ATTESTATION REPORT
OF THE
NEBRASKA STATE ENERGY OFFICE

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

Issued on September 4, 2014

The ***Nebraska Auditor of Public Accounts Office*** *was created by the first territorial Legislature in 1855. The Auditor was the general accountant and revenue officer of the territory. Those duties have expanded and evolved over the decades, as modern accounting theory has been implemented. The office of the Auditor of Public Accounts is one of six offices making up the executive branch of Nebraska State Government. Mike Foley was elected November 2006 and re-elected November 2010 as the Nebraska Auditor of Public Accounts. He was sworn into office on January 4, 2007, as Nebraska's 24th State Auditor.*

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BACKGROUND

The Nebraska State Energy Office (Energy Office) was created in 1977. The Energy Office was created to address a number of energy issues, such as education, outreach, energy conservation, and resource management. Congress established a number of energy conservation programs and appropriated funding to the U.S. Department of Energy (USDOE). Through formula grants, the Energy Office administers the *Low-Income Weatherization Assistance Program (WAP)*, *State Energy Program (SEP),* and other DOE special projects as funding is available.

The Energy Office also administers the Dollar and Energy Saving Loan Program, monitors fuel prices and supplies, collects energy supply and consumption data maintained in a statistical database, and regulates energy efficient building codes.

Federal Programs

The Energy Office provides oversight, administration, and technical support for several annually federally funded programs:

- The Energy Office administers the federally funded *Weatherization Assistance Program (WAP),* which lowers energy use and energy costs for low-income people by supporting energy-efficient home retrofits through State-managed networks of local weatherization providers.

  Community Action Agencies (CAPS) across the State receive funding from the Energy Office and are responsible for the weatherization work in their designed areas. The Energy Office administers the program in accordance to USDOE guidance. A portion of the funds are set aside for training and technical assistance, which includes inspections and training WAP network staff.

- The State Energy Program (SEP) provides financial and technical assistance to States through formula and competitive grants. Each State uses its formula grant to develop strategies and goals specific to the State's energy priorities, design, and implement these State-driven energy programs. States are required to provide a 20% match for SEP annual formula funding allocations. The Energy Office uses State Cash Funds to meet this match requirement.

- State Heating Oil and Propane Program (SHOPP) is a weekly joint data collection effort between the Energy Information Administration (EIA) and State Energy Offices. The weekly survey collects residential prices for heating oil and propane directly from retailers within each State. This data collection assists policymakers and consumers to make decisions in the event of a heating fuel supply disruption or an unusually cold winter. Heating oil and propane sold by independent dealers can cause considerable supply and price fluctuations, and the SHOPP reporting enables better communication regarding market developments between fuel providers and states. In Nebraska, especially in rural areas, a significant number of homes use propane as their primary energy source for heating during winter months**.** The Energy Office receives $6,000 each fiscal year, which is matched one-to-one with State Cash Funds.

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Oil Overcharge Funds

Pursuant to Neb. Rev. Stat. §§ 81-1635 through 81-1641 (Reissue 2008, Cum. Supp. 2012), the Nebraska Energy Settlement Fund was established, and the Energy Office administers funds returned to the State through Federal district court actions, court settlements, and judgments against oil companies that overcharged customers during the 1970s and 1980s. The Energy Office administers these funds according to court settlement guidelines and Federal regulations requiring the Petroleum Violation Escrow (PVE) funds to be spent on energy efficiency and renewable energy programs.

The PVE funds capitalized the Dollar and Energy Saving Loan Program, which is an energy efficiency, renewable energy, and waste minimization revolving loan and financing program. Loans are available through eligible Nebraska lending institutions at more than 900 sites throughout the State. Nebraskans may finance qualified energy efficiency, renewable energy, and waste minimization projects in the residential, commercial, institutional, industrial, agricultural, and governmental sectors.

The revolving loan program has loan repayments coming back into the program, which is reflected in the Energy Office's budget.

EXIT CONFERENCE

An exit conference was held August 14, 2014, with the Nebraska State Energy Office (Energy Office) to discuss the results of our examination. Those in attendance for the Energy Office were:

NAME	TITLE
Ginger Willson	Director
Trent Fellers	Deputy Director
John S. (Jack) Osterman	Financing Division Chief
Tom Tabor	WAP/SEP Division Chief
David Wesely	Business Manager
Jerry Loos	Public Information Officer

SUMMARY OF COMMENTS

During our examination of the Nebraska State Energy Office (Energy Office), we noted certain deficiencies 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. ***Lack of Segregation of Duties:*** The Energy Office lacked controls over revenues, payroll expenditures, and fixed assets, which increased the risk of possible errors or irregularities to go undetected.

2. ***Lack of Supporting Documentation:*** The Energy Office lacked adequate procedures to ensure supporting documentation was retained and was complete and accurate.

3. ***Loan Program Issues:*** The loan system and the State accounting system did not reconcile by fund at calendar year end, resulting in an overall variance of $4,812.

4. ***Due To/From Funding Issues:*** The Energy Office loaned $950,000 during the calendar year from the trust fund to the Federal fund, and the loan was not repaid timely. Additionally, the documentation for the use of the loan funds was not on file for review.

5. ***Duplicate Payments:*** The Energy Office did not have procedures to ensure duplicate payments were not made. During the calendar year, we tested three payments totaling $31,619 that were paid twice, and one payment had not been recouped.

6. ***Contract Issues:*** The Energy Office did not have adequate procedures to ensure procurement requirements were properly met and supporting documentation was on file. One contract for payments made to a vendor totaling $50,000 was unable to be located.

7. ***Travel Expenditures:*** One of six travel documents tested lacked support to substantiate expenses reimbursed; one individual incurred $230 in excessive payments due to lack of supporting documentation.

8. ***Cash Advances to Subrecipients:*** Two cash advances tested did not adhere to Federal requirements regarding the immediate cash needs of the subrecipients.

9. ***Certified Payrolls:*** For one reimbursement tested, the Energy Office lacked documentation that contractors or subcontractors submitted required weekly certified payrolls in compliance with Federal requirements.

10. ***User Access:*** Three terminated users' access was not removed timely from the loan system. Furthermore, one user had unnecessary access for the user's job responsibilities.

11. ***Password Settings:*** Users were allowed five grace logins after their password had expired.

SUMMARY OF COMMENTS
(Concluded)

12. ***Historical Records:*** There was no history maintained in the loan system for the funding sources used or changes made to the system.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Energy Office.

Draft copies of this report were furnished to the Energy Office to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Where no response has been included, the Energy Office declined to respond. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

COMMENTS AND RECOMMENDATIONS

1. Lack of Segregation of Duties

A good internal control plan requires an adequate segregation of duties to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities.

During testing, we noted the Energy Office lacked adequate controls over revenues, payroll expenditures, and fixed assets. Individuals were able to process transactions without adequate controls in place to detect possible improprieties.

- During testing of revenues, we noted one individual was able to receive and open the mail containing cash receipts, apply payments to the loan system, setup up new accounts in the loan system, process deposits and perform journal entries in the State accounting system (EnterpriseOne), write off or forgive balances in the loan system, and also reconcile the loan system to EnterpriseOne.

- During testing of payroll expenditures, we noted one individual was authorized to make changes to the employee master files, as well as to pay rates in Workday, the State's Human Resource Management System. No secondary review of those changes was performed. Additionally, we noted the Energy Office's personnel files were not adequately secured. Files were stored in an unlocked cabinet in an unlocked office, and entry to the Energy Office was open to the public before and after working hours.

- During testing of fixed assets, we noted one individual was able to add and delete assets in EnterpriseOne and perform the annual physical inventory. There was no documented secondary review of fixed asset reports, such as the additions and retirements report or integrity reports, to ensure activity was proper. Furthermore, there was no secondary review of the Surplus Property Notification form to ensure deletions were proper.

When an adequate segregation of duties does not exist, there is an increased risk of possible errors or irregularities going undetected. Additionally, when personnel files are not secured, there is an increased risk they will be accessed by unauthorized individuals.

> We recommend the Energy Office develop policies and procedures to ensure no one individual is able to perform all phases of a transaction from beginning to end without a secondary review. Furthermore, we recommend personnel files be secured to prevent unauthorized access.

Energy Office Response: The Energy Office recognizes the importance of segregation of duties and implementation of a strong internally controlled environment. The Energy Office management will continue to review internal control policies and compensating measures to ensure appropriate controls are in place to perform business transactions with the limited Agency staffing levels and increased management oversight.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Lack of Segregation of Duties (Concluded)

The Energy Office location is secure before and after business hours per the lease agreement with the State Building Division. Authorized employees with key or access card to the building after hours are on file at the Nebraska State Patrol Capitol Division office. No unauthorized employee is allowed into the building without a supervisor. The Energy Office has further secured the locations where personnel files are stored to prevent unauthorized access to prevent theft and misappropriation.

2. Lack of Supporting Documentation

A good internal control plan requires adequate supporting documentation be maintained to support transactions performed in EnterpriseOne.

During testing, we noted several issues with the Energy Office's retention of documentation to support transactions performed in EnterpriseOne. The Energy Office did not have adequate supporting documentation or could not find documents selected for testing:

- The Energy Office was unable to provide supporting documentation for two journal entries selected for testing that appeared to be corrections of coding or funding sources. The journal entries were for $3 million and $1.4 million.

- We tested 12 loan repayment deposit documents and were unable to obtain support for one deposit document tested to ensure the monies were recorded to the proper funding source. The Energy Office was unable to provide the bank's detailed loan payment report that listed the individuals the payments were to be applied against. Without that documentation, the Auditor of Public Accounts (APA) was unable to trace the payments to the individuals' accounts in the loan system to ensure the original funding sources of the loan agreed to the funding source for the repayment. The deposit totaled $1,019,460.

- The Energy Office was unable to locate three documents selected for testing. The documents totaled $49,628, $15,632, and $2,395. Two were reimbursements to Community Action Partnerships, and the third was a journal entry to correct coding.

- For two payments totaling $70,425, made to one Community Action Partnership, the indirect cost rate of 25% included in the reimbursement could not be supported. The Energy Office did not have the most current agreement on file. The agreement on file had an indirect rate of 21.7%.

- For one Transportation Services Bureau vehicle rental payments totaling $162, the daily trip charge ticket was unable to be located to support the amount charged.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Lack of Supporting Documentation (Concluded)

- The Energy Office received two payments of $500,000 each from the Nebraska Public Power District (NPPD) to be used for the loan program. The first payment included an agreement between the Energy Office and NPPD, requiring an amendment if additional funds were provided by NPPD. However, the Energy Office could not provide an amendment to the original agreement for the second payment.

- The Energy Office did not have support for the allocation percentages used to record rent expenses to the various funding sources. We reviewed the December 2012, January 2013 through March 2013, and December 2013 rent expenses, and the Energy Office was unable to substantiate the funding allocations used.

  Furthermore, we noted the December 2012 and January 2013 rent expenses were improperly allocated. The amount originally recorded by the State Building Division was $4,054 for each month. When the Energy Office performed the journal entry to allocate the rent to different funding sources, the journal entry totaled $5,525. This was the Energy Office's previous rent in a different building. The Energy Office was unaware it was allocating the improper amount. For these two months, $442 was over allocated to the cash fund, and $2,500 was over allocated to the Federal fund.

When adequate supporting documentation is not maintained, there is an increased risk that improper transactions may occur and go undetected. Additionally, when procedures are not in place to ensure rent is properly allocated, there is an increased risk for financial statement errors or unallowable Federal expenditures.

> We recommend the Energy Office implement adequate policies and procedures to ensure supporting documentation is maintained for all transactions. Furthermore, we recommend the Energy Office implement procedures to ensure rent expenses are properly allocated and documentation is maintained to support allocation percentages.

Energy Office Response: The Energy Office agrees that adequate supporting documentation need to be maintained and will review the procedures to ensure documents are filed appropriately. The Energy Office has made correcting entries for rent expenses allocations.

3. Loan Program Issues

A good internal control plan and sound accounting practice requires adequate procedures to ensure the Energy Office's loan system reconciles by funding source to EnterpriseOne, and information contained in the loan system is accurate and complete.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Loan Program Issues (Continued)

During the calendar year, the Energy Office performed monthly reconciliations between the loan system and EnterpriseOne in total for the loan program. The Energy Office identified a variance of $4,412 at December 31, 2013, between the systems.

During the examination, the APA attempted to reconcile the loan system to EnterpriseOne by funding source (Cash, Federal, and Trust Funds) and noted variances, as follows:

System	Cash Fund (28130)	Federal Fund (48110)	Trust Fund (68110)	Total
Loan System	$ 575,202	$ 13,197,350	$ 18,706,024	$ 32,478,576
EnterpriseOne	$ 1,845,835	$ 13,319,587	$ 17,317,966	$ 32,483,388
Total Variance	**$ 1,270,633**	**$ 122,237**	**$ (1,388,058)**	**$ 4,812**

The variances between funding source were identified as improperly recorded in EnterpriseOne and adjusted in the financial schedule. The remaining variance of $4,812 consisted of a conversion error dating back to 2004 for $4,412 and a $400 variance due to a loan payment error. The loan payment error was corrected in February 2014.

The conversion error variance was also reported in the fiscal year ended June 30, 2013, State of Nebraska Comprehensive Annual Financial Report audit.

Furthermore, during testing of the loan system, the APA confirmed loan balances with five banks for 18 loans. We noted 2 of 18 loan balances tested did not agree to the banks' records.

- For one loan, the lender had submitted $2,600 in loan fees that the Energy Office improperly applied to the loan principal, causing the receivable balance to be understated in the system.
- The second loan had an inappropriate payment applied in the loan system. The Energy Office erroneously applied a $582 payment to the wrong loan account, instead of the proper payment for $1,339. Two individuals' names were similar and their payments were transposed in the system.

When loan payments are not properly posted to the loan system, there is an increased risk the Energy Office will not collect all the funds it is due. Furthermore, when variances exist between the loan system and EnterpriseOne, there is an increased risk of misstatement of the financial schedule.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Loan Program Issues (Concluded)

> We recommend the Energy Office develop adequate policies and procedures to ensure loan payments are properly recorded to the loan program. We further recommend the Energy Office ensure the loan system and EnterpriseOne are reconciled by funding source, and variances identified are corrected timely.

Energy Office Response: The Energy Office has a routine schedule for reconciling our Loan Program Database with EnterpriseOne and reconciles variances in a timely manner. The OCIO is developing funding source reports to meet the requirements of the auditors. These reports are currently not automated and the software coding to develop these reports needs to be developed by OCIO to meet this demand. The two noted loan balances in the audit report have been corrected.

4. Due To/From Funding Issues

A good internal control plan and sound business practice require timely repayment of loans between funds and adequate supporting documentation be maintained for all transactions.

During testing, we noted a journal entry was performed in May 2013, which transferred $350,000 from the Energy Office's trust fund to Federal funds. The Energy Office noted this was a loan between funds until the Federal drawdown could be performed. Adequate supporting documentation was not on file to support the transfer and the loan. According to the Energy Office's general ledger detail, a total of $950,000 had been loaned from the trust fund to the Federal fund between May 2013 and August 2013. However, the funds were not repaid until June 2014. According to the Energy Office's general ledger, Federal drawdowns were performed monthly; therefore, the funds should have been transferred back to the trust fund timely.

When adequate supporting documentation is not maintained, there is an increased risk improper transactions may not be detected. When loaned funds are not repaid timely, there is an increased risk the repayment will be overlooked and not completed.

> We recommend the Energy Office establish adequate written policies and procedures regarding document retention. We further recommend the Energy Office repay loans between funds in a timely manner.

Energy Office Response: The Energy Office supports and to the extent possible timely repayments of loans between funding sources. The Energy Office also maintains adequate supporting documents for the transactions between funding accounts. The transaction noted by

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Due To/From Funding Issues</u> (Concluded)

the Auditors was a result of the U.S. Department of Energy untimely approval process of Energy Office reimbursements. Through multiple ongoing communications with DOE program officers and DOE contracting officers the issue was resolved and reimbursement of funding was restored to the fund balances. The circumstances that proceeded were unavoidable due to the Energy Office programmatic obligations. The Energy Office has resolved this issue fully and will evaluate the circumstances to avoid future loans and untimely reimbursements of federal funding.

5. <u>Duplicate Payments</u>

A good internal control plan and sound business practice require adequate policies and procedures to ensure invoices are only paid once.

During testing, we noted the Energy Office did not have adequate procedures in place to prevent duplicate payment of the same invoice. We observed three such duplicate payments during our testing for $30,317, $840, and $462. As of June 2014, the payment for $462 had not been recouped by the Energy Office.

When adequate procedures are not in place to prevent duplicate payments, there is an increased risk for loss or misuse of State or Federal funds.

> We recommend the Energy Office implement adequate policies and procedures to ensure invoices are not paid twice. We also recommend review procedures be implemented to ensure duplicate invoices, if received, are destroyed or appropriately marked as duplicate. We further recommend the Energy Office continue to seek a refund for the $462 duplicate payment.

Energy Office Response: The Energy Office agrees that a good internal control plan should ensure invoices are not duplicated. Two findings by the Auditor were corrected by the Energy Office prior to the audit. The $30,317 was refunded to the Energy Office in January 2013 and the $840 duplicate warrant was cancelled in October 2013. The $462 was refunded to the Energy Office in July 2014.

6. <u>Contract Issues</u>

A good internal control plan and sound business practice require all contract terms be specific and enforceable, reviewed by legal counsel, contracts be adequately monitored, contracts contain a termination clause, and an open competitive process be used for selecting contract recipients.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. <u>Contract Issues</u> (Continued)

Neb. Rev. Stat. § 73-504 (Cum. Supp. 2012) states, in relevant part:

> *(1) All state agencies shall comply with the review and competitive bidding processes provided in this section for contracts for services. Unless otherwise exempt, no state agency shall expend funds for contracts for services without complying with this section; (2) All proposed state agency contracts for services in excess of fifty thousand dollars shall be bid in the manner prescribed by the division procurement manual or a process approved by the Director of Administrative Services.*

During testing of contractual payments, we noted the following issues:

- For one of five payments for contractual services, the Energy Office was unable to provide a contract for the services provided. According to the Energy Office, the vendor provided software that enabled electronic reporting, tracking, and monitoring of Davis Bacon certified payroll reporting for compliance with Federal regulations. It appears from documentation on file that the contract began in 2010. In 2011, the Energy Office received an invoice for payment, but it held the payment due to negotiations of the fee and the software not being utilized by the Energy Office or its subrecipients. In 2013, the Deputy Director signed an addendum, even though the original contract was unable to be found, and the vendor did not provide a copy of their original agreement. The Energy Office paid the vendor $50,000 during calendar year 2013 and ended the contract in July 2013.

  Due to the lack of a contract, we were unable to determine if competitive bidding was performed, if legal counsel reviewed the contract, if a termination clause existed, or if services agreed upon were actually received. We also noted payments made under this contract were paid with Federal funds and the lack of a contract creates compliance issues with OMB Circular A-87, Attachment A, § C(1)(j), which states that costs must be adequately documented to be allowable under Federal awards.

- Two additional contracts tested did not have a documented legal review performed.

- All five contracts tested were not entered into the State Accounting system in accordance with Neb. Rev. Stat. § 73-503(1) (Cum. Supp. 2012).

- One vendor was awarded a contract for $49,720. The Energy Office performed competitive bidding and had a summary of the bidder evaluation forms on file; however, the Energy Office did not have the individual bid evaluation forms on file for three of four bid reviewers.

When contracts are not properly bid or entered into the State Accounting System, the Energy Office is not in compliance with State statute. Furthermore, when contracts are not on file, or adequate supporting documentation is not retained, there is an increased risk of loss or misuse of State funds.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Contract Issues (Concluded)

> We recommend the Energy Office implement policies and procedures to ensure contracts are in compliance with State statute, and contracts are retained on file for subsequent inspection to ensure charges are proper.

Energy Office Response: During the audit period the Energy Office submitted all contract documents to the Attorney General's office for legal review. The vendor retained to provide software enabling Davis Bacon certified payroll reporting was negotiated in 2009-2010 under a previous Director, Deputy Director, and Division Chief overseeing the program. A lack of file retention is noted during staff turn-over and an improvement will be implemented to retain historical files and documents. The service with the vendor remained in effect due to sub-grantees using the services to certify the payrolls and to meet federal reporting requirements. Once the services were no longer needed the Deputy Director terminated the service agreement.

The Energy Office is reviewing internal policies to ensure compliance with the Nebraska State Statutes.

With regard to the contract for $49,720 the Energy Office did provide the Auditor with the final tabulation of the four bid reviewers which showed the final bid scoring and reasoning for awarding the contract. The Energy Office believes that was accurate documentation for selection of the contract and will continue to maintain accurate documentation on file in future contract awards.

APA Response: The Energy Office could not provide adequate supporting documentation for three of four bid reviewers; the Deputy Director could only provide an email that summarized their evaluations. No other documentation for the bid tabulations was retained to support the final award.

7. Travel Expenditures

A good internal control plan requires travel expenditures be adequately supported and reimbursements be reasonable and necessary.

During testing of travel expenditures, we noted one of six documents tested did not have adequate support for extra days of travel. The employee left two days prior to the start of the conference and left one day after the conference ended. According to the Energy Office, the early travel was to reduce the flight cost. However, there was no documentation available to support the potential cost savings, only an email from the employee stating the cost of the flights for the different dates of travel. There was also no support for why the additional day of travel after the conference ended was necessary. According to the email provided by the employee, the cost savings on the flight was $279; however, due to lodging and meal costs incurred for the additional days of travel, the employee was reimbursed $509 for additional charges, causing excessive payment of $230.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Travel Expenditures (Concluded)

Without adequate supporting documentation for travel expenses, there is an increased risk of improper or unreasonable reimbursements to employees.

> We recommend the Energy Office ensure supporting documentation is on file to support travel expenses. When extra travel days are approved, documentation should substantiate the cost savings or the reasonableness of the travel.

Energy Office Response: The Energy Office had supporting documents to show the costs savings of airfare but lacked the confirmation print out of exact airline costs and cost comparison. The Energy Office disagrees with the Auditor statement of excess payment of the amount calculated. The Energy Office believes a cost comparison should be based on one-extra day. Due to limited flight schedules of departing flights out of Washington, D.C. to Omaha the staff member was trying to not incur overtime and limit expenditures.

The Energy Office will continue to closely monitor travel supporting documents for accuracy and ensure that proper documents support the reimbursements.

8. Cash Advances to Subrecipients

Per 10 CFR § 600.122(b)(2) (January 1, 2013):

> *Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.*

A good internal control plan requires the pass-through entity to establish procedures to ensure subrecipients use Federal awards in accordance with Federal compliance requirements, including minimizing the time advanced funds are held by the subrecipient.

During testing of cash advances to subrecipients, we noted two of two advances tested exceeded the immediate cash needs of the subrecipient. Both advances were made in September 2012, but they were not completely expended until June 2013 and November 2013. The cash advances were for $72,865 and $36,098, respectively.

When adequate procedures are not in place for monitoring subrecipients' cash management, there is an increased risk the Energy Office will not be in compliance with Federal regulations, resulting in possible sanctions. A similar finding was noted during the fiscal year ended June 30, 2013, Statewide Single Audit.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. <u>Cash Advances to Subrecipients</u> (Concluded)

> We recommend the Energy Office ensure compliance with Federal regulations by establishing procedures to monitor subrecipients' cash management to minimize the time cash is on hand.

Energy Office Response: In February 2013, a corrective action was implemented that revised the reimbursement request documents so that sub-grantees report unliquidated obligations on a monthly basis to provide documentation that the payments are being used to provide cash flow to implement weatherization program activities and to pay bills for which they are not reimbursed until the completed unit is submitted to the Agency for payment. The corrective action has been further revised to contain a new policy change that requires the sub-grantees to submit a repayment schedule when requesting an advance.

A policy on advancements to sub-grantees has been established by the Energy Office. The repayment plan from the sub-grantees has to be approved by the Energy Office Weatherization Assistance Program Division Chief prior to any advancement of funds. The Fiscal Compliance Analyst will monitor sub-grantee repayment schedules during monthly reimbursements and communicate with sub-grantees on minimizing cash outlays. This process is included in the aid agreement to sub-grantees.

9. <u>Certified Payrolls</u>

Per 29 CFR § 3.3(b) (July 1, 2012):

> *Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this title during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages . . . .*

A good internal control plan requires procedures to ensure compliance with Federal requirements. Documentation should be maintained to verify that contractors or subcontractors submitted the required weekly certified payrolls.

During testing, we noted the Energy Office did not have documentation that the contractors or subcontractors submitted the required weekly-certified payrolls for one reimbursement tested. The reimbursement included 10 completed projects. The Energy Office had certified payrolls on file for 2 of the 10 projects and, after the APA requested, obtained certified payrolls for 7 additional projects. However, for the one remaining project neither the Energy Office nor the subrecipient was able to provide documentation that the required certified payrolls were submitted.

COMMENTS AND RECOMMENDATIONS
(Continued)

9. <u>Certified Payrolls</u> (Concluded)

When required certified payrolls are not obtained, there is an increased risk the Energy Office will not be in compliance with Federal regulations, resulting in possible sanctions or improper or unallowable use of Federal funds. A similar finding was noted during the fiscal year ended June 30, 2013, Statewide Single Audit.

> We recommend the Energy Office implement procedures to ensure compliance with Federal regulations by maintaining certified payrolls on file.

Energy Office Response: The Energy Office understands this finding and regrets the inability to locate the proper documentation. The Energy Office has undergone a transition of personnel in 2013. The Davis Bacon file in question was last located on the SOS Fiscal Compliance Analyst desk and was not properly returned to the supervisor prior to his departure. In the transition, the Davis Bacon file in question was moved or discarded by accident and after a thorough search of every office, file cabinet and all book shelves in the Energy Office, the file could not be located. The file was either accidently thrown away, recycled or taken by someone not knowing what it was. In the circumstances noted in the findings, the Energy Office did meet the federal requirements for certifying payroll, however the historical record of this compliance and supporting documents were misplaced and not able to be provided for audit purposes. The Division Chief implemented a file retention policy in 2013 and is holding staff accountable for good file retention and historical documentation.

10. <u>User Access</u>

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 4.7.2, User Account Management, states, in part:

> *A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification, and deletion of user accounts. Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges (read, write, delete, etc.). The 'Principle of Least Privilege' should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities . . . . Agencies or data owner(s) should perform annual user reviews of access and appropriate privileges.*

A good internal control plan includes a process to ensure terminated users' access is removed timely. Good internal controls also include utilizing logical access controls to ensure user access is commensurate with specific job responsibilities.

During testing of the loan system, we noted three terminated users' access was not removed timely. Furthermore, one of those users had add, edit, and update abilities that were not commensurate with the user's job responsibilities as an internal auditor. The individuals terminated employment with the Energy Office on August 20, 2012, April 19, 2013, and May 3, 2013, but their access was not removed until June 12, 2014, for the first two individuals and May 23, 2013, for the third individual.

COMMENTS AND RECOMMENDATIONS
(Continued)

10. <u>User Access</u> (Concluded)

When access to applications is not terminated timely or when a user's access is beyond what his or her job responsibilities require, it creates the opportunity for inappropriate access to State resources.

> We recommend the Energy Office adopt a formalized process for removing access to systems. Additionally, we recommend the Energy Office review user access on a periodic basis and remove access immediately for terminated users. Furthermore, we recommend the Energy Office review the roles within the loan system to ensure access is commensurate with job responsibilities.

Energy Office Response: The Energy Office will implement the recommendations identified by the Auditors.

11. <u>Password Settings</u>

A good internal control plan includes system-enforced password reset intervals, combined with account lockout controls, based on a risk assessment and the likely consequences of an authentication error. Allowing grace logins creates unknown variables in the life of a user's password, as reset intervals are not confined to established terms.

The loan system was accessed through the State of Nebraska portal, my.ne.gov. Access to the portal was controlled through Nebraska Directory Services (NDS). The APA noted NDS allowed users five grace logins after their password had expired. This violated NITC Password Standard Policy 8-301, Section 2.2, which requires passwords to expire after 90 days.

Inadequate password control settings increase the risk of unauthorized users gaining access to sensitive information contained in the loan system.

> We recommend the Energy Office work with the Office of the Chief Information Officer to eliminate grace logins.

Energy Office Response: The Energy Office will implement the recommendations identified by the Auditors to the extent the capacity exists within the Office of the CIO to eliminate grace log-ins.

12. <u>Historical Records</u>

NITC Standards and Guidelines, Information Security Policy 8-101, Section 4.2.1, Management of the Confidentiality, Integrity and Availability of State Information, states:

> *The confidentiality, integrity, and availability of State of Nebraska information is critical to support an agency's business activities. Security controls provide the necessary physical, logical and procedural safeguards to protect State resources.*

COMMENTS AND RECOMMENDATIONS
(Concluded)

12. Historical Records (Concluded)

> *All information, regardless of the form or format, which is created, acquired, or used in support of State of Nebraska's business activities, must be used for official business only. Agency information is an asset and must be protected from its creation through its useful life, and to its authorized disposal in accordance with the Records Management Act and your agency's retention schedule. State information must be maintained in a secure, accurate, and reliable manner and be readily available for authorized use. Information must be classified and protected based on its importance to business activities, risks, and security best practices.*

A good internal control plan includes ensuring systems used by the Energy Office maintain a historical account of activities performed, including a record of changes made to data within the system.

The Energy Office used the loan system to track the funding sources of monies loaned to individuals. When loan repayments were received by the banks the deposits were processed through the loan system, which created a report used to generate the deposit document in EnterpriseOne. The report provided the funding sources for the repayments and was used to ensure each of the funds in EnterpriseOne had the proper receivable balance. However, if the report was not maintained at the time of the deposit there was not a report available in the loan system to obtain the historical data. Furthermore, there was no history maintained of changes made within the loan system, including changes made to the funding sources account coding.

When historical data is not maintained, there is an increased risk of errors or irregularities within the system going undetected.

> We recommend the Energy Office ensure historical data is maintained and accessible in the loan system. We further recommend the Energy Office log changes made to critical data sets, including the funding sources account coding.

Energy Office Response: The Energy Office will implement the recommendations identified by the Auditors to the extent the capacity exists within the Office of the CIO. The current system does not include this function. The Energy Office is in early stages of new software development and will research a better historical documenting system to meet this need.

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NEBRASKA STATE ENERGY OFFICE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Energy Office
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures and Changes in Fund Balances of the Nebraska State Energy Office (Energy Office) for the calendar year ended December 31, 2013. The Energy Office's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska State Energy Office for the calendar year ended December 31, 2013, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we 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 Balances 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 Balances 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 Balances 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, others within the Agency, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

August 25, 2014

Mike Foley
Auditor of Public Accounts

NEBRASKA STATE ENERGY OFFICE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Calendar Year Ended December 31, 2013

	State Energy Office Cash Fund 28130	Federal General Fund 40000	Energy Office Federal Fund 48110	Nebraska Energy Settlement Fund 68110	**Totals (Memorandum Only)**
REVENUES:					
Taxes	$ 300,000	$ -	$ -	$ -	$ 300,000
Intergovernmental	589	3,227,246	5,364,107	-	8,591,942
Sales & Charges	-	-	8,635	4,165	12,800
Miscellaneous	19,644	-	15,527	354,220	389,391
TOTAL REVENUES	320,233	3,227,246	5,388,269	358,385	9,294,133
EXPENDITURES:					
Personal Services	244,087	94,027	1,008,640	-	1,346,754
Operating	70,077	40,088	1,233,281	-	1,343,446
Travel	248	1,531	30,183	-	31,962
Capital Outlay	650	-	-	-	650
Government Aid	-	3,091,600	2,404,137	-	5,495,737
TOTAL EXPENDITURES	315,062	3,227,246	4,676,241	-	8,218,549
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,171	-	712,028	358,385	1,075,584
OTHER FINANCING SOURCES (USES):					
Sales of Assets	5,075	-	-	-	5,075
Adjustment to Fund Balance (NOTE 8)	(84)	-	(72)	253	97
TOTAL OTHER FINANCING SOURCES (USES)	4,991	-	(72)	253	5,172
Net Change in Fund Balances	10,162	-	711,956	358,638	1,080,756
FUND BALANCES, JANUARY 1, 2013	542,499	-	13,218,189	34,357,876	48,118,564
FUND BALANCES, DECEMBER 31, 2013	$ 552,661	$ -	$ 13,930,145	$ 34,716,514	$ 49,199,320
FUND BALANCES CONSIST OF:					
General Cash	$ 985,139	$ -	$ 1,682,318	$ 15,060,090	$ 17,727,547
Deposits with Vendors	3,374	-	478	-	3,852
Due From Other Funds (NOTE 6)	-	-	-	950,000	950,000
Loans Receivable (NOTE 8)	575,202	-	13,197,350	18,706,424	32,478,976
Due to Vendors	(11,054)	-	(1)	-	(11,055)
Due to Fund (NOTE 6)	-	-	(950,000)	-	(950,000)
Due to Government (NOTE 7)	(1,000,000)	-	-	-	(1,000,000)
TOTAL FUND BALANCES	$ 552,661	$ -	$ 13,930,145	$ 34,716,514	$ 49,199,320

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2013

1. Criteria

The accounting policies of the Nebraska State Energy Office (Energy Office) are on the basis of accounting, as prescribed by the State of Nebraska's Director of the Department of Administrative Services.

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) 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, an accounting resource software, 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 Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned regardless of the timing of related cash flows. State Accounting does not require the Energy Office to record all accounts receivable and related revenues in EnterpriseOne; as such, the Energy Office's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payables posted in the general ledger as of December 31, 2013, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2013, **does not** include amounts for goods and services received before December 31, 2013, which had not been posted to the general ledger as of December 31, 2013.

Other liabilities are recorded in accounts entitled Due to Fund and Due to Government for the Agency. 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. For further information on the activity recorded to those accounts for the calendar year ended December 31, 2013, see Notes 6 and 7.

The Energy Office had no accounts receivable not recorded on EnterpriseOne, at December 31, 2013. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

NOTES TO THE SCHEDULE
(Continued)

1. **Criteria** (Continued)

The fund types established by the State that are used by the Energy Office 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 the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust. The Trust Funds held by the Energy Office consist of the Petroleum Violation Escrow funds in accordance with Neb. Rev. Stat. §§ 81-1635 through 81-1641 (Reissue 2008, Cum. Supp. 2012). See the Background section of the report for further information.

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

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit.

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

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

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income and reimbursements from non-government sources.

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

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

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

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

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

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

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

Other significant accounting classifications and procedures established by State Accounting and used by the Energy Office include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, due from other funds, and loan receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts, deposits with vendors, and due from other funds are also included in 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 fund balance. Other liabilities recorded in the general ledger for the Energy Office's funds at December 31, 2013, included amounts recorded in Due to Fund and Due to Government. The activity of these accounts is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures and Changes in Fund Balances. The activity processed on the general ledger through these accounts is summarized in Notes 6 and 7.

Other Financing Sources – Proceeds of fixed asset dispositions and adjustment to fund balances.

2. Reporting Entity

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

The Energy Office is part of the primary government for the State of Nebraska.

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. 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, which 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.

5. 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 Energy Office takes an annual inventory, recording in the State Accounting System all equipment that has a cost of $300 or more at the date of acquisition.

For the CAFR, the State requires the Energy Office 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 more than one year 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 three to ten years.

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

Capital asset activity of the Energy Office recorded in the State Accounting System for the calendar year ended December 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 259,984	$ 650	$ 35,951	$ 224,683
Total	259,984	650	35,951	224,683
Less accumulated depreciation for:				
Equipment				176,572
Total capital assets, net of depreciation				$ 48,111

Note: The accumulated depreciation noted in the table above was calculated in the accounting system through September 30, 2013. Depreciation for October through December 2013 was not run in the accounting system until after the end of calendar year 2013.

6. Due To/From Fund

The Energy Office loaned $950,000 from the Nebraska Energy Settlement Fund to the Energy Office Federal Fund during the calendar year. The loan was not repaid until June 2014. See Comment Number 4 for further information regarding timeliness.

7. Due to Government

The Nebraska Public Power District (NPPD) committed $1 million to fund 2.5% loans to NPPD customers through the Energy Office's loan program. The loans were to fund heat pumps, programmable thermostats, and back-up natural gas furnaces. Upon NPPD's decision to discontinue financial participation in the program the funds are to be returned to NPPD.

8. Loans Receivable

The Energy Office administered the Dollar and Energy Savings Loan Program to provide low-interest loans to Nebraskans to finance energy efficient, renewable energy, and waste minimization improvements in residential, commercial, institutional, industrial, agricultural, and governmental sectors.

NOTES TO THE SCHEDULE
(Concluded)

8. Loans Receivable (Concluded)

The loan activity during the calendar year ended December 31, 2013, was as follows:

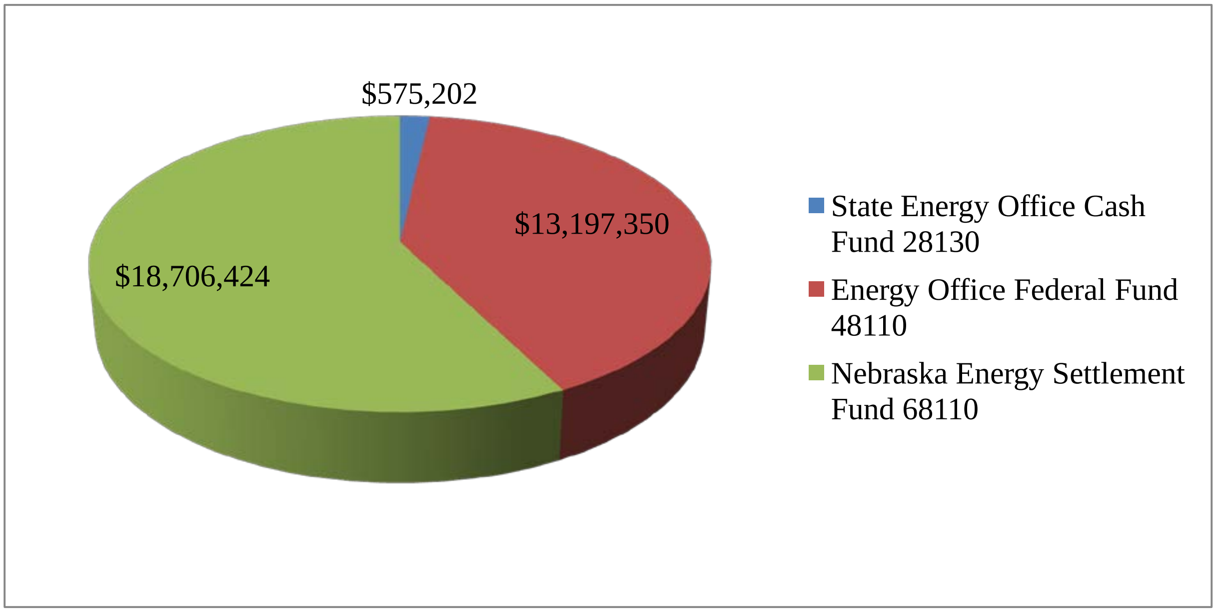
Fund	Balance January 1, 2013	Repayments	Disbursements	Adjustment to Fund Balance	Balance December 31, 2013
28130	$ 682,265	$ (199,828)	$ 92,849	$ (84)	$ 575,202
48110	12,709,049	(2,214,138)	2,702,511	(72)	13,197,350
68110	16,969,010	(8,887,416)	10,624,577	253	18,706,424
	$ 30,360,324	$ (11,301,382)	$ 13,419,937	$ 97	$ 32,478,976

Adjustments to fund balance transactions are those recorded directly to a fund's asset account or equity account rather than through a revenue or expenditure account. Adjustments to the financial schedule were necessary due to variances noted between the loan program system maintained by the Energy Office and the State accounting system (EnterpriseOne) for loans receivable. The activity recorded in EnterpriseOne for loans disbursed and repaid overstated miscellaneous revenues and government aid on the schedule. Also, due to inaccurate journal entries performed in EnterpriseOne for the loan program, the beginning and ending balances in the three funds were not proper. The above schedule represents the adjusted figures with remaining unknown variances totaling $97. See Comment Number 3 (Loan Program Issues) for further information.

SUPPLEMENTARY INFORMATION

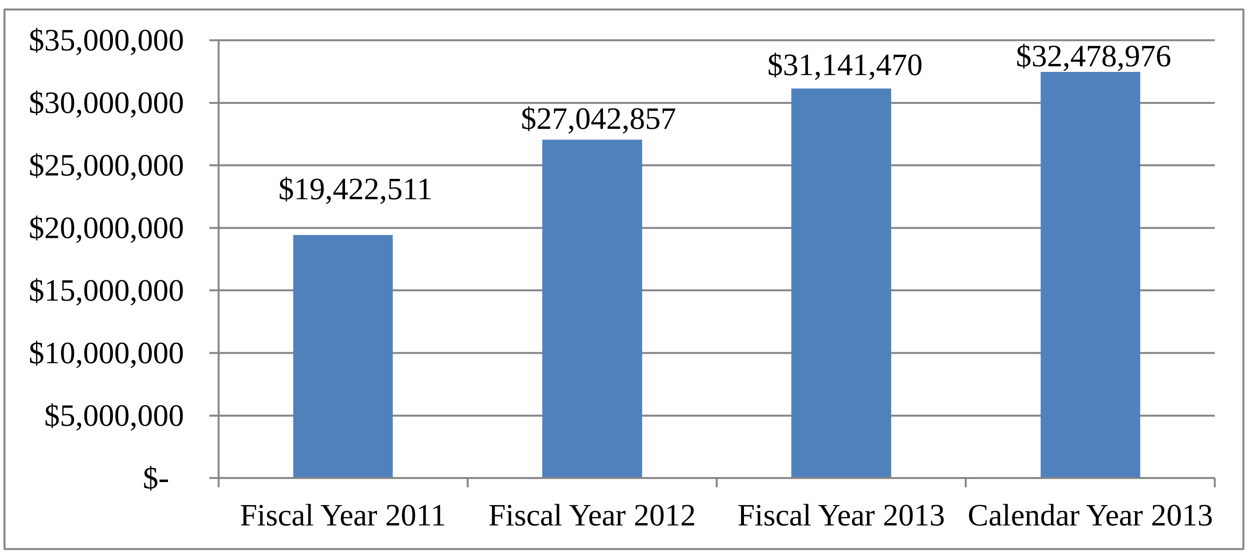
Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

LOANS RECEIVABLE BALANCES BY FUND
For Calendar Year Ended December 31, 2013



Source: Nebraska State Energy Office Loan System.

LOANS RECEIVABLE BALANCES BY YEAR
For Fiscal Years Ended June 30, 2011, 2012, and 2013
and Calendar Year Ended December 31, 2013



Source: Nebraska State Energy Office Loan System and reconciliations from the State of Nebraska Comprehensive Annual Financial Report (CAFR).

Note: The Loan System is audited annually during the audit of the CAFR at fiscal year end. Therefore, the prior years' data was audited and reported at fiscal year end. The current attestation was reported at calendar year end.