to the general ledger as of March 31, 2012.

The Division had no other accounts receivable not included in the Schedule. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Division 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.

NEBRASKA STATE ELECTRICAL DIVISION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

The major revenue account classifications established by State Accounting and used by the Division are:

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

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

The major expenditure account classifications established by State Accounting and used by the Division are:

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

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.

Other significant accounting classifications and procedures established by State Accounting and used by the Division 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 resulting in an increase to the fund balance on the schedule. Cash accounts and deposits with vendors are also included in the fund balance and are reported as recorded in the general ledger.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures resulting in a decrease to the fund balance.

Other Financing Sources – Operating transfers.

NEBRASKA STATE ELECTRICAL DIVISION

NOTES TO THE SCHEDULE

(Continued)

2. Reporting Entity

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

The Nebraska State Electrical Division is part of the primary government for the State of Nebraska.

3. General Cash

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

4. Capital Assets

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

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Division takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System.

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

NEBRASKA STATE ELECTRICAL DIVISION

NOTES TO THE SCHEDULE
(Continued)

4. Capital Assets (Concluded)

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of three years. Capital asset activity of the Division recorded in the State Accounting System for the fiscal year ended March 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 67,876	\$ 3,134	\$ -	\$ 71,010
Less accumulated depreciation for:				
Equipment				<u>68,833</u>
Total capital assets, net of depreciation *				<u>\$ 2,177</u>

**Note: The depreciation noted in the table above was calculated in the accounting system through February 28, 2012. Depreciation for March 2012 was not run in the accounting system by the end of the period tested.*

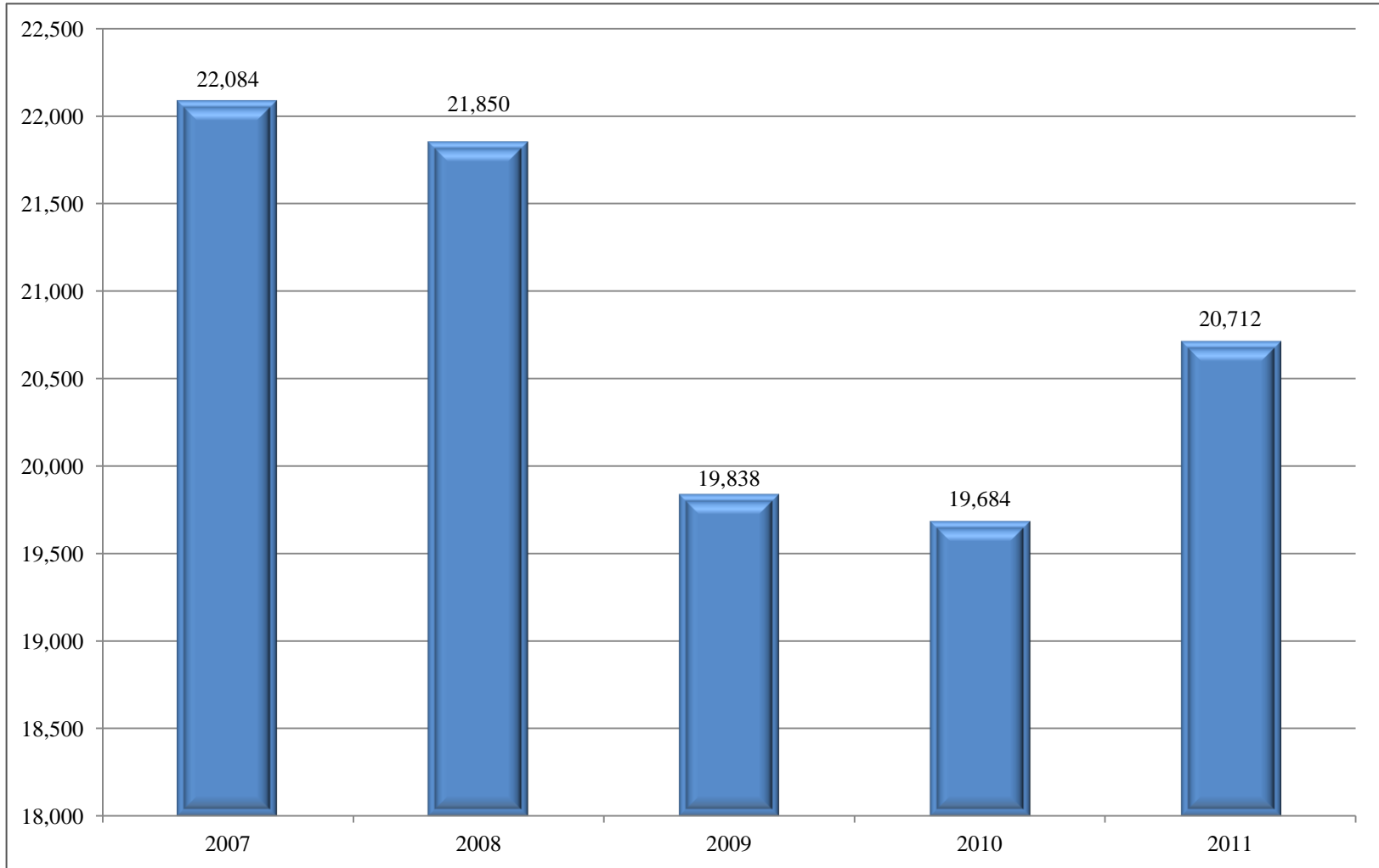
NEBRASKA STATE ELECTRICAL DIVISION

SUPPLEMENTARY INFORMATION

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

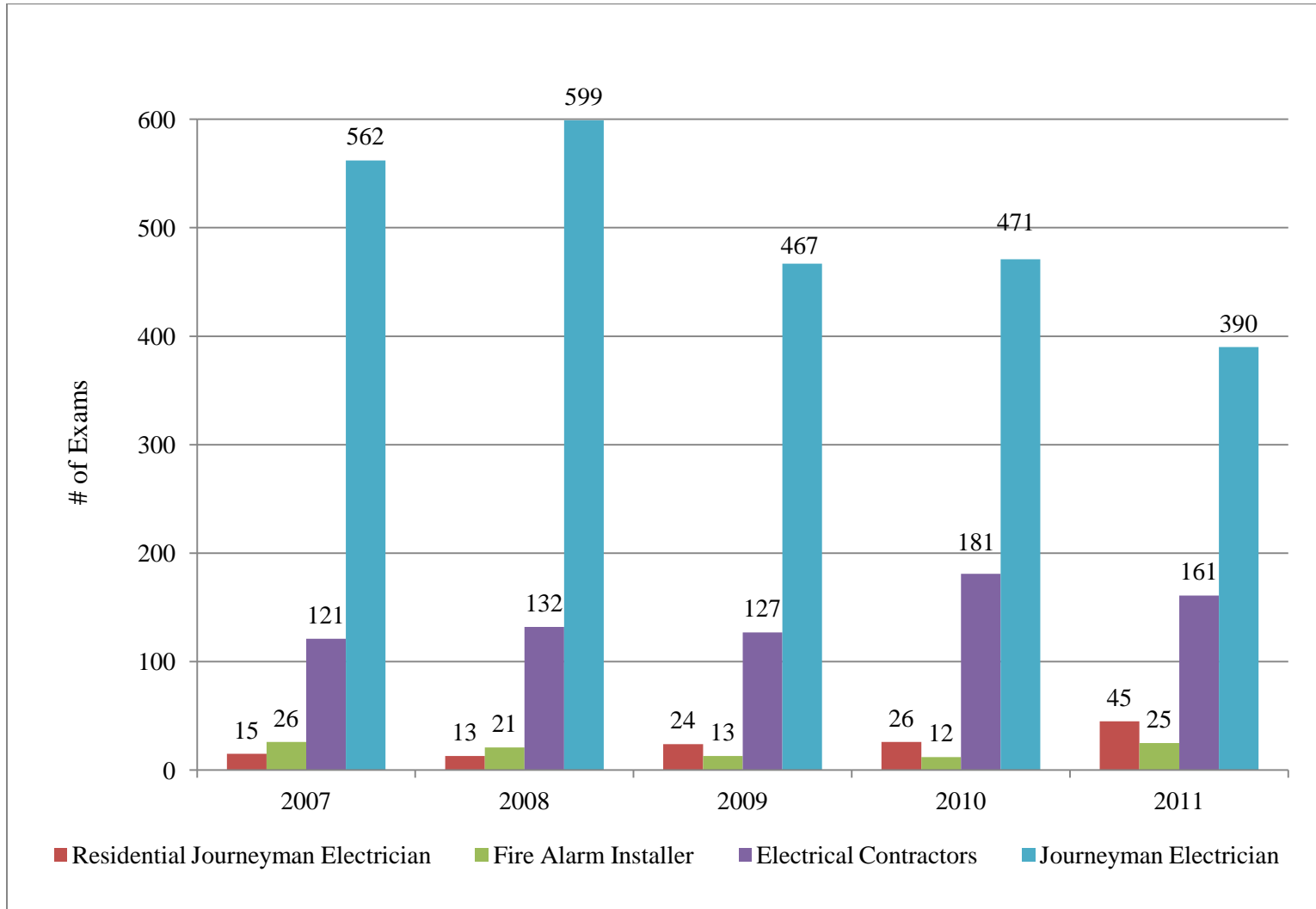
NEBRASKA STATE ELECTRICAL DIVISION

NUMBER OF INSPECTIONS
For the Fiscal Years Ended June 30, 2007 through 2011



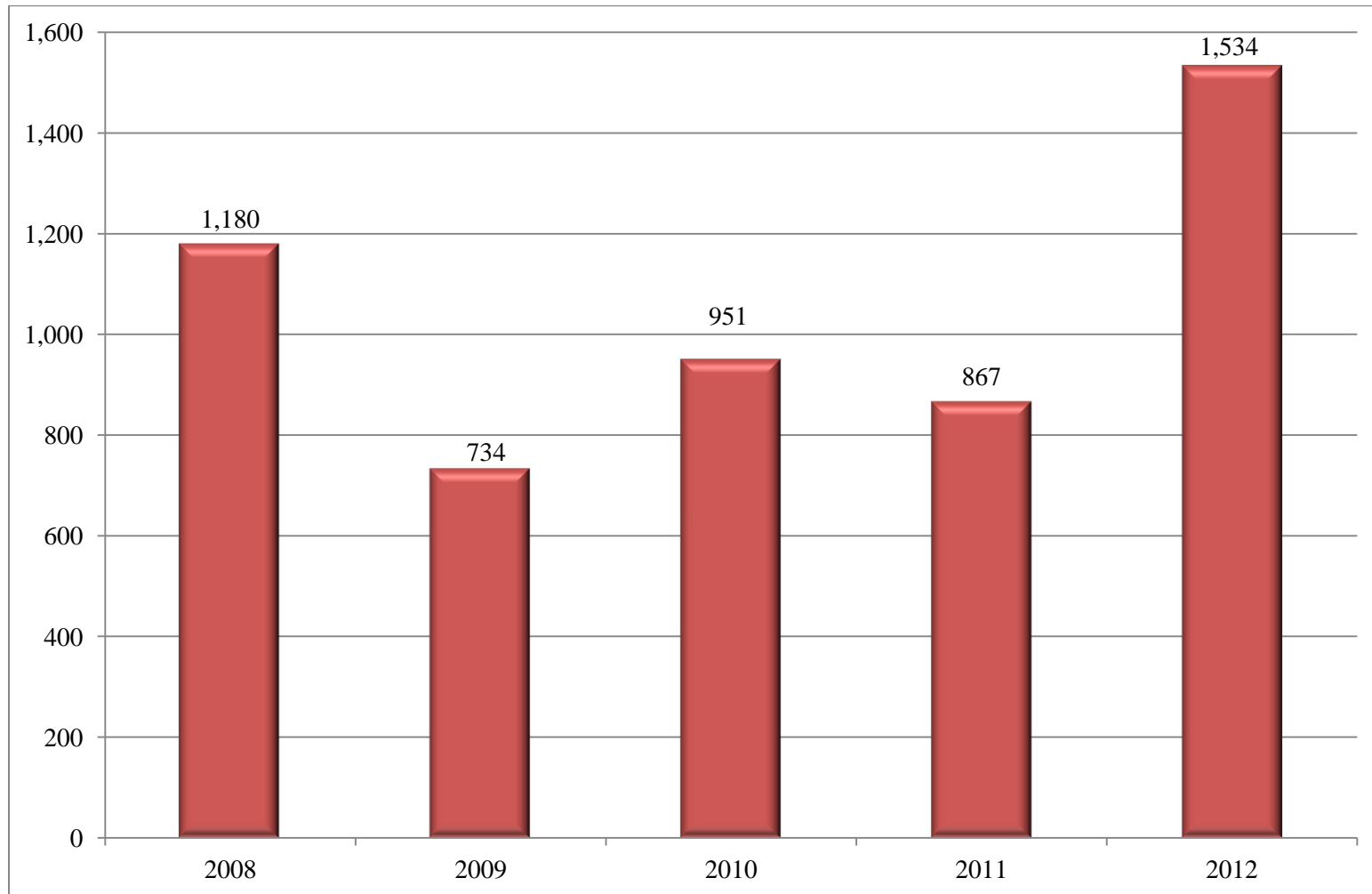
NEBRASKA STATE ELECTRICAL DIVISION

EXAMINATION STATISTICS
For the Fiscal Years Ended June 30, 2007 through 2011



NEBRASKA STATE ELECTRICAL DIVISION

NUMBER OF NEW LICENSES
For the Years Ended March 31, 2007 through 2011



Note: The last renewal year was during the period ended March 31, 2011 (renewals were due by December 31, 2010). There were 8,009 licenses renewed during this year. License renewals were not included in the chart above because the system used to track license renewals only accounted for the most current renewal year. Therefore, licenses renewed in 2008 were no longer recorded in the system counts.