ATTESTATION REPORT
OF THE
NEBRASKA ETHANOL BOARD

JULY 1, 2015, THROUGH DECEMBER 31, 2016

Issued on April 13, 2017

*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. Charlie Janssen was elected in November 2014, as the Nebraska Auditor of Public Accounts. He was sworn into office on January 8, 2015, as Nebraska's 25th State Auditor.*

The mission of the Nebraska Auditor of Public Accounts' office is to provide independent, accurate, and timely audits, reviews, or investigations of the financial operations of Nebraska State and local governments.

We will provide this information, as required by statute, to all policymakers and taxpayers through written reports and our Internet-based Budget and Audit databases.

We will maintain a professionally prepared staff, utilizing up-to-date technology, and following current Government Auditing Standards.

Audit Staff Working On This Examination

Craig Kubicek, CPA – Assistant Deputy Auditor
Joan Arnold, CPA – Senior Auditor-In-Charge
Alan Deist – Auditor II
Rob Giraud – Auditor I

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Lincoln, Nebraska 68509
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NEBRASKA ETHANOL BOARD

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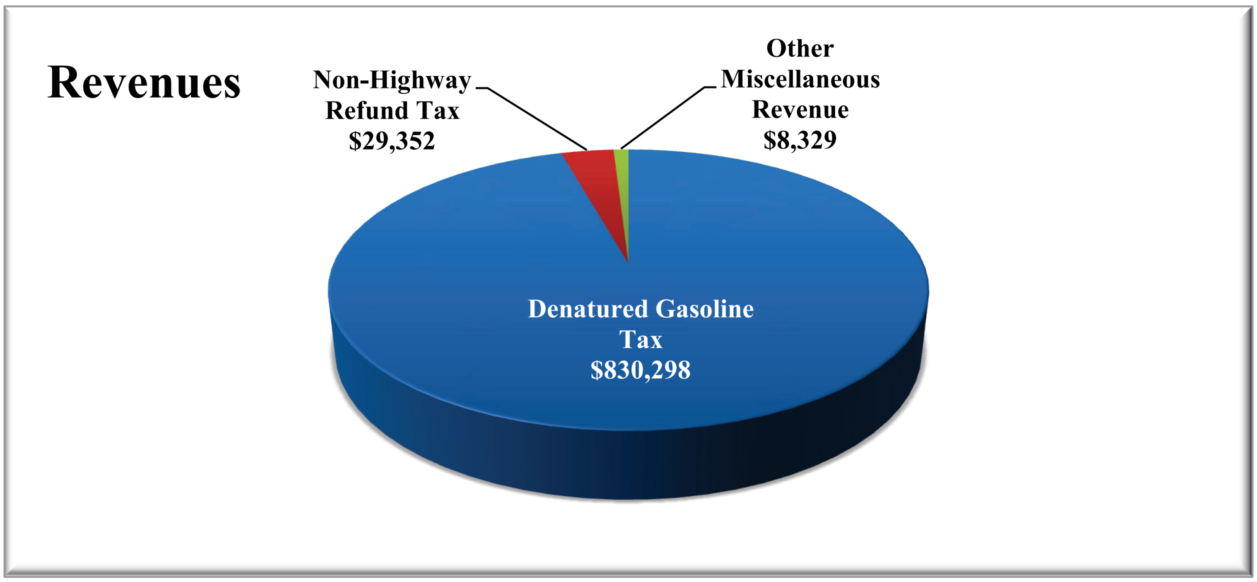
BACKGROUND

The Nebraska Ethanol Board (Board) partners with public and private entities to expand the production and use of ethanol and ethanol-related products. The Board is a cash-funded State agency, which administers the Agricultural Alcohol Fuel Tax Fund (AAFTF). The Board is primarily funded by a 1.25 cent tax paid per gallon of denatured gasoline, purchased by ethanol producers as part of the ethanol production process in accordance with Neb. Rev. Stat. § 66-489 (Cum. Supp. 2016). Additionally, the Board receives 1.25 cents per gallon of off-highway fuel taxes refunded in accordance with Neb. Rev. Stat. § 66-726 (Reissue 2009). Other miscellaneous revenue received by the Board primarily includes interest earnings, as well as a small amount of purchasing card rebates, sales from surplus property, and miscellaneous adjustments.



The cash fund is used to promote the use of ethanol-blended fuels, assist companies with ethanol plant development in Nebraska, and sponsors research and development of ethanol-related products. According to the 2017 Legislative Guide Book, the Board's activities are managed in five general areas:

1. *Industry Assistance Program: Directed at attracting private manufacturing facilities to Nebraska, the expansion of existing facilities and the creation of a favorable climate for continued industry growth in the state.*

2. *Regulatory/Legislative: Participation in the processes of local, state, and federal governing bodies and regulatory agencies.*

3. *Basic Research: Focused on refinements to manufacturing processes and user applications for ethanol and its co-products.*

4. *Education/Promotion Programs: Designed to enhance public awareness of the benefits of ethanol production and use.*

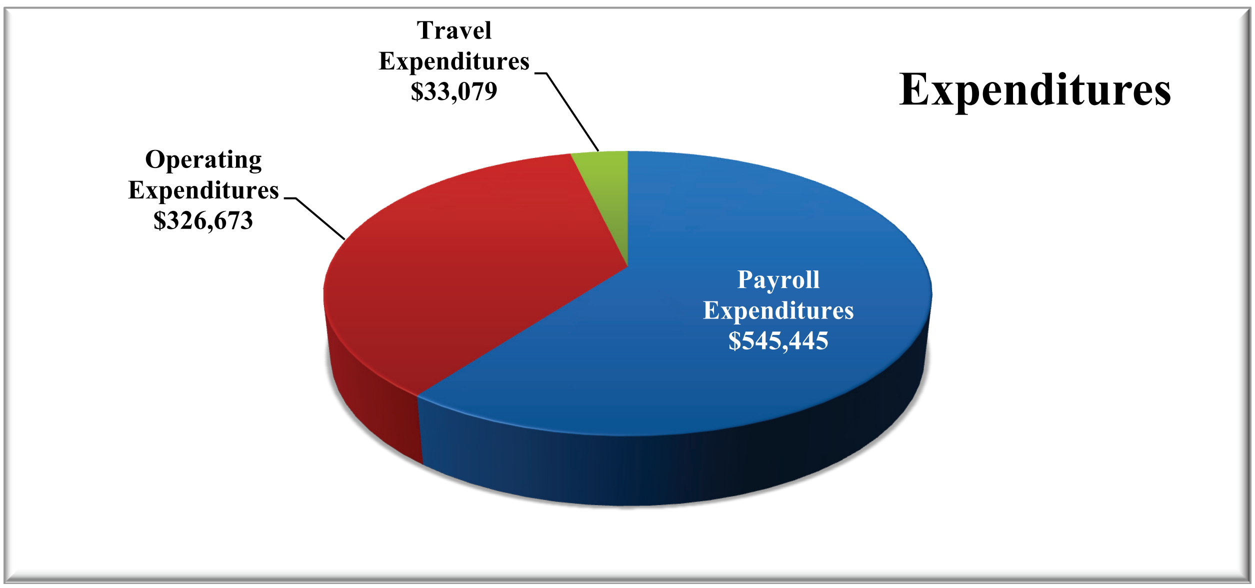
5. *Market Development: Programs to assist in developing and expanding markets for Nebraska produced ethanol and related co-products.*

BACKGROUND
(Continued)

Likewise, the stated program objectives, according to the 2017 Legislative Guide Book, are as follows:

- *To encourage processing, market development, promotion, distribution, and research on products derived from the manufacture of ethyl alcohol.*
- *To expand demand for and usage of the state's agricultural production.*
- *To encourage the production of efficient and less-polluting fuel sources to reduce toxic emissions.*
- *To retain energy dollars in the Nebraska economy and to increase jobs and tax revenue.*
- *To develop alternative local outlets for Nebraska's agricultural production.*
- *To cooperate with private industry to establish ethanol-related production facilities in NE.*
- *To develop markets, in cooperation with private industry, for products from these facilities.*
- *To sponsor research in the areas of production as well as industrial and commercial uses for ethanol and its co-products.*
- *To educate and inform policy makers, regulators and the general public about the benefits of the ethanol industry.*

The chart below illustrates the types of expenditures incurred by the Board for the period July 2015 to December 2016.



The vast majority of the nearly $360,000 in non-payroll costs expended by the Board were paid to 15 vendors. A listing of the top 15 vendors paid by the Board during the 18-month period reviewed is shown in the table below.

Vendor	Amount
Nebraska Ethanol Industry Coalition	$57,515
Nebraska Department of Administrative Services	$55,782
University of Nebraska - Lincoln	$54,700
David & Associates	$26,273
Clean Fuels Development Coalition	$25,000

BACKGROUND
(Concluded)

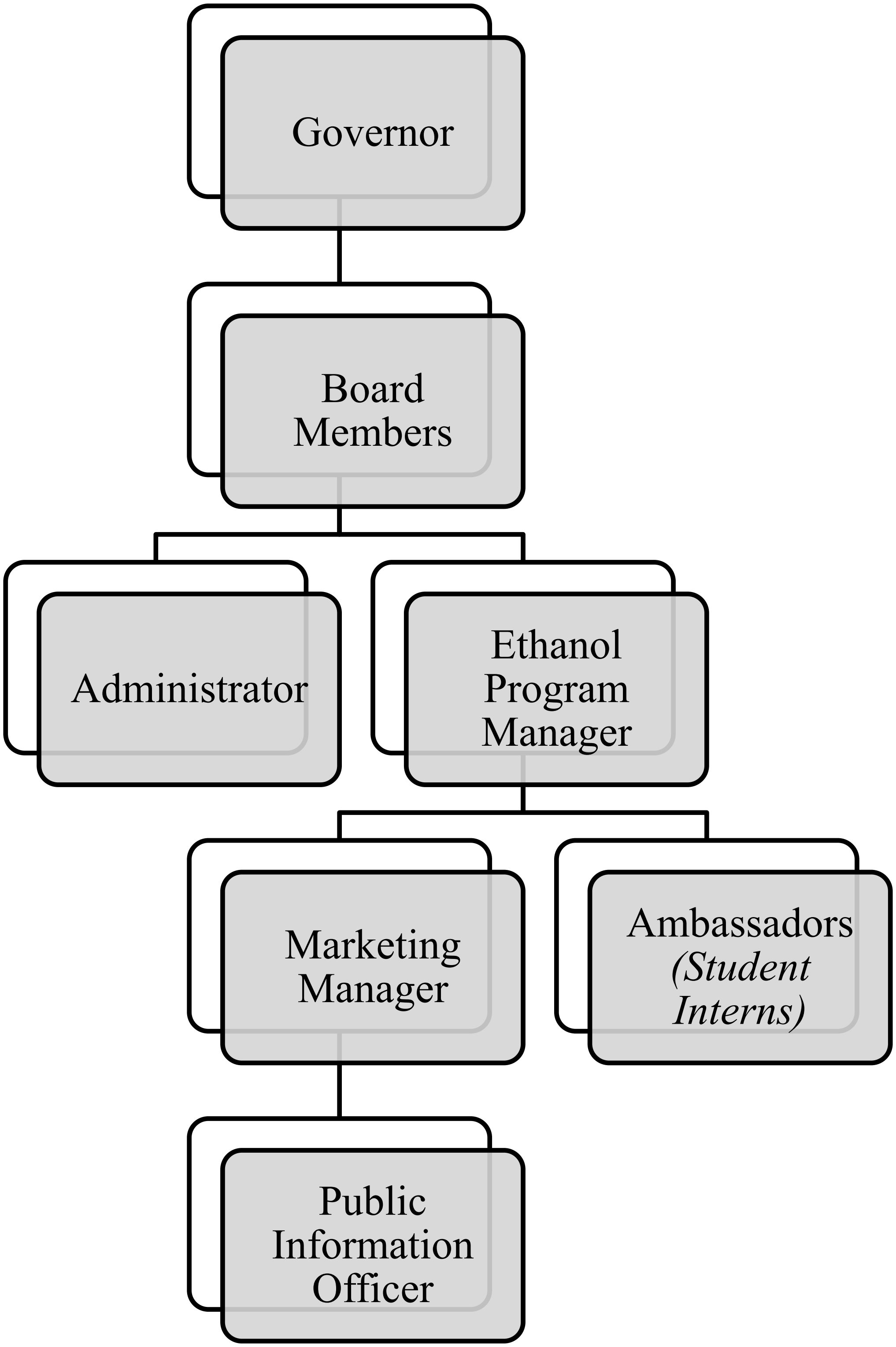
Vendor	Amount
Nebraska Corn Board	$14,000
Department of Agriculture	$10,558
KNEB 960 Info Radio	$10,000
Nebraska FFA Foundation	$10,000
Bergman Incentives Inc.	$8,695
Clean Fuels Foundation	$7,500
Todd Sneller (Expense Reimbursements)	$6,929
Knights of Aksarben Foundation	$5,000
KRP Inc	$5,000
SAE International	$5,000
Total Paid to Top 15 Vendors	**$301,952**

The Board has seven members appointed by the Governor to four-year terms with approval by the Legislature. The following restrictions are placed on Board members:

- Four members must be Nebraska farmers representing general farming, corn farming, wheat farming and sorghum farming.
- One member must represent Nebraska petroleum marketers.
- One member must represent business in the State.
- One member must represent labor in the State.

The Board meets quarterly. Members are paid $25 a day when conducting Board business and are reimbursed for expenses. The Board employs a full-time administrator, who serves at the pleasure of the Board. The Board is also advised by a four-member advisory committee, representing the Nebraska Department of Economic Development, the University of Nebraska, the Nebraska Department of Agriculture, and the Nebraska Energy Office.

ORGANIZATIONAL CHART



KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Nebraska Ethanol Board Members

Name	Title	Represents
Mike Thede	Chairperson	General Farming
Jan tenBensel	Vice Chairperson *(Appointed October 2015)*	Wheat Farming
Steve Hanson	Member *(Term ended August 2015)*	Wheat Farming
Tim Else	Member	Sorghum Farming
Galen Frenzen	Member	Corn Farming
Randy Gard	Member *(Appointed September 2016)*	Petroleum Marketers
Tod Brodersen	Member *(Term ended August 2016)*	Petroleum Marketers
Mark Ondracek	Member	Labor
Paul Kenney	Member *(Resigned February 2017)*	Business
Scott McPheeters	Member *(Appointed February 2017)*	Business

Nebraska Ethanol Board Staff

Name	Title
Todd Sneller	Administrator
Steve Sorum	Ethanol Project Manager *(Retired March 2017)*
Amber Rucker	Marketing Manager
Megan Grimes	Public Information Officer I *(Program Manager beginning March 2017)*
Olivia Brichacek	Public Information Officer II *(Resigned April 2016)*

Nebraska Ethanol Board
301 Centennial Mall South
Lincoln, NE 68509
ethanol.nebraska.gov

SUMMARY OF COMMENTS

During our examination of the Nebraska Ethanol Board (Board), we noted certain deficiencies and other operational matters that are presented here. The following comments are required to be reported in accordance with *Government Auditing Standards*: Comments #1 and #2, which are considered to be significant deficiencies.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Contract Issues:*** Numerous areas of concern related to the Board's contracts were noted, including the following: contracts that lacked required conflict of interest disclosures; non-compliance with required and recommended bidding practices; a lack of legal review of contracts; and contractual payments not applied properly in the accounting system.

2. ***Lack of Adequate Documentation:*** Numerous payments tested lacked adequate supporting documentation. The majority of the payments reviewed were flat amounts paid to various entities for either collaborative projects or sponsorships. The documentation available to support these types of payments was generally vague and lacked sufficient detail to ensure that the actual project costs were at least as much as the amount contributed by the Board.

3. ***Shared Resources:*** We noted the Board shared resources with a non-profit organization, the Nebraska Ethanol Industry Coalition (NEIC). The purpose of the NEIC appears to mimic that of the Board. The Board's website was used to collect fees for the NEIC. Additionally, NEIC provided temporary staffing to the Board.

4. ***Vehicle Usage:*** During a review of the Board's permanently assigned vehicle logs, the Auditor of Public Accounts (APA) noted two areas of concern. First, the Board's permanently assigned vehicle did not appear to be the most cost-effective method of vehicle usage available. Second, both the permanently assigned vehicle logs and the monthly personal commuting reports contained inaccuracies.

5. ***Payroll Issues:*** The APA noted three areas of concern while testing payroll. The first issue relates to $2,168 of payroll costs coded to the wrong agency. The second issue relates to an employee treated as exempt from earning overtime; however, the employee was actually non-exempt. Lastly, the personnel files reviewed did not contain required and necessary documentation.

6. ***Travel Expenditures:*** Testing of travel expenditures revealed three issues related to hotel bills over the recommended rates, reimbursement for meal costs without an itemized receipt, and a hotel bill that was not direct billed, which resulted in unnecessary sales taxes paid.

7. ***Federal Fund Balance:*** The Board had $2,764 in cash in the USDA Federal Grant Fund. The Board was unaware of why the fund balance existed, and there had been no activity in the fund for several years.

SUMMARY OF COMMENTS
(Concluded)

More detailed information on the above items is provided hereinafter. 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 Board.

Draft copies of this report were furnished to the Board 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. 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. Contract Issues

During testing, the Auditor of Public Accounts (APA) identified numerous concerns related to contracts entered into by the Nebraska Ethanol Board (Board). Those issues include contracts that lacked required conflict of interest disclosures, non-compliance with required and recommended bidding practices, a lack of legal review of contracts, and contractual payments not applied properly in the accounting system. Details of each of the issues noted are outlined below.

Conflict of Interest

The Board's Administrator held administrative positions with several entities that had contractual relationships with the Board. State statute requires a disclosure statement to be filed with the Nebraska Accountability and Disclosure Commission (NADC) when a public employee makes decisions that financially benefit an associated business. The APA identified four businesses with which the Administrator was associated, yet no disclosure form was filed. The table below describes the Administrator's relationship with each of those entities and the amounts that the Board paid them.

Entity	Entity Type	Position	Amount Paid
Nebraska Ethanol Industry Coalition	Non-Profit	Chairman	$57,515
Clean Fuels Development Coalition	Non-Profit	Chairman	$25,000
Clean Fuels Foundation	Non-Profit	Board Member	$7,500
American Coalition for Ethanol	Non-Profit	Board Member	$2,598

The Nebraska Political Accountability and Disclosure Act (Act), which is set out at Neb. Rev. Stat. § 49-1401 through 49-14,141 (Reissue 2010, Cum. Supp. 2016), contains the relevant laws. Specifically, Neb. Rev. Stat. § 49-1499.02 (Reissue 2010) states, in part, the following:

(1) An official or employee of the executive branch of state government who would be required to take any action or make any decision in the discharge of his or her official duties that may cause financial benefit or detriment to him or her, a member of his or her immediate family, or a business with which he or she is associated, which is distinguishable from the effects of such action on the public generally or a broad segment of the public, shall take the following actions as soon as he or she is aware of such potential conflict or should reasonably be aware of such potential conflict, whichever is sooner:

(a) Prepare a written statement describing the matter requiring action or decision and the nature of the potential conflict; and

(b) Deliver a copy of the statement to the commission and to his or her immediate superior, if any, who shall assign the matter to another. If the immediate superior does not assign the matter to another or if there is no immediate superior, the official or employee shall take such action as the commission shall advise or prescribe to remove himself or herself from influence over the action or decision on the matter.

(2) This section does not prevent such a person from (a) making or participating in the making of a governmental decision to the extent that the individual's participation is legally required for the action or decision to be made or (b) making or participating in the making of a governmental decision if the potential conflict of interest is based upon a business association and the business association exists only as the result of his or her position on a commodity board. A person acting pursuant to subdivision (a) of this subsection shall report the occurrence to the commission.

COMMENTS AND RECOMMENDATIONS
(Continued)

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

Section 49-1408 of the Act defines a "business with which the individual is associated" to include a business "in which the individual is a partner, limited liability company member, director, or officer . . . ."

Having both participated in their formation and signed the contracts at issue, the Administrator should have prepared the written statement required by § 49-1499.02 for each of the entities listed above. According to NADC Advisory Opinion #187 (April 11, 2003), a Potential Conflict of Interest Statement (NADC Form C-2) meets this requirement. The APA has confirmed with the NADC that no such form or comparable written statement was filed; therefore, the Administrator appears not to have complied with the aforementioned provision of the Act.

> We recommend the Board take measures, such as seeking an advisory opinion from NADC, to ensure that a potential conflict of interest involving the Administrator or any of its members is handled in accordance with the provisions of the Act. Because this comment addresses possible noncompliance with the Act, we are forwarding this information to the NADC for further review.

Board Response: The Nebraska Ethanol Board (NEB) appreciates the diligence of the APA staff during this audit process. Responses by the NEB and the Nebraska Department of Agriculture (DoA) are integrated for purposes of efficiency.

The businesses noted are not-for-profit ethanol advocacy organizations with which the agency has relationships ranging from eight to 30 years. The relationships noted are elected board seats in which the Administrator represents the interests of the agency. In no case is the Administrator provided compensation for board service. It is the opinion of the agency that serving on related advocacy boards benefits the NEB by facilitating working relationships and increasing efficiency via cost sharing and collaboration.

Shortly after the Nebraska Ethanol Industry Coalition was incorporated, the agency and NEIC submitted a grant request to the Office of the Attorney General. Prior to receiving a grant award of $11,000, the agency prepared documents for review by the Attorney General's staff that were intended to establish the NEIC as an appropriate entity for collecting funds from public and private parties working on a collaborative basis to implement projects initiated by the Nebraska Ethanol Board. The agency again reviewed documents submitted to the Attorney General's office and believes the collaboration between the agency and private industry is appropriate, efficient and consistent with statutory directives clearly stated in the preamble of the audit report.

The Administrator of the NEB has no conflict of interest. Funds expended by the NEB are authorized by Board members. The Administrator does not serve as a member of the NEB and therefore does not authorize expenditures. The Administrator approves only expenditures authorized by the Board. No member of the NEIC board is compensated for service in any

COMMENTS AND RECOMMENDATIONS
(Continued)

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

manner. The NEIC serves only as an aggregator of funds from the coalition of parties who wish to supplement ethanol marketing, education, research and related projects. The NEIC performs a function that no individual party is willing or able to undertake. The NEIC performs a coordinating function that leverages NEB funds via cooperative efforts to finance projects the board could not otherwise fully fund.

The Administrator will discuss with the NADC the Board's relationship with the NEIC to again establish that no conflict exists and that the Administrator only authorizes expenses approved by the Board. The working relationship between the NEIC and the NEB lends itself to efficiency and cost sharing with private sector parties as authorized and directed by enabling legislation.

Bidding Issues
The Board entered into a service contract with David and Associates valued at $49,999 for the period July 1, 2012, through June 30, 2015. Upon the end of the original contract period, the Board entered into a three-year contract renewal for the period July 1, 2015, through June 30, 2018, without competitive bidding. Per correspondence with Board staff, the contract amount was intentionally set below the $50,000 statutory threshold for which competitive bidding is required.

For one other entity tested, the Board entered into multiple service contracts with NEIC that were all valued at less than the $50,000 statutory limit for bidding; however, when those contracts are combined, the total paid to the entity was over that limit. The service provider received $50,365 from the Board during the fiscal year ended June 30, 2016.

Neb. Rev. Stat. § 73-504(2) (Cum. Supp. 2016) states the following:

> *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. Bidding may be performed at the state agency level or by the division. Any state agency may request that the division conduct the competitive bidding process[.]*

Neb. Rev. Stat. § 73-502(6) (Cum. Supp. 2016) defines a "state agency" as "any agency, board, or commission of this state other than the University of Nebraska, the Nebraska state colleges, the courts, the Legislature, or any officer or state agency established by the Constitution of Nebraska[.]"

Additionally, Neb. Rev. Stat. § 73-506(3) (Cum. Supp. 2016) provides, "State agencies shall not structure contracts for services to avoid any of the requirements of sections 73-501 to 73-510[.]"

Even if entering into the service contracts described above were deemed to be lawful acts, informal bids were not obtained for any of the contracts tested by the APA. Section 2.2 of the State of Nebraska Procurement Manual (Manual) describes the procurement thresholds. Specifically, for service contracts under $50,000, the manual states that obtaining three documented bids is "highly recommended."

When contracts are not bid periodically, there is an increased risk for not only noncompliance with State statute and applicable Manual provisions but also a failure to obtain the best price for services. A similar finding was noted in our previous report.

COMMENTS AND RECOMMENDATIONS
(Continued)

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

> We recommend the Board formally bid service contracts valued at more than $50,000 in accordance with State statute. We also recommend the Board obtain three documented informal bids for service contracts valued at $50,000 or less in order to ensure the lowest responsible bidder is used for the needed services.

Board Response: Agency staff explained to audit staff the process for approving contracts noted in the findings. The agency rejects the characterization that contract limits were not followed. In fact, the agency sought direction from the Division of Administrative Services regarding contractual obligations up to $50,000 and executed contracts in compliance with DAS guidelines. The agency will continue to comply with contractual guidelines enacted by DAS.

No Legal Review

During our review, we noted that nine of nine Board contracts tested did not have a legal review prior to being finalized. The contract values ranged from $4,000 to $49,999. In April 2014, the Board requested and obtained a contract template from the Nebraska Attorney General's office. Despite obtaining this template, however, none of the contracts tested actually utilized all of the applicable clauses contained therein.

To protect the interests of both the State in general and the Board in particular, a good internal control plan requires the Board to utilize fully the contract template obtained from the Nebraska Attorney General's office or to request an alternative template with more suitable provisions. Otherwise, the Board should seek a separate legal review of its contracts before they are executed. Failure to implement any of these measures increases the risk that the interests of both the State and the Board may not be properly safeguarded. A similar finding was noted in our previous report.

> We recommend the Board utilize fully the current contract template provided by the Attorney General's office or obtain a suitable replacement. Otherwise, we recommend the Board seek a separate legal review of its contracts before they are executed.

Board Response: Regarding contract review, the agency sought a template for contracts and was advised that using the template eliminated the need for reviewing every contract. The agency in fact uses that template except for memberships and related routine business transactions. The template in whole was not considered necessary for the routine business transaction cited. The template includes controls suggested by the Auditor of Public Accounts. As recommended, the agency will continue to consult with DAS Purchasing staff to review contracts and related compliance requirements. The agency will continue these practices as recommended.

APA Response: Per discussion with Board staff, the original approved template provided by the Attorney General's (AG's) office had been condensed over the years. This modified version excluded several of the legal clauses recommended in the AG's approved template.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. **Contract Issues** (Concluded)

Payment Not Applied to Contract

One service contract payment tested for $4,000 was not correctly entered in the State's accounting system, EnterpriseOne. As a result, EnterpriseOne was unable to track accurately the contract usage, and the system showed that $4,000 was still open to be paid on that agreement.

Neb. Rev. Stat. § 73-503(1) (Cum. Supp. 2016) states the following:

> *All state agencies shall process and document all contracts for services through the state accounting system. The Director of Administrative Services shall specify the format and type of information for state agencies to provide and approve any alternatives to such formats. All state agencies shall enter the information on new contracts for services and amendments to existing contracts for services. State agency directors shall ensure that contracts for services are coded appropriately into the state accounting system.*

Without accurate contract data, including purchase orders, in the State's accounting system, there is an increased risk that contracts will be overspent. Furthermore, contract usage reported to the Legislature will not be accurate if payments are not processed against their respective contracts. A similar finding was noted in our previous report.

> We recommend the Board enter accurate data, including purchase orders, in EnterpriseOne for contract expenditures, so contract usage can be adequately tracked and reported to the Legislature.

Board Response: Regarding accuracy of data, the NEB will continue to work closely with the NE Department of Agriculture (DoA) to foster accuracy in data input. The NEB and DoA staff were working under a new accounting and personal services agreement during the audit period. Due to staff turnover and other factors, reconcilable accounting errors occurred. Staff members continue to work together to eliminate any such errors.

2. **Lack of Adequate Documentation**

Numerous payments by the Nebraska Ethanol Board (Board) were tested and found to lack adequate supporting documentation. The majority of the payments reviewed were flat amounts paid to various entities for either collaborative projects or sponsorships. The documentation available to support these types of payments was generally vague and lacked sufficient detail to ensure that the actual project costs were at least as much as the amount contributed by the Board.

Out of 18 payments tested, 10 invoices, amounting to nearly $100,000, were considered by the APA to be insufficiently detailed. As a result, the APA was unable to determine whether the following payments were reasonable and necessary uses of public funds.

Date	Vendor	Invoice Description	Amount
11/19/2015	University of Nebraska - Lincoln	Motorsports Sponsorship	$28,000
3/10/2016	Clean Fuels Development Coalition	CFDC Annual Dues	$25,000
6/9/2016	Nebraska Corn Board	K & G Promotion	$10,000

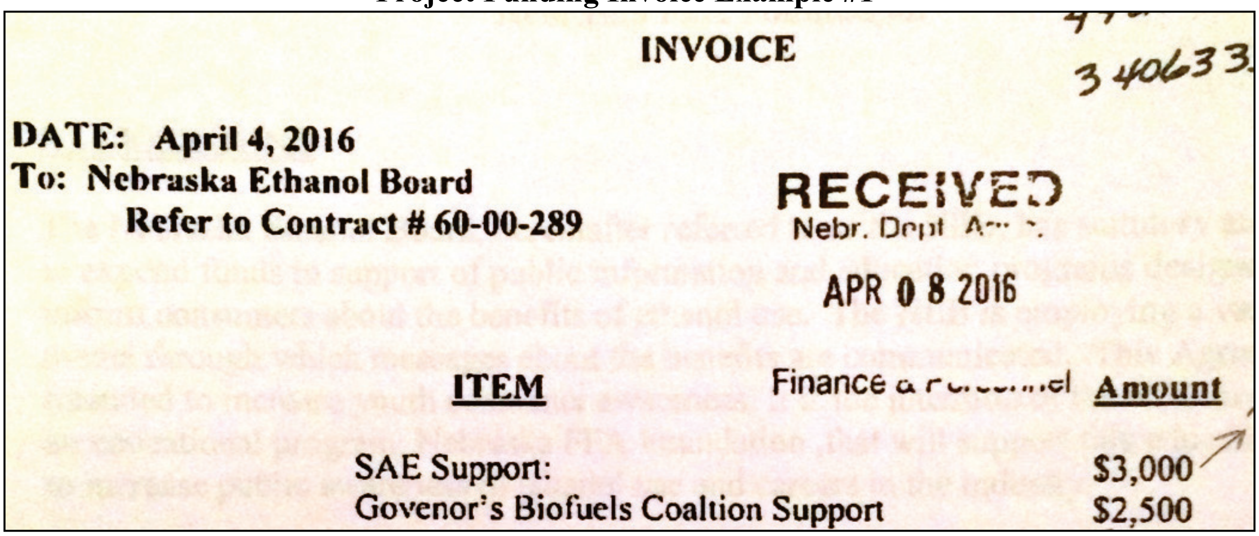
COMMENTS AND RECOMMENDATIONS
(Continued)

2. Lack of Adequate Documentation (Continued)

Date	Vendor	Invoice Description	Amount
9/8/2015	Nebraska Ethanol Industry Coalition	Clean Fuels, Clean Air Cooperative Partnership	$10,000
11/19/2015	Clean Fuels Foundation	Infrastructure, Marketing, and Education Program	$7,500
3/29/2016	KNEB 960 Info Radio	NASCAR Ethanol Education Campaign	$5,500
12/16/2016	Nebraska FFA Foundation	True Blue Sponsorship	$5,000
9/11/2015	Knights of Aksarben Foundation	Stock Show Sponsorship	$2,500
6/10/2016	David & Associates	Account Coordination	$2,282
11/28/2016	Nebraska LEAD Alumni Association	Banquet Sponsorship	$500
	Total Paid		**$96,282**

Two examples of vague invoices for project support funding are provided below.

Project Funding Invoice Example #1


INVOICE

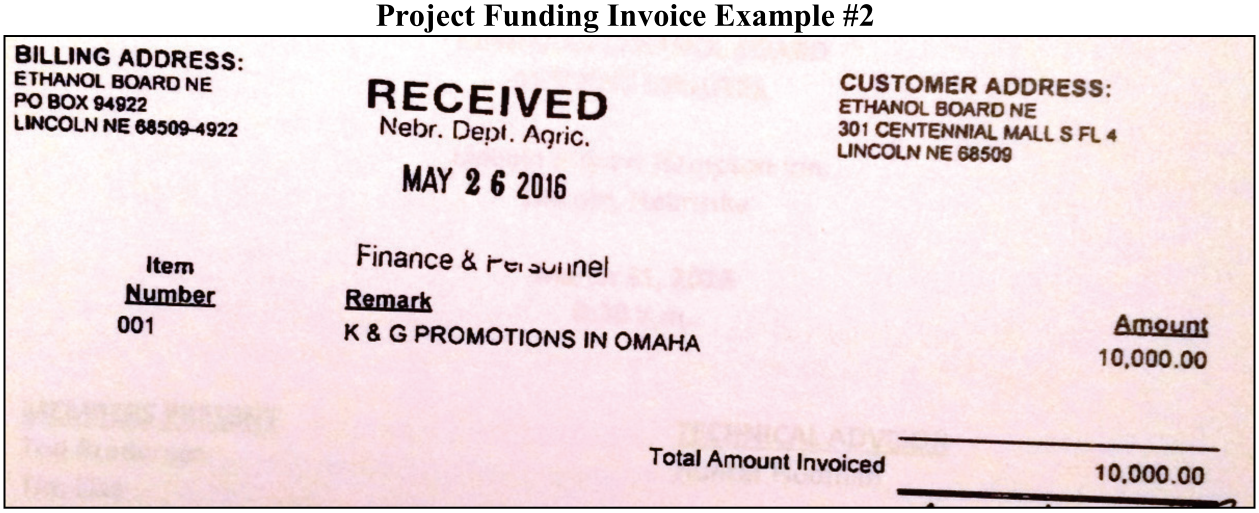
3 40633

DATE: April 4, 2016
To: Nebraska Ethanol Board
Refer to Contract # 60-00-289

RECEIVED
Nebr. Dept A...
APR 0 8 2016
Finance & Personnel

ITEM	Amount
SAE Support:	$3,000
Govenor's Biofuels Coaltion Support	$2,500

Project Funding Invoice Example #2


BILLING ADDRESS:
ETHANOL BOARD NE
PO BOX 94922
LINCOLN NE 68509-4922

RECEIVED
Nebr. Dept. Agric.
MAY 2 6 2016
Finance & Personnel

CUSTOMER ADDRESS:
ETHANOL BOARD NE
301 CENTENNIAL MALL S FL 4
LINCOLN NE 68509

Item Number	Remark	Amount
001	K & G PROMOTIONS IN OMAHA	10,000.00

Total Amount Invoiced 10,000.00

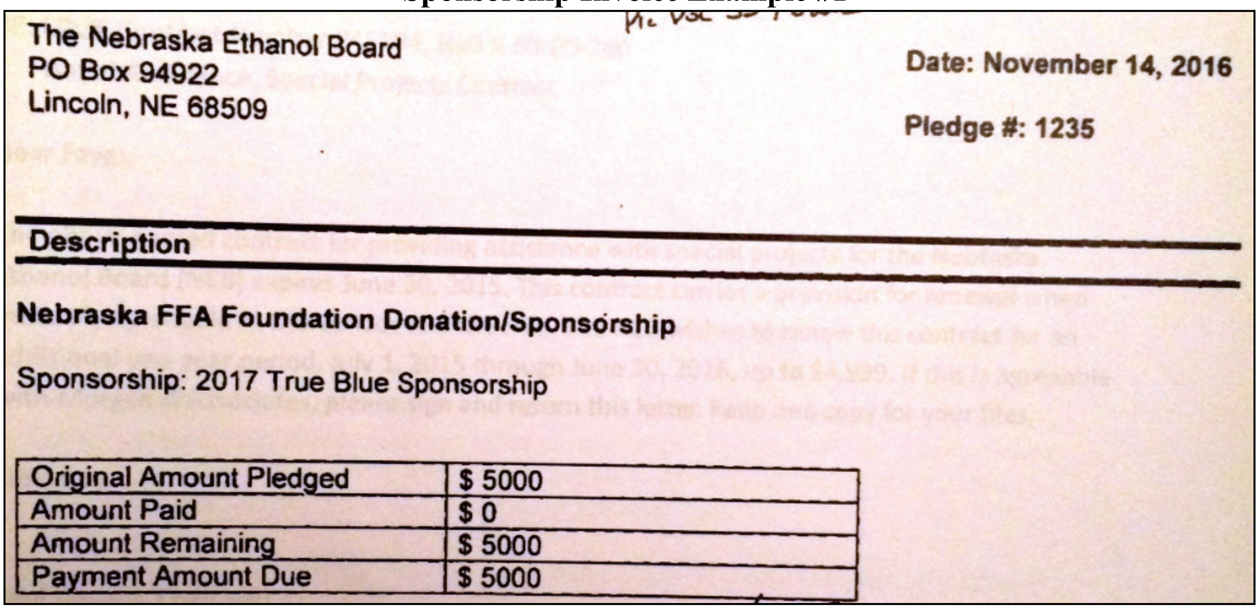
COMMENTS AND RECOMMENDATIONS
(Continued)

2. Lack of Adequate Documentation (Continued)

Per discussion with Board staff, the Auditor of Public Accounts (APA) learned that such projects typically involve funding from various entities, and the Board's funding is usually intended to cover the remaining unfunded project costs. Consequently, the APA would expect to see documentation showing both the total project costs and the amounts contributed by other parties; such information would seem a reasonable prerequisite to determining how much should be contributed by the Board. At a minimum, the APA would expect to see documentation that enough in actual costs were incurred to offset the Board's contribution in order to ensure that the money was properly utilized for its intended purposes.

Likewise, documentation supporting the Board's sponsorship payments lacked details about the event being sponsored. Two examples of such vague invoices are provided below.

Sponsorship Invoice Example #1


The Nebraska Ethanol Board
PO Box 94922
Lincoln, NE 68509

Date: November 14, 2016

Pledge #: 1235

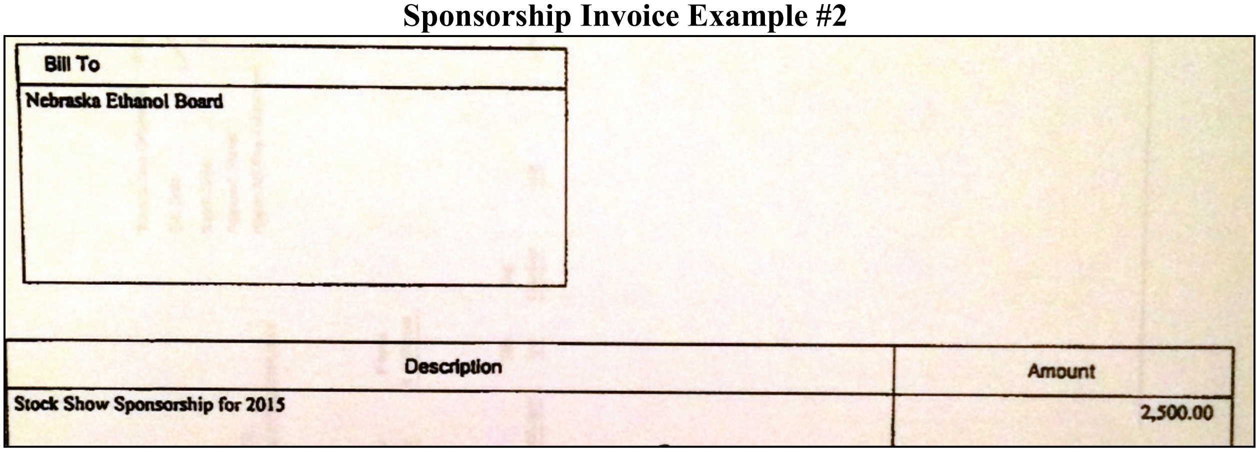
Description

Nebraska FFA Foundation Donation/Sponsorship

Sponsorship: 2017 True Blue Sponsorship

Original Amount Pledged	$ 5000
Amount Paid	$ 0
Amount Remaining	$ 5000
Payment Amount Due	$ 5000

Sponsorship Invoice Example #2


Bill To

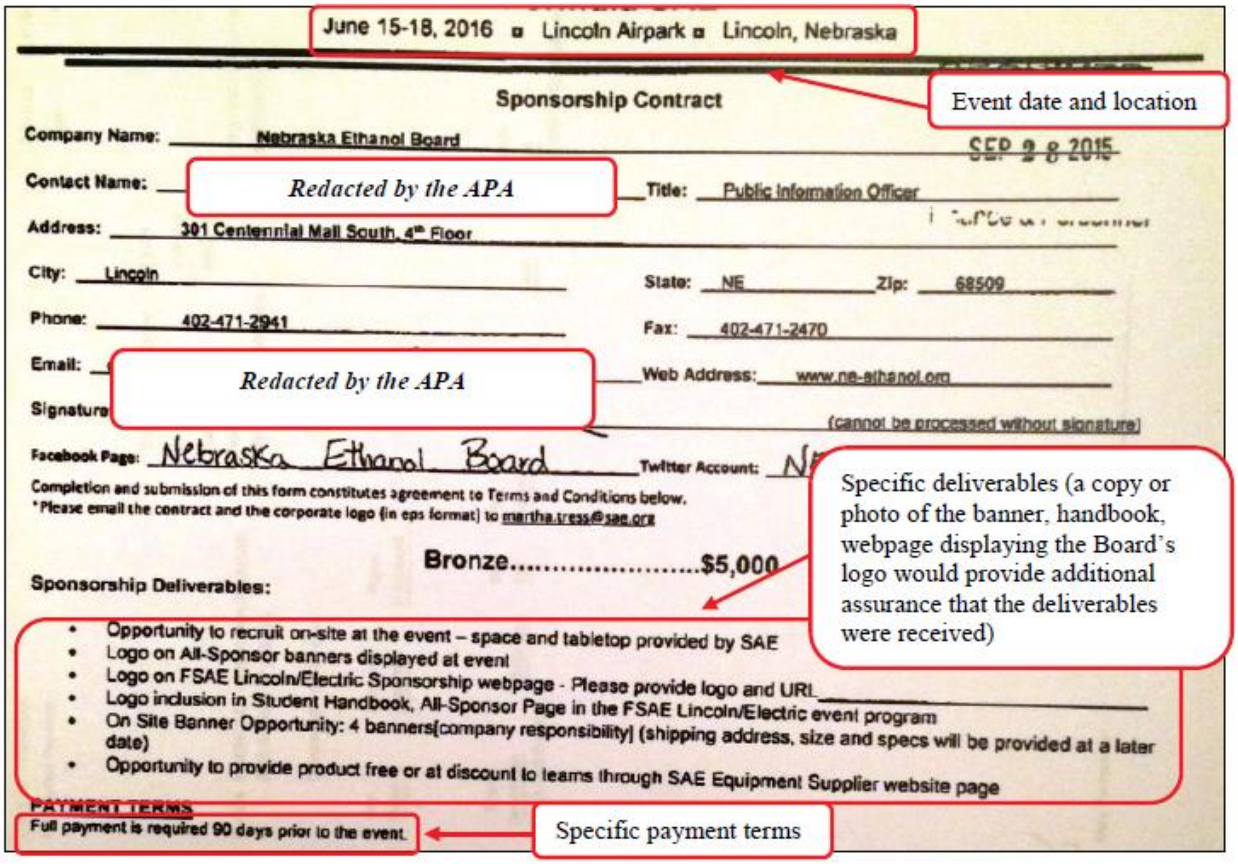
Nebraska Ethanol Board

Description	Amount
Stock Show Sponsorship for 2015	2,500.00

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Lack of Adequate Documentation</u> (Concluded)

Alternatively, as shown below, the APA did test one invoice for a sponsorship that contained significantly more details, particularly related to the deliverables to be obtained in exchange for funding provided by the Board. The APA has highlighted the specific contents of that invoice – which, though missing from the previous examples, would be expected to be found in all documentation supporting the Board's sponsorship funding.



June 15-18, 2016 ▫ Lincoln Airpark ▫ Lincoln, Nebraska

Sponsorship Contract

Company Name: Nebraska Ethanol Board

SEP 2 8 2015

Contact Name: Redacted by the APA Title: Public Information Officer

Address: 301 Centennial Mall South, 4th Floor

City: Lincoln State: NE Zip: 68509

Phone: 402-471-2941 Fax: 402-471-2470

Email: Redacted by the APA Web Address: www.ne-ethanol.org

Signature (cannot be processed without signature)

Facebook Page: Nebraska Ethanol Board Twitter Account: N

Completion and submission of this form constitutes agreement to Terms and Conditions below.
*Please email the contract and the corporate logo (in eps format) to martha.tress@sae.org

Bronze......................$5,000

Sponsorship Deliverables:

- Opportunity to recruit on-site at the event – space and tabletop provided by SAE
- Logo on All-Sponsor banners displayed at event
- Logo on FSAE Lincoln/Electric Sponsorship webpage - Please provide logo and URL
- Logo inclusion in Student Handbook, All-Sponsor Page in the FSAE Lincoln/Electric event program
- On Site Banner Opportunity: 4 banners[company responsibility] (shipping address, size and specs will be provided at a later date)
- Opportunity to provide product free or at discount to teams through SAE Equipment Supplier website page

PAYMENT TERMS

Full payment is required 90 days prior to the event.

A good internal control plan requires that procedures be in place to ensure adequate documentation is on file to support that Board funding is being used as intended. Without such procedures, there is an increased risk for the loss or misuse of public funds.

> We recommend the Board implement procedures to ensure that sufficient supporting documentation is obtained to verify that Board funding is used for the intended purpose.

Board Response: Agency staff advised audit staff that NEB members are provided with extensive details about sponsorships, memberships and any project prior to discussion and funding authorization. Agency staff presented examples of such details. Invoices for projects reviewed and funded by the board may not contain these details but they are understood by the board and staff members. Agency staff noted that documentation of project proposal details are on file and readily available. Staff will make an effort to provide additional details on invoices and will do so to the extent it doesn't create unnecessary redundancy and costly inefficiency.

3. Shared Resources

The Auditor of Public Accounts (APA) noted that the Nebraska Ethanol Board (Board) shared resources with a non-profit organization, the Nebraska Ethanol Industry Coalition (NEIC). The NEIC was created by the Board's Administrator, who serves also as the Chairman of the NEIC. The purpose of the NEIC appears largely to duplicate that of the Board. In fact, the APA was unable to identify any project or work associated with the NEIC that would be considered outside of the statutory scope or mission of the Board.

For instance, the NEIC collected registration fees and paid associated costs for hosting an annual Ethanol Emerging Issues forum in Omaha, Nebraska. The registration form was accessed and completed by participants through the Board's website; however, registration fees were paid to the NEIC. As such, revenue and expenditures associated with the annual forum bypassed the State's accounting system.

Additionally, the NEIC paid for consultants who provided the Board's temporary staffing. The Board then reimbursed the NEIC pursuant to the terms of a contract with that entity. The APA is unaware of any provision of State statute that expressly allows for this type of activity. To the contrary, such an arrangement appears to circumvent specific statutory requirements pertaining to the hiring of temporary employees by State agencies.

Neb. Rev. Stat. § 81-1307 (Reissue 2014) states, in relevant part, the following:

> *The Director of Personnel shall be responsible for the administration of the personnel division. The director shall be responsible for specific administrative systems including, but not limited to, the following:*
>
> * * * *
>
> *(6) Temporary Employees: (a) The director shall administer the Temporary Employee Pool containing applicants from which state agencies can draw when in need of a short-term labor supply; and (b) State agencies must receive approval from the director before hiring any temporary employee.*

Additionally, Title 273 NAC 5-001.01 states the following:

> *Requests to hire any temporary employee(s) shall include the following information: agency and division names and numbers; work location; position title and class code; number of FTE; work schedule; salary; beginning and ending dates; list of essential duties; education and experience and other special requirements; if any driving required; dress code; type of temporary (agency, SOS or private sector); justification/reason; funding source; supervisor's name and phone number; and agency approver's name and phone number.*

Title 273 NAC 5-012 states the following:

> *Agencies shall maintain appropriate NIS fields to allow DAS-State Personnel Division to obtain needed data for a quarterly report which includes the following information: (1) the number of temporary employees on the payroll during that period; (2) the amount of money expended on these temporary employees; (3) the number of such temporary employees who were eligible for health insurance coverage pursuant to section 84-1601; (4) the number of such temporary employees who elected coverage; (5) total state contribution for Agency temporary employees' insurance; and (6) the average length of health insurance coverage for those temporary employees who elected coverage.*

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Shared Resources (Continued)

Title 273 NAC 3-001 defines an Agency as "any legally constituted board, commission, department or other branch of state government in which all positions are under the same appointing authority."

The Nebraska Supreme Court has declared, "Agency regulations properly adopted and filed with the Secretary of State of Nebraska have the effect of statutory law." *Middle Niobrara Natural Resources Dist. v. Department of Nat. Resources*, 281 Neb. 634, 651, 799 N.W.2d 305, 318 (2011).

According to the Nebraska Supreme Court, "In the absence of constitutional authority, an administrative agency has only that power which has been granted to it by the Legislature." *Nebraska Public Service Com'n v. Nebraska Public Power Dist.,* 256 Neb. 479, 491, 590 N.W.2d 840, 848 (1999).

Good business practice includes segregating State business from that of non-governmental entities in regards to the use of State financial resources.

When the Board carries out its statutory obligations, in part, through the use of a non-profit corporation, all revenues and expenditures associated with the Board are not processed through the State's accounting system. When those dollars are not subject to the controls developed by the State to safeguard assets, there is an increased risk for the abuse of funds. In addition, by contracting with a non-profit corporation for temporary employment services, the Board risks violating both State statute and applicable administrative rules and regulation. A similar finding was noted in our previous report.

> We recommend the Board follow both State statute and applicable administrative rules and regulations for the hiring of temporary staff. We also recommend the Board, through legal counsel or the Attorney General, review its relationship with the NEIC, addressing any concerns regarding the sharing of resources between those two entities.

Board Response: Agency staff noted the efficiency and authorization for working with a private sector entity that provides resources which enhance the effectiveness and efficiency of the Board as it carries out projects and programs authorized by statute. The NEIC facilitates project funding by working with a diverse group of companies and organizations that support NEB projects initiated to enhance market development, research and consumer education projects. This partnership provides an opportunity for the board to make small investments in projects that are subsequently funded by companies and organizations that support the ethanol industry development objectives with which the NEB is charged in statute.

The agency disagrees with the characterization of "temporary employees" as used in the context of this finding. An established, accredited internship program has been established by the agency and interns are not temporary employees. Further, the continuity, experience and security advantages of three-year contracts are, by nature, not "temporary." In addition, "staffing" provided by the NEIC is via knowledgeable, experienced personnel with whom the agency has a relationship and are known to pose no security risks.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Shared Resources (Concluded)

APA Response: Regardless of an intern's characterization as temporary or otherwise, DAS Personnel requires intern information be entered into the Employee Work Center. As the relationship between the Board Administrator and the NEIC is highly unusual, we reiterate our recommendation that the Board seek a legal opinion regarding the relationship between the Board and NEIC.

4. Vehicle Usage

The Board has one vehicle, which is permanently assigned to the agency. During our review of the monthly mileage logs for the vehicle, the APA noted two areas of concern, which we are bringing to the Board's attention. The first concern was that the vehicle did not appear to be used in the most cost-effective manner. The other concern related to the accuracy of both the permanently assigned vehicle logs and the monthly personal commuting reports.

Cost-Efficiency of Vehicle Usage
The Department of Administrative Services (DAS) – Transportation Services Bureau (TSB) provides vehicles to State Agencies either via a long-term lease for a permanently assigned vehicle or as a daily rental for vehicles as needed. Alternatively, State agencies also have the option of reimbursing employees at a standard rate for driving their personal vehicles. The Board has elected to lease a permanently assigned vehicle from the TSB. As part of the long-term lease, it pays the TSB a monthly fee of $216, as well as a $0.28 fee for each mile driven. However, based on our analysis of the vehicle usage, this does not appear to be the most cost-effective method for travel.

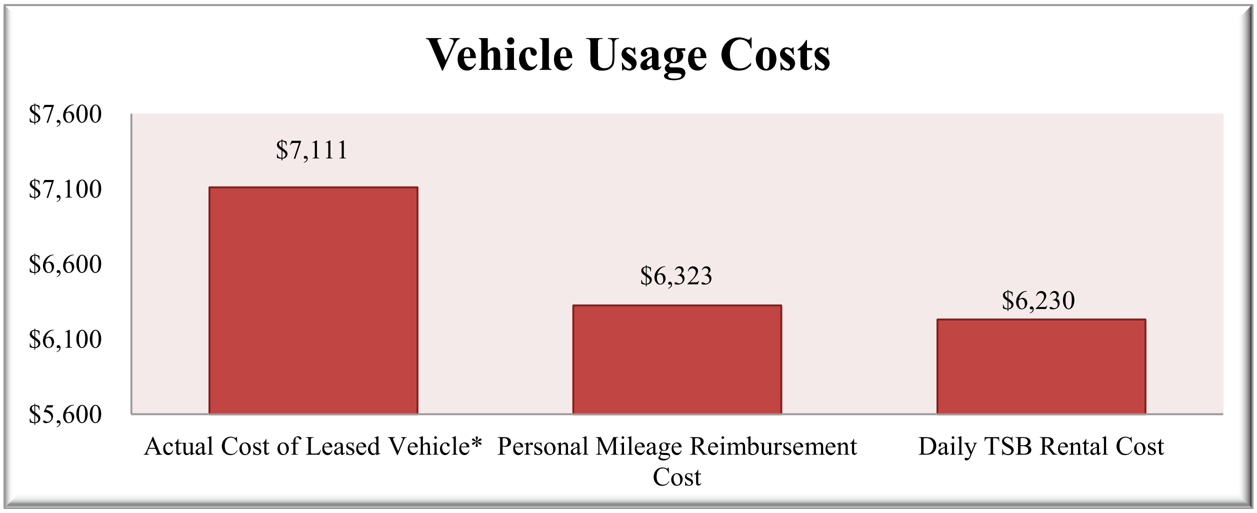
As illustrated in the following charts, it is more cost efficient to reimburse employees for mileage, or to utilize a short-term (daily) lease, if the permanently leased vehicle is driven fewer than 800 miles and 17 days per month. Additionally, the TSB "Requirements for Permanently Assigned Motor Vehicles and Related Information" states, "Motor vehicles shall be considered for permanent assignment when they . . . travel a minimum of 1,000 miles per month and will be utilized seventeen working days per month." In actuality, the Board's leased vehicle was driven only an average of 640 miles and 13 days each month during our review period.

	Board Average	Breakeven Point	TSB Requirement
Miles Driven	640	794	1000
Days Used	13	17	17

Based on the actual usage of the Board's permanently assigned vehicle, utilizing either of the two alternative vehicle usage options would have been more cost effective to the agency. The following graph illustrates this.

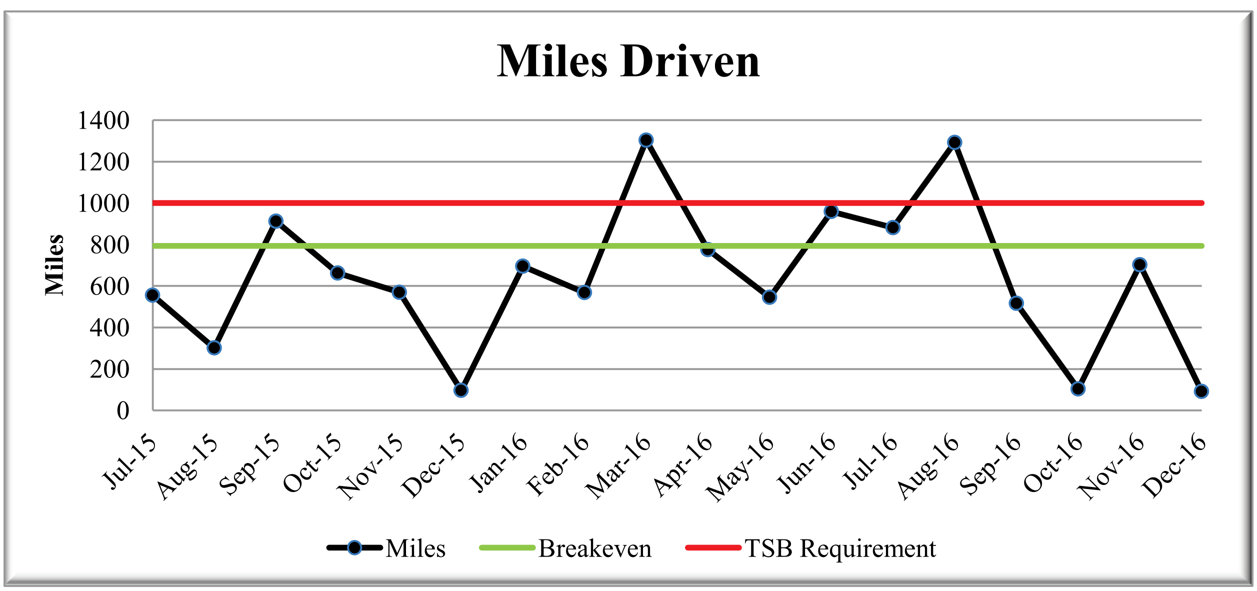
COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Vehicle Usage</u> (Continued)



**This amount is based on the actual mileage used by the permanently assigned vehicle at the monthly lease rates. The actual amount paid to the TSB during the review period differs from this amount due to timing differences and fee abatements given by the TSB.*

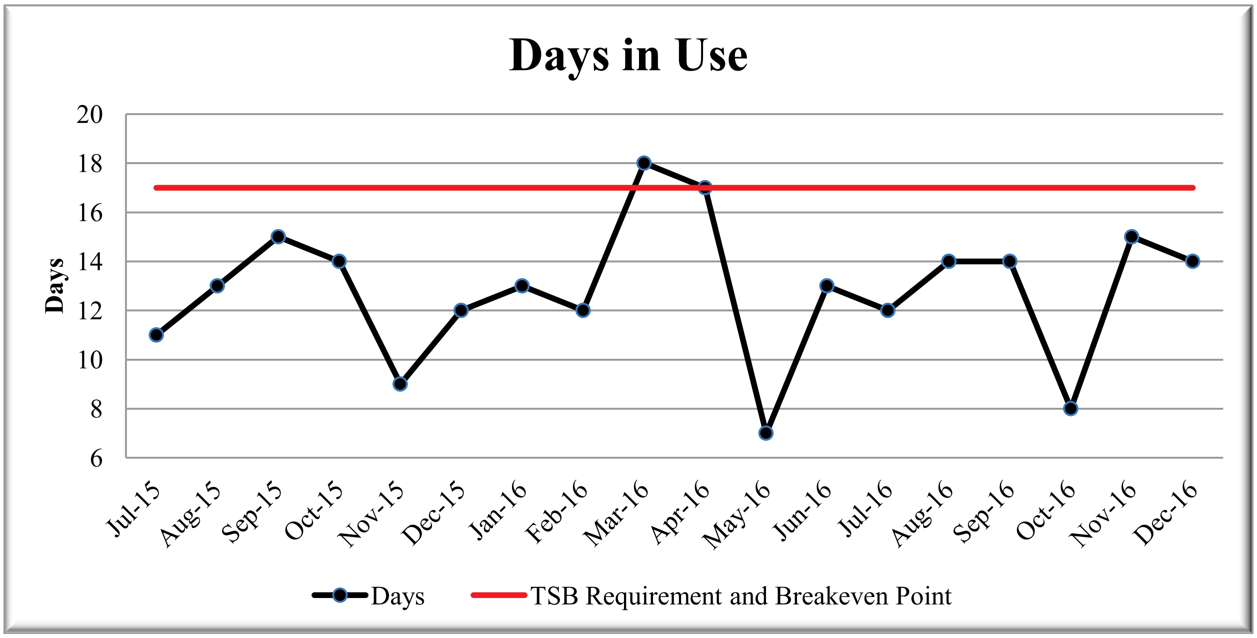
The following graph shows the actual number of miles driven using the Board's permanently assigned vehicle each month, with references to the breakeven point and the TSB requirement. The Board met the DAS requirements for maintaining a monthly lease vehicle only twice out of the 18 months reviewed, and it met the breakeven point only five times during the 18-month period. Using this data, the APA calculated that the Board could have saved $784 during our review period if it had reimbursed employee mileage instead of paying for the leased vehicle.



COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Vehicle Usage</u> (Continued)

Likewise, the graph below displays the number of days per month the vehicle was actually driven, with a reference to the TSB requirement and breakeven point. Again, the Board met both the DAS requirements and the breakeven point only twice out of the 18 months reviewed. Using this data, it was determined that the Board could have saved $808 if it had rented a vehicle each day as needed, instead of paying the monthly lease for a permanently assigned vehicle.



Alternatively, during our review of mileage reimbursements, we noted some instances in which the permanently assigned vehicle could have been utilized for a longer trip instead of reimbursing employees for mileage. More such instances over time could increase the usage of the permanently assigned vehicle to the point at which it would actually be cost effective to continue the monthly leases. Examples are included below.

- An employee travelled to Milwaukee and was reimbursed for 1,128 miles, or $609, for using a personal vehicle. Meanwhile, the Board's permanently assigned vehicle was utilized for only 125 miles during those same dates. Not only would the Board have saved $261 if the leased vehicle had been used for the longer of the two trips, but also the increased usage would have made the permanently assigned vehicle more cost effective.

- An employee travelled to Omaha and was reimbursed for 120 miles, or $69, for using a personal vehicle. Meanwhile, the Board's permanently assigned vehicle was utilized for only 16 miles during those same dates. Not only would the Board have saved $31 if the leased vehicle had been used for the longer of the two trips, but also the increased usage would have made the permanently assigned vehicle more cost effective.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. **Vehicle Usage** (Continued)

Good internal control procedures require a periodic review of vehicle usage options to ensure not only compliance with the TSB requirements for the lease of permanently assigned automobiles but also utilization of the most cost-effective method of vehicle management. Without such procedures, there is an increased risk for the loss of State funds. A similar finding was noted in our previous report.

> We recommend the Board reassess the necessity of leasing a vehicle from the TSB, determining whether it would be more cost effective to keep the automobile, reimburse staff mileage, or rent a car from the TSB only when needed.

Board Response: Agency staff reject the calculations presented by audit staff as not accurately reflecting net transportation costs. Net costs are determined by the agency to be less than the calculated costs presented by audit staff. Net cost must consider employee time spent to initiate, complete and present lease agreements, mileage reports, trip maps, reimbursement documents and other paperwork that entails a significant cost. Agency calculations show a lower net cost of more than $1,000 during the 18-month audit period reviewed.

Inconsistency of Vehicle Mileage Logs

The APA compared the Board's monthly leased vehicle mileage logs to the monthly commuting reports used by the Board to report any trips made for personal, non-business purposes. The comparison revealed inconsistencies between the information reported on those two sources of information. An example of one such inconsistency is provided below.

Monthly Mileage Log:

DAY OF MONTH	ODOMETER READING		MILES TRAVELED	TIME		DESTINATION		PURPOSE OF TRIP
	START	FINISH		START	FINISH	FROM	TO	
7/27	16099	16103	4	5:40 PM	5:58 PM	NSOB	SELNK	2812 Co/Kearney Trip
7/28	16103	16107	4	8:30 AM	8:41 AM	SELNK	NSOB	Rt - NEB

The above mileage log shows that the trip on 7/27/2016 was to go home. The log states, "2812 Co," which is the partial home address of the employee. Then the trip on 7/28/2016 is shown as a return trip back to the primary work place. Both trips were only four miles long. The mileage log showed no miles traveled on 7/26/2016.

Meanwhile, the commuting report below indicates a personal one-way trip made on 7/26/2016, with no return.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Vehicle Usage (Concluded)

Monthly Commuting Report:

SOCIAL SECURITY NUMBER: on file **MONTH/YEAR:** JULY 2016

AGENCY/DIVISION: Nebraska Ethanol Board **AGENCY NO:** 60

The Internal Revenue Code requires the reporting of income of any employee's personal use of employer provided vehicles. Commuting, which is defined as the travel between the employee's home and regular work location, is deemed personal use. The law provides for using $1.50 per one-way commute ($3.00 round trip) as the income value. This form should be completed, signed and submitted to the Agency Vehicle Coordinator with the T.S.B. "Official Vehicle Log".

Date of Commuting	License No.	Amount ($3.00 Per Round Trip)
7-14-16	19370	1.50
7-26-16	19370	1.50

The APA compared the mileage logs to the commuting reports for three months, concluding that the employee's monthly commuting reports did not include eight income-taxable trips in two of the months tested, as illustrated in the table below.

Month	Trips per Commuting Report	Trips per Mileage Log	Variance
July 2016	2	4	2
November 2016	7	13	6
Total Trips	**9**	**17**	**8**

IRS publication 15-B (2016), Section 3, "Commuting Rule," contains the following:

> *Under this rule, you determine the value of a vehicle you provide to an employee for commuting use by multiplying each one-way commute (that is, from home to work or from work to home) by $1.50. If more than one employee commutes in the vehicle, this value applies to each employee. This amount must be included in the employee's wages or reimbursed by the employee.*

Good internal control procedures require that mileage documentation be reported consistently and accurately among all sources of information. Without such procedures, there is an increased risk that incorrect amounts will be billed to the Board, or incorrect taxable income will be reported for the employee.

> We recommend the Board implement procedures to ensure that mileage documentation is reported consistently and accurately among all sources of information.

Board Response: The agency will review travel functions to ensure compliance with accounting requirements and recommendations in an effort to efficiently conduct business.

5. Payroll Issues

The APA noted three areas of concern while testing Board payroll. The first issue related to $2,168 of payroll costs coded to the wrong agency. The second issue related to an employee treated as being exempt from earning overtime; however, the employee was actually non-exempt. Lastly, the personnel files reviewed did not contain required and necessary documentation. The details of each of these concerns are outlined in the following subsections.

Coding Error

Two Board employees had a portion of their payroll paid erroneously from Wheat Board funds instead of the Board's own funds. The Department of Agriculture (DOA) processes payroll for the Board, and for Wheat Board as well. The vacation leave paid to the two Board employees on their September 14, 2016, paychecks, amounting to a combined total of $2,168, was coded incorrectly. A correction was made in the accounting system after the APA brought this error to the DOA and Board's attention.

A good internal control plan requires procedures to be in place to ensure that all payroll costs are coded to the correct funding source. Without such procedures, there is an increased risk of financial misstatement and potential budget concerns.

> We recommend the Board implement procedures to ensure that all payroll costs are coded to the correct funding source.

Board Response: As noted, the agency was working with DoA on personnel, accounting and payroll issues during a transition period concurrent with the audit period. With regard to the first issue of $2,168 of payroll costs being coded to the wrong agency, this simply is an anomaly. Upon thorough investigation and in consultation with DAS, it is determined that there is no viable reason why the coding to the other agency occurred; there were no overrides performed for the wrong coding to occur. Monitoring and review will continue to ensure that there is proper payroll coding going forward.

Exempt Classification

One Board employee tested was completing his time records as if he were overtime exempt; however, according the Nebraska Association of Public Employees (NAPE) labor contract, his position was not overtime exempt. This means that the employee did not track any time worked in excess of 40 hours per week; however, he would have been eligible to be paid at a higher rate for those hours.

Fact Sheet #23: Overtime Pay Requirements of the FLSA (Revised July 2008), published by the United States Department of Labor's Wage and Hour Division, states the following:

> *Unless specifically exempted, employees covered by the Act must receive overtime pay for hours worked in excess of 40 in a workweek at a rate not less than time and one-half their regular rates of pay.*

Good business practice requires a working knowledge of the correct overtime-exempt classification for all employees. Without such knowledge, there is an increased risk that the employee will not be fully compensated for overtime hours worked, in accordance with Federal labor laws.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. **Payroll Issues** (Concluded)

> We recommend the Board ensure all employees are appropriately classified as either overtime exempt or non-exempt in accordance with the appropriate Federal laws and labor contracts.

Board Response: The classification issue apparently resulted from a re-classification of positions implemented by the Department of Personnel more than two decades ago. Personnel made the designation noted at that time and no entity suggested the position be changed during the interim. The position no longer exists on the NEB staff and the Administrator has requested the position be eliminated from the Classified Personnel System.

Personnel Files

The personnel files for two employees tested lacked several different items of required and necessary documentation, as outlined below.

- Neither employee tested had an Internal Revenue Service (IRS) Form W-4 on file. As such, the APA was unable to verify that taxes were being withheld in accordance with the employees' expectations.
- Both employees tested lacked documentation on file to verify that they had elected and approved the amounts deducted from their paychecks for parking. The parking deduction from each employee's pay was $15 per bi-weekly paycheck.
- For one employee tested, there was no documented Board approval of the annual salary increase rate. Typically, this approval would be stated expressly in the minutes of the Board meetings, and a copy of it would be included in the employee's personnel file as support for the pay-rate change. Instead, the Board simply approved a cost-of-living adjustment at an unspecified rate, and nothing was included in the personnel file. The employee actually received a 2.4% increase.

A good internal control plan requires procedures to be in place to ensure that personnel files include all required and necessary supporting documentation. When such procedures are not in place, there is an increased risk of employee salaries, benefits, or wage deductions being incorrect. Per the IRS regulations, an employer is required to withhold income tax from an employee's wages as if they are single with zero allowances if the Form W-4 was not submitted.

> We recommend the Board implement procedures to ensure that personnel files include all required and necessary supporting documentation.

Board Response: Agency personnel files were tested for two employees who worked for the agency 39 years or more. At the time of hiring, a limited number of personnel documents were required in personnel folders. While a significantly larger number of documents are now required, no such requirements existed for employees hired almost four decades ago. As requested, current W-4 designations, while not changed in terms of elections, were updated. Furthermore, current employee personnel files have been reviewed and all necessary and required documentation is included.

6. Travel Expenditures

During testing of travel expenditures for Nebraska Ethanol Board (Board) employees, we noted the following:

- Two hotel bills appear to be slightly excessive, as the amounts paid were above the General Services Administration (GSA) lodging per diem guidelines. Both bills were for out-of-state hotels while staff were attending conferences, but neither hotel was located where the conference was being held.
    - The first bill was $144 one night and $158 the next night in Wisconsin, but the GSA limit for that location was only $115. The hotel was 20 minutes away from the conference location.
    - The second bill was $128 per night in South Dakota, but the GSA limit for that location was only $91. The hotel was five minutes away from the event location.
- An employee's $10 reimbursement request for breakfast did not include an itemized receipt. Instead, only a credit card receipt showing the total paid, along with a handwritten note describing the purchased items, was provided.
- The Board did not use direct billing for an in-state hotel, resulting in $19 of sales tax being reimbursed to an employee. This could have been avoided if direct billing had been used.

The Department of Administrative Services (DAS) Accounting Manual, AM-005, "Travel Expense Policies," Section 6, states the following:

> *Agencies are responsible to see that all submitted claims for food/meals are adequately substantiated. Unsubstantiated food/meals should not be reimbursed. Receipts are required unless the cost of the food/meal is under $5.00 . . . .*

Good business practice requires that lodging costs be reasonable and cost efficient and that direct billing be used when possible to avoid paying unnecessary sales taxes. Without such practices, there is an increased risk of loss or misuse of State funds. A similar finding was noted in our previous report.

> We recommend the Board substantiate meal reimbursements with detailed receipts and ensure that lodging costs are reasonable and direct billed when possible.

Board Response: The agency rejects the APA findings regarding travel. The APA staff introduced a lodging guideline unknown to exist by the agency and one which differs from guidelines established by DAS. The agency adheres to a practice of requesting "State" rates and "Lowest Available" rates when travel is required. The agency typically rents lodging at or near conference hotels to promote networking and to reduce commuting expenses. In the cases tested, lodging used was at least 50 percent below the conference rate. A calculation of net expenses demonstrated that the lodging selected was the lowest net cost for travel.

6. Travel Expenditures (Concluded)

The agency also rejects the finding of a nominal travel expense noted. The agency was in compliance with DAS travel expense requirements for that period. The agency will work closely with DoA to ensure compliance with applicable expense reimbursement requirements.

Individual trips using the agency assigned vehicle are in the opinion of the Administrator "work related" and therefore not in conflict with travel guidelines. However, the agency Transportation Coordinator will assist agency staff with travel compliance requirements in an effort to be more precise.

APA Response: The APA is not disagreeing with the DAS lodging policy to only reimburse actual expenses; however, we do recommend State agencies protect taxpayer dollars by ensuring lodging expenses are reasonable. In the example above, the hotel used was 20 minutes away from the conference location in downtown Milwaukee, WI, thus we would expect numerous other lodging options would have been available.

7. Federal Fund Balance

At December 31, 2016, the Nebraska Ethanol Board (Board) had $2,764 in the USDA Federal Grant Fund. The Board members questioned acknowledged being unaware of why there would be a balance in this fund. Upon further review of the fund activity over the past 10 years, the APA noted that the balance was related solely to interest earnings accrued on the grant funding. The grant money, excluding interest earned, was entirely spent by 2006; however, the fund continued to earn interest through 2013. There has been no activity in the fund since February 2013.

A good internal control plan requires procedures to be in place to ensure a proper monitoring of Board fund balances. Without such procedures, there is an increased risk of inaccurate financial reporting. A similar finding was noted in our previous report.

> We recommend the Board implement procedures to ensure a proper monitoring of its fund balances. In doing so, the Board should investigate the USDA Federal Grant Fund balance to determine what should be done with the cash remaining therein.

Board Response: Funds noted are interest revenue from a federal grant accepted by the agency more than a decade ago. A request has been made to DoA to initiate the transfer of these funds into the primary agency Cash Fund account. That transfer process is underway.

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NEBRASKA ETHANOL BOARD

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Ethanol Board
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Ethanol Board (Board) for the period July 1, 2015, through December 31, 2016. The Board's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Our responsibility is to express an opinion based on our examination.

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, Revenues, Expenditures, and Changes in Fund Balances of the Board for the period July 1, 2015, through December 31, 2016, based on the accounting system and procedures prescribed by State of Nebraska's 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 significant deficiencies and material weaknesses in internal control; instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. 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, Board members, others within the Board, 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.

C. J. Janssen

April 11, 2017

Charlie Janssen
Auditor of Public Accounts

NEBRASKA ETHANOL BOARD

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Period July 1, 2015, through December 31, 2016

	Agriculture Alcohol Fuel Tax Fund 21600	USDA Federal Grant Fund 46010	**Totals (Memorandum Only)**
REVENUES:			
Miscellaneous	$ 8,266	$ -	$ 8,266
TOTAL REVENUES	8,266	-	8,266
EXPENDITURES:			
Personal Services	545,445	-	545,445
Operating	326,673	-	326,673
Travel	33,079	-	33,079
TOTAL EXPENDITURES	905,197	-	905,197
Deficiency of Revenues Under Expenditures	(896,931)	-	(896,931)
OTHER FINANCING SOURCES:			
Sales of Assets	63	-	63
Deposit from Common Fund	859,650	-	859,650
TOTAL OTHER FINANCING SOURCES	859,713	-	859,713
Net Change in Fund Balances	(37,218)	-	(37,218)
FUND BALANCES, BEGINNING	203,851	2,764	206,615
FUND BALANCES, ENDING	$ 166,633	$ 2,764	$ 169,397
FUND BALANCES CONSIST OF:			
General Cash	$ 166,209	$ 2,764	$ 168,973
Deposits with Vendors	459	-	459
Due to Vendors	(35)	-	(35)
TOTAL FUND BALANCES	$ 166,633	$ 2,764	$ 169,397

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the July 1, 2015, through December 31, 2016

1. Criteria

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) include the following:

> *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 2014), 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 Board to record all accounts receivable and related revenues in EnterpriseOne; as such, the Board'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 payable posted in the general ledger as of December 31, 2016, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2016, **does not** include amounts for goods and services received before December 31, 2016, which had not been posted to the general ledger as of December 31, 2016.

Other liabilities are recorded in an account entitled Due to Vendors 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 accounts receivable of $105,398, which were not included in the Schedule due to a timing delay in transferring the taxes received by the Department of Revenue to the Board's funds (see Footnote 6 for additional information). State Accounting did not require the Department to record its receivables on the general ledger, and these amounts are not reflected in revenues or fund balances on the Schedule. 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 Board are:

> **20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.
>
> **40000 – Federal Funds** – account for 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.

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

> **Miscellaneous –** Revenue from sources not covered by other major categories, such as investment income and purchasing card rebates.

The major expenditure account classifications established by State Accounting and 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 –** Government-owned or held resources that have monetary value. Assets include cash accounts and deposits with vendors. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded 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 Board's funds at December 31, 2016, included amounts recorded in Due to Vendors. The activity of these accounts is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

Other Financing Sources – This category primarily includes Deposits from Common Fund. See Footnote 6 below for additional information for Deposits from Common Fund. Other Financing Sources also includes proceeds from the sale of surplus property, recorded as Sale of Assets.

2. Reporting Entity

The 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. 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 Board takes an annual inventory, recording in the State Accounting System all equipment that has a cost of $1,500 or more at the date of acquisition.

NOTES TO THE SCHEDULE
(Concluded)

5. Capital Assets (Concluded)

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 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 years.

Capital asset activity of the Board recorded in the State Accounting System for the July 1, 2015, through December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 1,574	$ -	$ -	$ 1,574
Less accumulated depreciation for:				
Equipment				1,574
Total capital assets, net of depreciation				$ -

6. Deposits from Common Fund

Neb. Rev. Stat. § 66-489(2) (Cum. Supp. 2016) establishes an excise tax of one and one-quarter cents per gallon of ethanol produced. The proceeds from this excise tax are collected by the Nebraska Department of Revenue and deposited in the Agricultural Alcohol Fuel Tax Fund. The Nebraska Department of Revenue deposited $830,298 to the Agricultural Alcohol Fuel Tax Fund for the period July 1, 2015, through December 31, 2016.

Additional Deposits from Common Fund of $29,352 were made to the Agricultural Alcohol Fuel Tax Fund during the review period in accordance with Neb. Rev. Stat. § 66-726(2)(e) (Reissue 2009).

There is typically a two-month timing delay between when these taxes are collected by the Department of Revenue and when they are deposited to the Agricultural Alcohol Fuel Tax Fund, resulting in receivables of $105,398 at December 31, 2016, which was not reflected in the financial schedule.

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.

NEBRASKA ETHANOL BOARD

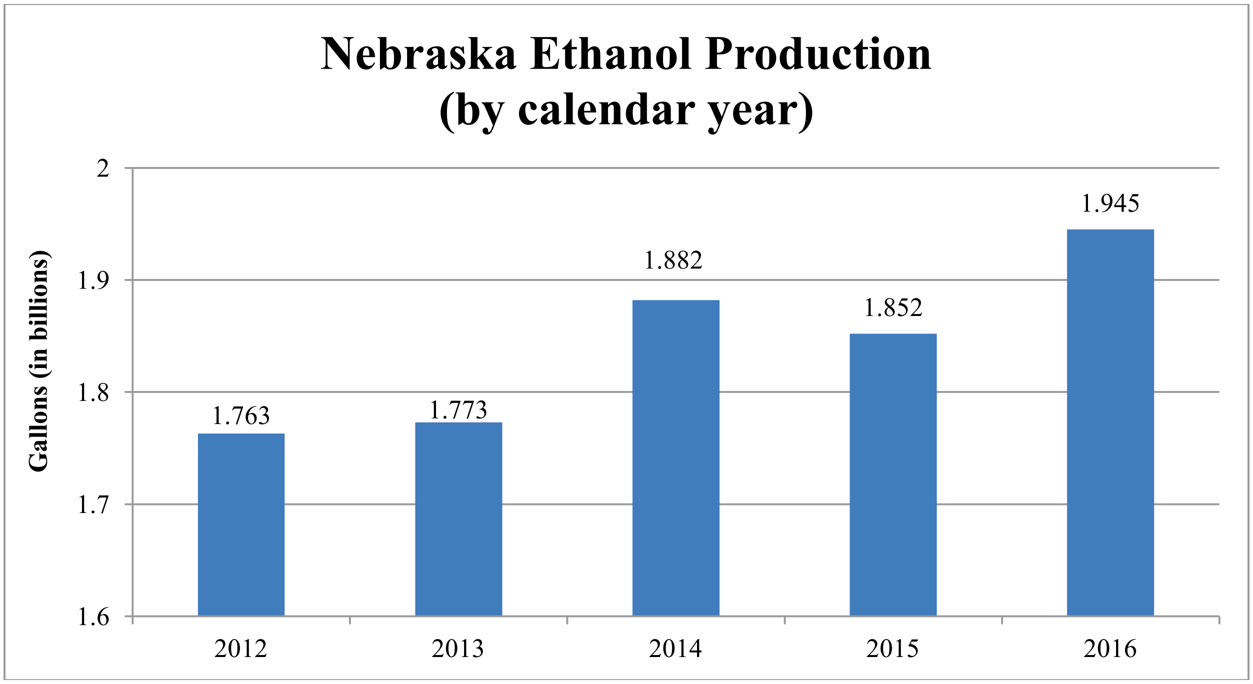
Exhibit A

EXHIBIT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

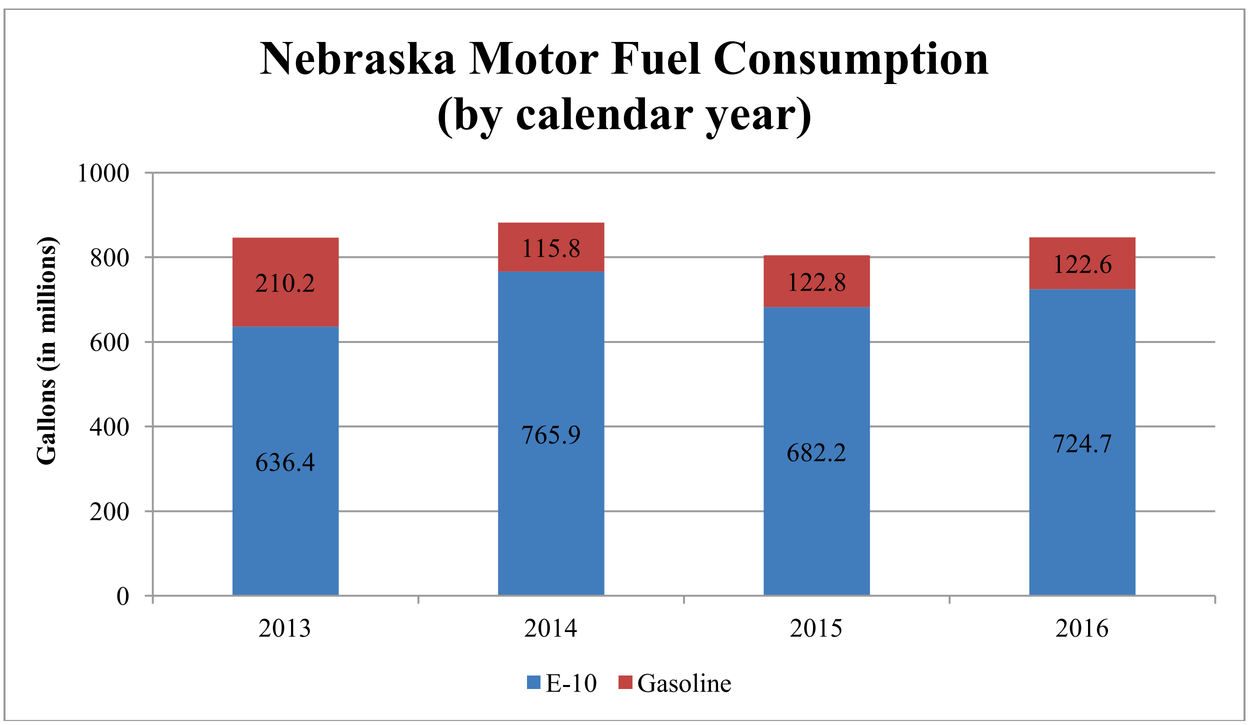
For the Periods Noted

	For the period July 1, 2015, through June 30, 2016			For the period July 1, 2016, through December 31, 2016			For the period July 1, 2015, through December 31, 2016		
	Agriculture Alcohol Fuel Tax Fund 21600	USDA Federal Grant Fund 46010	**Totals (Memorandum Only)**	Agriculture Alcohol Fuel Tax Fund 21600	USDA Federal Grant Fund 46010	**Totals (Memorandum Only)**	Agriculture Alcohol Fuel Tax Fund 21600	USDA Federal Grant Fund 46010	**Totals (Memorandum Only)**
REVENUES:									
Miscellaneous	$ 6,597	$ -	$ 6,597	$ 1,669	$ -	$ 1,669	$ 8,266	$ -	$ 8,266
TOTAL REVENUES	6,597	-	6,597	1,669	-	1,669	8,266	-	8,266
EXPENDITURES:									
Personal Services	359,235	-	359,235	186,210	-	186,210	545,445	-	545,445
Operating	245,580	-	245,580	81,093	-	81,093	326,673	-	326,673
Travel	20,118	-	20,118	12,961	-	12,961	33,079	-	33,079
TOTAL EXPENDITURES	624,933	-	624,933	280,264	-	280,264	905,197	-	905,197
Excess (Deficiency) of Revenues Over (Under) Expenditures	(618,336)	-	(618,336)	(278,595)	-	(278,595)	(896,931)	-	(896,931)
OTHER FINANCING SOURCES (USES):									
Sales of Assets	-	-	-	63	-	63	63	-	63
Deposit from Common Fund	557,412	-	557,412	302,238	-	302,238	859,650	-	859,650
TOTAL OTHER FINANCING SOURCES (USES)	557,412	-	557,412	302,301	-	302,301	859,713	-	859,713
Net Change in Fund Balances	(60,924)	-	(60,924)	23,706	-	23,706	(37,218)	-	(37,218)
FUND BALANCES, BEGINNING	203,851	2,764	206,615	142,927	2,764	145,691	203,851	2,764	206,615
FUND BALANCES, ENDING	$ 142,927	$ 2,764	$ 145,691	$ 166,633	$ 2,764	$ 169,397	$ 166,633	$ 2,764	$ 169,397
FUND BALANCES CONSIST OF:									
General Cash	$ 142,468	$ 2,764	$ 145,232	$ 166,209	$ 2,764	$ 168,973	$ 166,209	$ 2,764	$ 168,973
Deposits with Vendors	459	-	459	459	-	459	459	-	459
Due to Vendors	-	-	-	(35)	-	(35)	(35)	-	(35)
TOTAL FUND BALANCES	$ 142,927	$ 2,764	$ 145,691	$ 166,633	$ 2,764	$ 169,397	$ 166,633	$ 2,764	$ 169,397

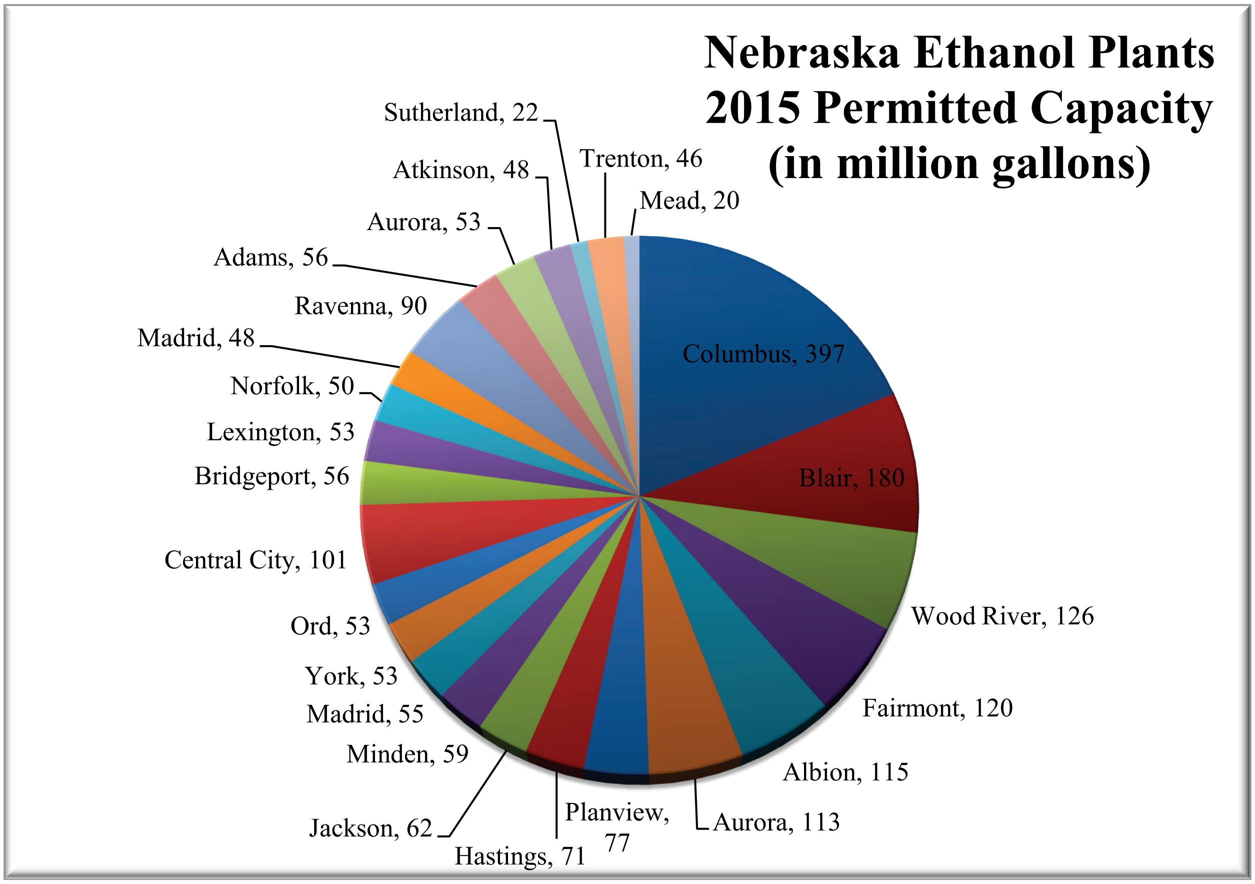
Source: Information obtained from the State of Nebraska Accounting System (EnterpriseOne).



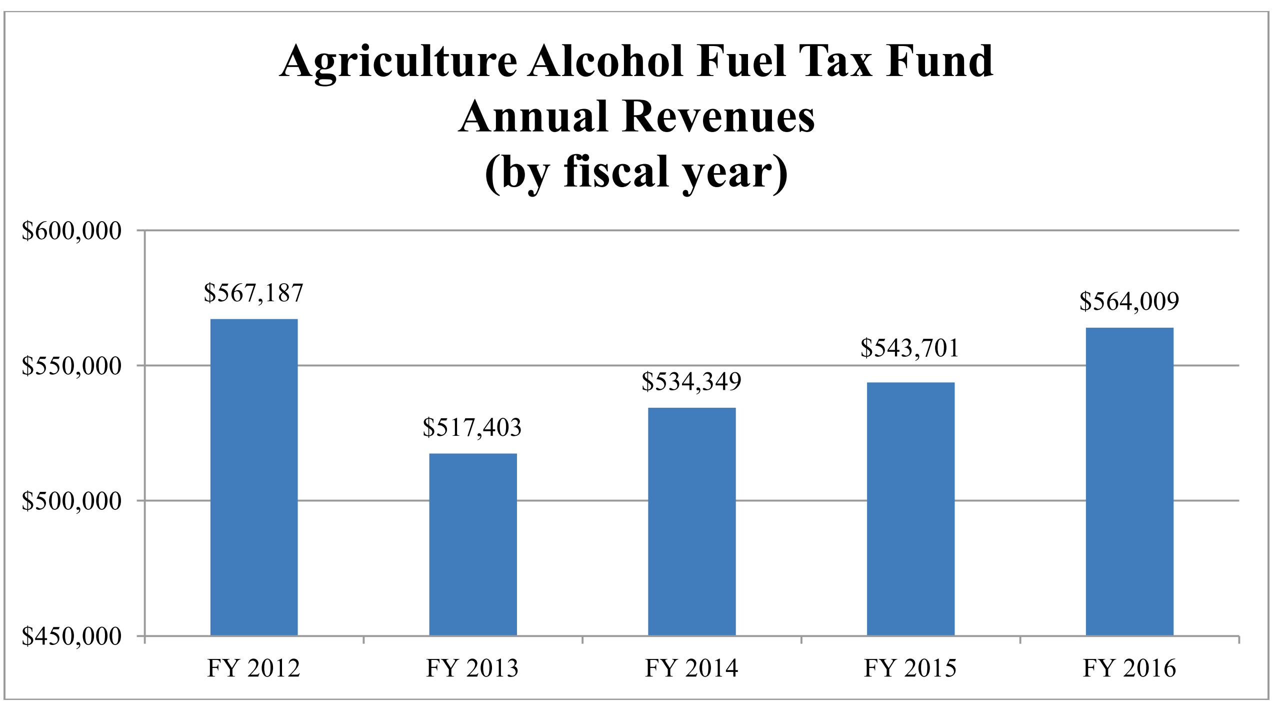
Source: Nebraska Department of Revenue, Form 83 Nebraska Ethanol and Biodiesel Producers' Returns



Source: Nebraska Department of Revenue's Monthly Motor Fuel Consumption Report



Source: Nebraska Ethanol Board



Source: State of Nebraska Accounting System (EnterpriseOne)