ATTESTATION REPORT
OF THE
NEBRASKA POWER REVIEW BOARD

JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

Issued on May 10, 2012

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NEBRASKA POWER REVIEW BOARD

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BACKGROUND

The Nebraska Power Review Board (Board) was created in 1963 as part of the Department of Water Resources to regulate the power industry in Nebraska. In 1980, the Board was separated from the Department of Water Resources and became an independent board. The Board consists of five members appointed to four-year terms by the Governor. Board members include, by law, one attorney, one engineer, one accountant, and two lay persons.

The duties of the Board include the following:

- Approve petitions to create public power districts and any amendments to the existing charters of public power districts;
- Approve electric utility service areas and designating who shall serve in these areas;
- Approve amendments to service areas;
- Conduct hearings and approve applications to construct generation and transmission facilities;
- Approve creation of agencies for joint financing for municipalities;
- Approve creation of joint agencies for the creation of rural public power district financing;
- Approve construction of microwave communication facilities by public power utilities;
- Act as the official repository for many documents, including wholesale and retail service area agreements, public power district petitions for creation and all amendments, and agreements transferring ownership of assets from one utility to another;
- Conduct hearings on rate disputes between power suppliers, and between power suppliers and customers in cases dealing with rate discrimination or failure to provide electric service.

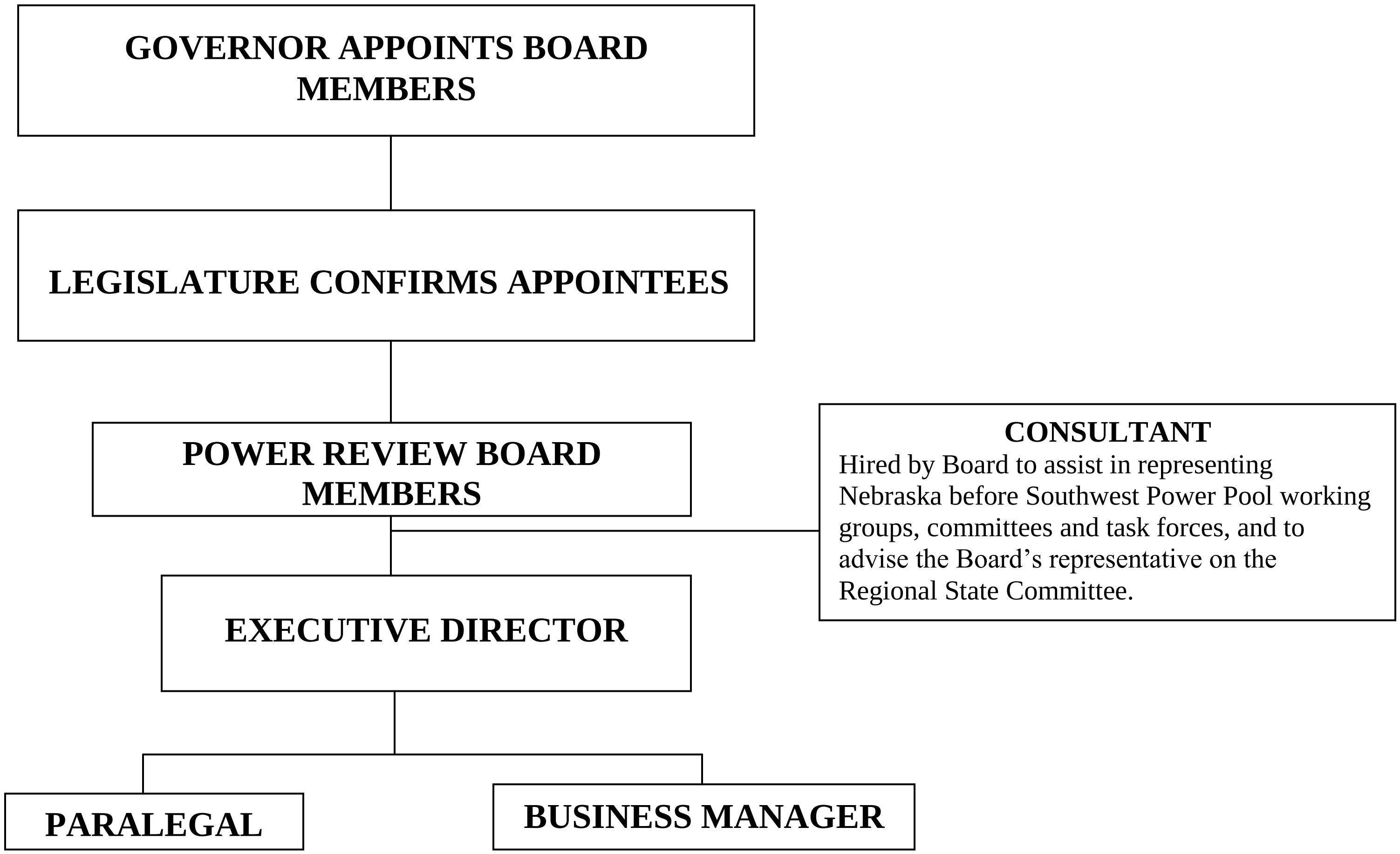
MISSION STATEMENT

The Power Review Board's mission is to oversee Nebraska's electric industry to ensure that Nebraska's residents receive adequate, reliable electric service at the lowest overall cost possible using sound business practices, to eliminate conflict and competition between power suppliers, to eliminate duplication of facilities and resources among power suppliers, and to facilitate the settlement of rate disputes and service area disputes between power suppliers. The Board also strives to facilitate resolution of conflicts among power suppliers, and between power suppliers and customers in limited circumstances. When resolution is not possible, the Board will conduct hearings.

The core values adhered to in the pursuit of the Board's mission are fairness, accuracy, efficiency and availability. The Board is always mindful that its mission is to protect the interests of the residents of Nebraska in issues pertaining to the cost, adequacy and reliability of electric service. The Board believes it is imperative that an agency performing both regulatory and quasi-judicial functions be fair when dealing with the parties and the subject matter over which it has been given jurisdiction. The Board strives to correctly enforce and interpret Nebraska's laws regarding electric power, guided by the parameters established by statute and caselaw. In order to achieve the Board's mandate to eliminate conflict and competition between power suppliers, the Board believes it is important to provide an avenue through which power suppliers with disagreements, and sometimes customers with complaints against their power supplier, can attempt to resolve disputes through the assistance of the Board's staff. This allows power suppliers and their customers the opportunity to obviate the need for expensive and time-consuming administrative hearings or litigation. When a resolution cannot be reached, the Board provides an expeditious and fair opportunity for a hearing in those matters falling within the Board's jurisdiction.

NEBRASKA POWER REVIEW BOARD

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held April 26, 2012, with the Board to discuss the results of our examination. Those in attendance for the Nebraska Power Review Board were:

NAME	TITLE
Tim Texel	Executive Director and General Counsel
Rebecca Hallgren	Business Manager
Rick Morehouse	Board Member

SUMMARY OF COMMENTS

During our examination of the Nebraska Power Review Board (Board), we noted certain deficiencies in internal control 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 areas as follows:

1. ***Segregation of Duties Over Receipts:*** Controls were not adequate to ensure all amounts due were received and deposited.

2. ***Timesheets Not Maintained:*** The three employees of the Board did not maintain timesheets to document 40 hours were worked each week. Instead they maintained calendars showing the leave used rather than the actual time worked.

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 Power Review Board.

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.

COMMENTS AND RECOMMENDATIONS

1. Segregation of Duties Over Receipts

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

We noted a lack of segregation of duties over the receipt and the accounts receivable process. The Power Review Board (Board) collects yearly assessments and also collects other receipts that are reimbursements for expenditures the Board paid on behalf of an entity. It appears the Board has compensating controls for the assessment receipts; however, the Board does not have compensating controls for the other receipts collected during the year. The Board received a total of $11,625 in other receipts during calendar year 2011. Due to a limited number of personnel, an adequate segregation of duties may not be possible without additional cost.

There is an increased risk of loss or misuse of State funds when there is a lack of segregation of duties over receipts.

> We recommend the Board review this situation. The cost of hiring additional personnel versus the benefit of a proper segregation of duties must be weighed. As a compensating control for the lack of segregation of duties over other receipts, the Executive Director might consider maintaining a log of receipts the Board expects to receive and check amounts off once the payment is received. This process might be done during his review and approval of the deposits.

Board's Response: The first comment and recommendation concerning the Board's financial operations pertains to "Segregation of Duties Over Receipts." In the draft report, your office recommends the Board weigh whether hiring additional staff is warranted to allow for what the Auditor's office believes is a proper segregation of duties. You also recommend that the executive director consider maintaining a log of receipts the Board expects to receive, other than those related to the Board's annual assessments, and check amounts off once the payments are received.

The Board acknowledges that it is preferable to avoid situations where one individual handles duties over the receipt and the accounts receivable process. However, the Board has a staff of only three full-time employees, and as you acknowledge in the draft report, an adequate segregation of duties may not be possible without considerable expense to hire additional personnel. The Board does not believe hiring additional personnel for this purpose is warranted. Based on your recommendation, the Board's executive director and general counsel will try to develop and maintain a log of receipts that the staff expects to receive. The primary receipts that will be addressed in this manner will likely be reimbursements received from public power districts for costs associated with required public notices for proposed charter amendments.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Timesheets Not Maintained</u>

Neb. Rev. Stat. § 84-1001(1) (Reissue 2008) states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." In addition, a good internal control plan requires hours actually worked to be adequately documented, for example, via timesheets, time logs, etc. and that such documentation be kept on file to provide evidence of compliance with the requirements of § 84-1001. Furthermore, a good internal control plan requires employees that accrue vacation and sick leave have adequate support that the employees "earned" the amounts recorded in the leave records.

During testing of payroll, we noted the Board's three employees were not required to maintain timesheets to show at least 40 hours were worked each week. Instead the Board's Business Manager and Executive Director documented sick and vacation leave used on desk calendars. When the pay period was over the Business Manager and Executive Director would compare their calendars for leave usage and follow up on any discrepancies.

Without adequate records to support hours worked, there is an increased risk for fraudulent or inaccurate payment of regular hours worked or accumulation of leave.

> We recommend the Board establish a policy requiring all employees maintain adequate supporting documentation to show they are in compliance with State statute, such as timesheets or certifications.

Board's Response: The second comment and recommendation concerning the Board's financial operation is "Timesheets Not Maintained." The draft report points out that the Board's staff document their hours worked on their desk calendars, and the executive director and business manager compare the hours recorded for all employees prior to submission for pay purposes. Although these calendars are retained after the calendar year has ended, you correctly point out that the Board does not use formal timesheets. With a staff of only three employees working in close proximity to each other, we note that it would likely be difficult for any individual employee to record fraudulent or intentionally inaccurate hours in any material manner. However, to the extent possible we wish to improve our methods of recording hours worked to ensure accuracy. Based on your recommendation, the Board will develop time sheets on which the employees can document their hours worked and variances such as vacation, sick leave, etc.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA POWER REVIEW BOARD

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Power Review Board
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balance of the Nebraska Power Review Board (Board) for the calendar year ended December 31, 2011. The Board'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 Board for the calendar year ended December 31, 2011, 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 no findings that are required to be reported under *Government Auditing Standards*.

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

SIGNED ORIGINAL ON FILE

May 7, 2012

Mike Foley
Auditor of Public Accounts

NEBRASKA POWER REVIEW BOARD

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Calendar Year Ended December 31, 2011

	Nebraska Power Review Fund Fund 27410
REVENUES:	
Sales & Charges	$ 309,101
Miscellaneous	26,879
TOTAL REVENUES	335,980
EXPENDITURES:	
Personal Services	234,903
Operating	184,251
Travel	11,179
TOTAL EXPENDITURES	430,333
Excess (Deficiency) of Revenues Over (Under) Expenditures	(94,353)
OTHER FINANCING SOURCES (USES):	
Operating Transfers Out	(10,292)
TOTAL OTHER FINANCING SOURCES (USES)	(10,292)
Net Change in Fund Balances	(104,645)
FUND BALANCES, JANUARY 1, 2011	613,617
FUND BALANCES, DECEMBER 31, 2011	$ 508,972
FUND BALANCES CONSIST OF:	
General Cash	$ 511,298
Deposits with Vendors	111
Due to Vendors	(2,362)
Due to Government	(75)
TOTAL FUND BALANCES	$ 508,972

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2011

1. Criteria

The accounting policies of the Nebraska Power Review Board (Board) 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 December 31, 2011, include only those payables posted in the general ledger before December 31, 2011, and not yet paid as of that date. The amount recorded as expenditures as of December 31, 2011, **does not** include amounts for goods and services received before December 31, 2011, which had not been posted to the general ledger as of December 31, 2011.

Other liabilities are recorded in an account titled Due to Government for the Board. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

The Board had no accounts receivable at December 31, 2011. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund type established by the State that is used by the Board is:

> **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. The Board has just one cash fund.

NOTES TO THE SCHEDULE
(Continued)

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

The major revenue account classifications established by State Accounting used by the Board 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 and reimbursements received from other entities for expenditures paid by the Board.

The major expenditure account classifications established by State Accounting 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 accounting classifications and procedures established by State Accounting and used by the Board include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. 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 liabilities recorded in the general ledger for the Board's funds at December 31, 2011, included amounts recorded in Due to Vendors and Due to Government. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balance.

Other Financing Sources – Operating transfers related to a legislative bill.

NOTES TO THE SCHEDULE
(Continued)

2. Reporting Entity

The Nebraska Power Review 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 included in the general ledger.

The Board 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 Board 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 Board 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.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of 3-20 years.

NOTES TO THE SCHEDULE
(Continued)

4. Capital Assets (Concluded)

Capital asset activity of the Board recorded in the State Accounting System for the calendar year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 4,411	$ -	$ -	$ 4,411
Less accumulated depreciation* for:				
Equipment				3,773
Total capital assets, net of depreciation				$ 638

**Note: The accounting system generated depreciation noted in the table above was only through September 30, 2011. Depreciation for October through December was not run in the accounting system until the beginning of calendar year 2012.*

5. Transfers

2009 Neb. Laws, First Special Session, LB 3, § 43 gave the Nebraska Legislature (Legislature) the authority to transfer Board Cash Funds to the General Fund. Pursuant to 2009 Neb. Laws, First Special Session, LB 1, § 228, the Legislature reduced the Board's cash funds by $10,052 in fiscal year ending June 30, 2010, and $20,583 in fiscal year ending June 30, 2011, for a total reduction of $30,635. The table below shows the Board's transfers to the General Fund.

Transfer Date	Amount
1/15/2010	$ 5,026
6/15/2010	5,026
12/15/2010	10,291
6/15/2011	10,292
Total Transferred	$ 30,635

6. Subsequent Events

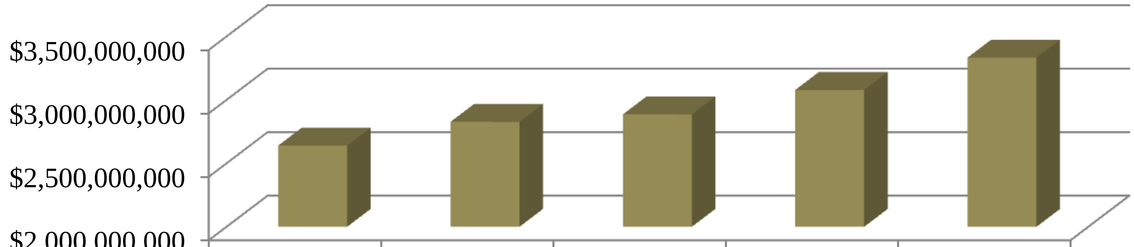
The Board's Business Manager, who was hired in November 1968, retired on December 30, 2011, however her accrued leave payout did not occur until January 2012. At retirement, State employees receive payment for vacation leave accrued along with one-fourth of their sick leave. See the table below for details of her retirement payment on January 11, 2012.

	Hours Accrued	Hours Paid	Gross Amount Paid
Vacation	375	375	$ 8,196
Sick	1,612	403	8,814
Gross Amount Paid			$ 17,010

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.

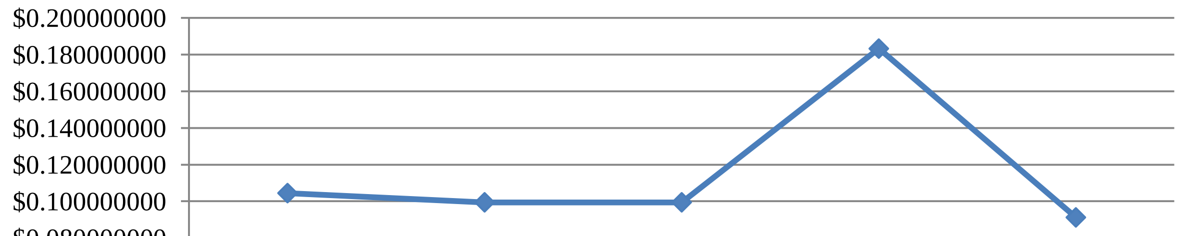
Gross Revenues of Power Suppliers



	2006	2007	2008	2009	2010
Gross Revenues	$2,640,082,203	$2,827,336,935	$2,886,081,443	$3,078,614,481	$3,333,709,557

Calendar Year

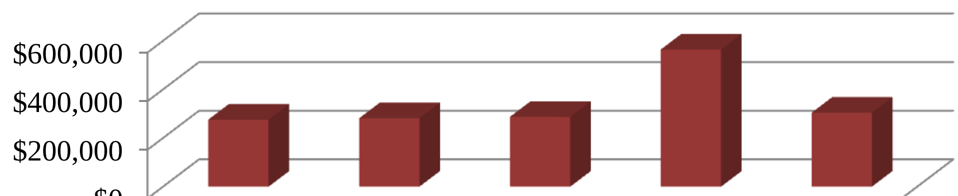
Rate Assessed on Power Suppliers per $1,000 of Revenue



	2008	2009	2010	2011	2012
Assessment Rate	$0.104463035	$0.099447290	$0.099447290	$0.183241840	$0.091220000

Fiscal Year (July 1 through June 30)

Assessment Collected from Power Suppliers



	2008	2009	2010	2011	2012
Assessment Collected	$275,791	$281,171	$287,013	$564,131	$304,101

Fiscal Year (July 1 through June 30)

Note 1: Neb. Rev. Stat § 70-1020 (Cum. Supp. 2010) states, "In order to defray the expenses of the Nebraska Power Review Board, there shall be imposed upon each public power district, public power and irrigation district, electric membership association, electric cooperative company, and municipality having an electric distribution system or generation and distribution system, and also upon all registered groups of municipalities, an assessment each fiscal year in such sum as shall be determined by the board and approved by the Governor. The total of such assessments shall not exceed the expenses of the board which may reasonably be anticipated for the fiscal year for which assessment is made and shall be apportioned among the various agencies in proportion to their gross income in the preceding calendar year..."

Note 2: The reason for the difference in years between the charts noted above is because the assessment is for the Power Review Board's budget for the upcoming fiscal year and based upon the power suppliers' gross revenues for the preceding calendar year.

Note 3: While calculating their budget for fiscal year 2011, the Board included the cost of contracting with a transmission engineer to assist the Board in representing Nebraska's interests before the various committees in the Southwest Power Pool. The budget increase needed to fund a contractor was approved by the Legislature and the Governor and resulted in a significant increase in the assessment rate from fiscal year 2010. The budget increase was $250,000 for this contract. The term for the initial year of the contract was February 1, 2011, through December 31, 2011, for the amount of $148,500. The amount paid during calendar year 2011 was $135,000. The remaining amount of $13,500 was paid in January 2012.

Note 4: The fiscal year 2012 assessments were collected during the months of July 2011 through September 2011. All fiscal year 2012 assessments had been collected during the time period reviewed.