NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 25, 2019

Jim Macy, Interim Director
Nebraska State Energy Office
521 S. 14th Street, Suite 300
Lincoln, Nebraska 68508

Dear Mr. Macy:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report thereon dated January 4, 2019. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska State Energy Office (Agency) or other operational matters that are presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Agency's management, is intended to improve internal control or result in other operating efficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Agency, pursuant to AICPA Auditing Standards AU-C Section 265.A17, in a separate early communication letter dated September 27, 2018.

Draft copies of this letter were furnished to the Agency to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2018.

1. Lack of Controls Over Revenues

The Nebraska State Energy Office (Agency) operated the Dollar and Energy Savings Loan Program (Loan Program). Loan participation and repayments were recorded in a loan system to track individual balances. The loan receivable balance was also recorded in the State's accounting system, EnterpriseOne.

The Agency received $6,822,241 of loan repayments during the fiscal year ended June 30, 2018, and the loans receivable balance at June 30, 2018, was $34,667,427.

During testing, we noted the Agency lacked an adequate segregation of duties over repayments received for the Loan Program, as one individual was able to perform the following procedures:

- Open mail containing cash receipts without a second staff member being present;
- Process the loan repayments in the loan system;
- Process write-offs or forgive balances in the loan system;
- Prepare deposits and journal entries in EnterpriseOne; and
- Perform the monthly reconciliation between the loan system and EnterpriseOne.

No secondary review was performed of the reconciliation or adjustments (such as write-offs or loan forgiveness) made in the loan system by an individual without access to EnterpriseOne and the loan system to ensure balances were proper.

A good internal control plan requires an adequate segregation of duties or compensating procedures to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities when recording monies received and preparing deposits.

A lack of segregation of duties increases the risk of loss, misuse, or theft of funds. Without proper controls over the receipt of monies, there is an increased risk a loan receipt might not be deposited.

> We recommend the Agency implement a proper segregation of duties or compensating procedures for the handling of receipts and entry of information in the loan program. Additionally, we recommend the Agency establish procedures for periodically reviewing adjusted loan balances.

Agency Response: The Nebraska Energy Office acknowledges a lack of adequate segregation of duties over repayments received for the Loan Program. To correct this deficiency, we are adopting a plan to adequately segregate duties so no one individual is in a position to perpetrate or conceal errors when *recording monies received and deposited. As interim director of the Energy Office and director of Environmental Quality, the plan will be carried out by leveraging the fiscal infrastructure of Environmental Quality to allow for the opening of mail, handling of receipts, entry of loan program information, secondary review, and posting of transactions to be carried out by separate individuals. We are in the process of creating a new security structure within E1 so Environmental Quality staff can perform these duties for both agencies.*

LB 302 introduced by Senator Hughes is a bill proposal for merging the Energy Office and DEQ.

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Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to the Agency.

This communication is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be, and should not be, used by anyone other than the specified parties. However, this communication is a matter of public record, and its distribution is not limited.

Philip J. Olsen, CPA, CISA
Assistant Deputy Auditor