

**ATTESTATION REPORT
OF THE
NEBRASKA POWER REVIEW BOARD**

JULY 1, 2018, THROUGH DECEMBER 31, 2019

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the Auditor of Public Accounts.**

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Issued on April 28, 2020

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Audit Staff Working On This Examination

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NEBRASKA POWER REVIEW BOARD

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NEBRASKA POWER REVIEW BOARD

BACKGROUND

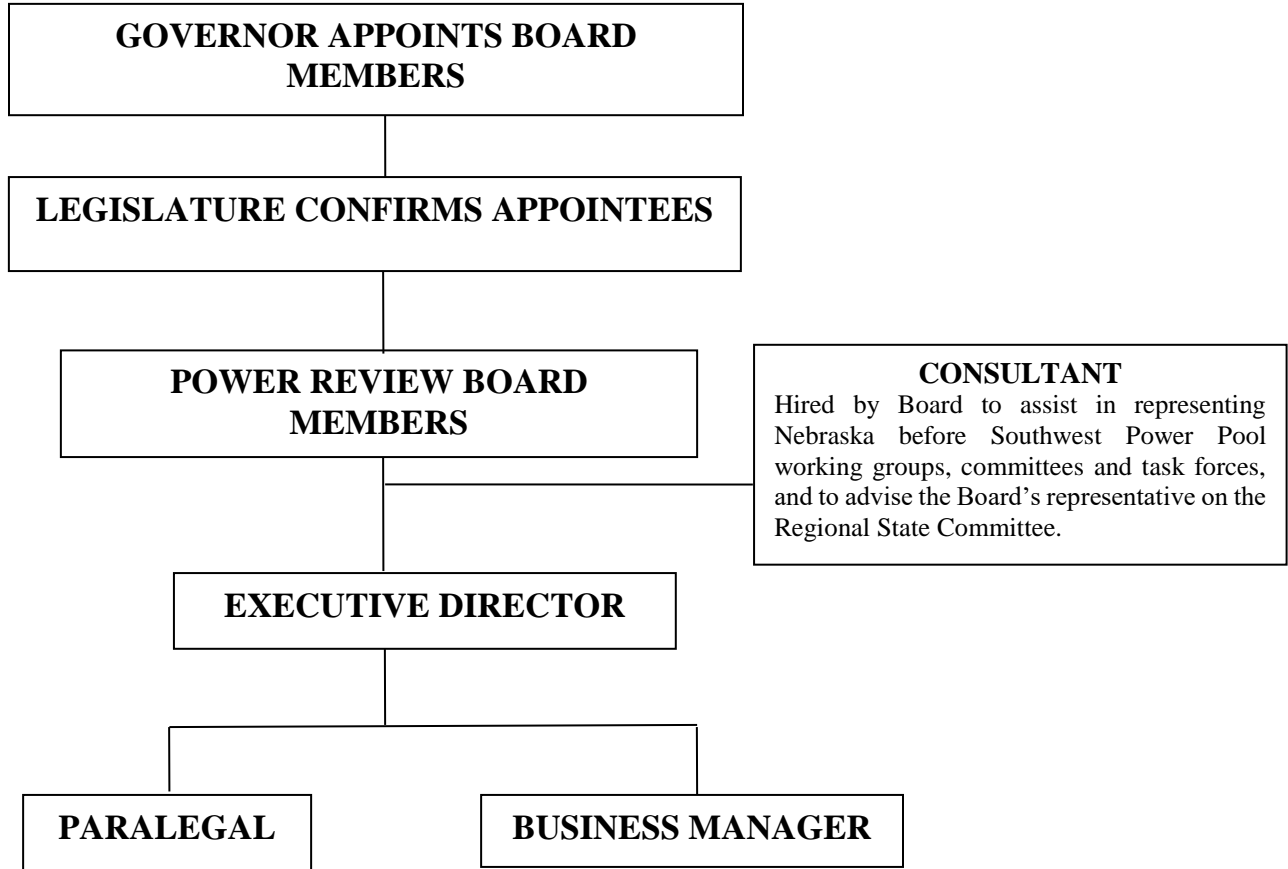
The Nebraska Power Review Board (Board) was created in 1963 as part of the Department of Water Resources to regulate the power industry in Nebraska. In 1980, the Board became an independent agency. The Board consists of five members appointed to four-year terms by the Governor. Board members include, by law, one attorney, one engineer, one accountant, and two laypersons. The Board is cash-funded and receives all of its revenues from assessments levied on power suppliers operating in the State of Nebraska.

The duties of the Board include the following:

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

NEBRASKA POWER REVIEW BOARD

ORGANIZATIONAL CHART



NEBRASKA POWER REVIEW BOARD

KEY OFFICIALS AND BOARD CONTACT INFORMATION

Power Review Board Members

<u>Name</u>	<u>Title</u>	<u>Term Ending</u>
Frank Reida	Chairperson – Attorney Member	January 1, 2023
Dennis Grennan	Engineer Member	January 1, 2022
Rick Morehouse	Accountant Member	January 1, 2020*
Chuck Hutchinson	Lay Member	January 1, 2021
Greg Moen	Lay Member	January 1, 2021

*Rick Morehouse continued to serve as the accountant member until March 5, 2020, until a replacement could be appointed and confirmed. Elizabeth Hilyard became the acting accountant member on March 6, 2020.

Nebraska Power Review Board Executive Management

<u>Name</u>	<u>Title</u>
Tim Texel	Executive Director & General Counsel

Nebraska Power Review Board
301 Centennial Mall South
P.O. Box 94713
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NEBRASKA POWER REVIEW BOARD

COMMENT AND RECOMMENDATION

During our examination of the Nebraska Power Review Board (Board), we noted a certain deficiency and other operational matters that are presented here. The comment and recommendation is intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

Revenue Internal Control Issues

The Power Review Board (Board) regulates the State's electrical utility industry and is entirely cash funded through assessments levied on power suppliers (suppliers) operating in the State. During the period, the Board collected annual assessments and reimbursements for expenditures the Board paid on behalf of entities. During testing, we noted the following concerns:

- We noted a lack of adequate segregation of duties over the Board's collection of reimbursements and related accounts receivables, totaling \$14,389. The Board did not have adequate controls to ensure all monies due to the State were deposited, as one individual was able to invoice, apply receipts, and perform the deposit entry in the accounting system without a secondary individual involved. A similar finding was noted in our prior attestation report.
- The Board collected \$520,000 in annual assessments for the period tested. In order to charge each supplier its portion of the assessment, the Board relies upon gross revenue reported by the supplier for the previous calendar year. Although the total assessment is determined by the Board, there is a risk that the supplier could under-report gross revenues, causing its assessment to be less than the required share. The Board did not have procedures to verify that information being reported was accurate and complete, such as comparing the reported revenues to the entity's annual financial audits. When we performed this comparison for the three largest suppliers, we noted that two had unknown variances, one of which would have required the supplier to pay \$850 more than was paid, which, in turn, would have reduced other supplier shares.

A good internal control plan requires proper administrative procedures to ensure an adequate segregation of duties or compensating measures, so no one individual is in a position both to perpetrate and to conceal errors or irregularities when processing transactions. Such procedures should ensure also that data used to assess levies to suppliers is accurate and complete.

A lack of the appropriate administrative procedures increases the risk of loss, misuse, or theft of State funds. Also increased is the risk a reimbursement due to the Board will not be collected, or a receipt will not be deposited. Furthermore, without adequate procedures to ensure revenues reported by suppliers is accurate and complete, there is an increased risk that suppliers will pay a disproportionate share of the assessments levied.

We recommend the Board implement procedures to ensure a proper segregation of duties or compensating measures for the handling of receipts. Those same procedures should also provide for verifying that reported revenues are accurate and complete; this could include sampling suppliers based on a risk analysis.

Board Response: As we informed your staff, the first issue as it pertains to most of the reimbursements has been eliminated. A large majority of the deposits involved reimbursements for travel costs incurred by the Board member representing Nebraska before a certain entity. Subsequent to the period covered in your audit, the entity began depositing its reimbursements directly with the State Treasurer's office through an ACH transfer. The remaining reimbursements are from public power districts to pay the costs to publish notices of charter amendments, which are infrequent. We note that your finding states that one individual invoices, applies receipts and performs the deposit entry without a secondary individual involved. As we informed your staff, the paralegal invoices the districts for these reimbursements, and the executive director approves the deposits. In response to your finding the PRB plans to institute a policy where the paralegal will maintain a copy of the invoice and provide a copy to the executive director. The paralegal and executive director will maintain their copies of the invoice until after the director approves the deposit in the EnterpriseOne system. Your staff indicated this would be sufficient to address the finding.

NEBRASKA POWER REVIEW BOARD

COMMENT AND RECOMMENDATION

(Concluded)

In response to the second issue the Power Review Board (PRB) plans to implement a policy where it will compare the assessments of the largest three electric utilities against their annual financial audits. We will also randomly select at least one additional utility from each category of supplier (municipal, cooperative and public power district) and compare its assessment with its most recent financial audit, if available. We point out that your finding insinuates that a comparison of one utility's assessment and audit indicated the utility underpaid by \$850. We are concerned that your finding fails to account for the fact that some costs that might be included in a utility's audit are not valid for PRB assessment purposes, such as pass-through taxes and fees collections, sales of water, and revenues from customers outside Nebraska. The PRB instructs electric utilities not to include such collections as "gross revenue" for purposes of determining their PRB assessment, which could easily account for a variance of \$850 or more.

APA Response: For the first issue, we noted that one individual was able to perform all the processes, not that one individual did perform all processes. When one individual is able to perform all functions, there is an increased risk of errors or irregularities going undetected. Furthermore, the Board should ensure controls established over revenues are documented and kept on file for subsequent review. Controls cannot be fully assessed for examination purposes until they are implemented. As for the second issue, we did note the cause of the variance was unknown, as there was a lack of documentation to support the amount reported by the utility provider. Therefore, it is unknown if the amount reported is proper or if an under-reporting and subsequent underpayment occurred.

It should be noted that this report is critical in nature, containing only our comment and recommendation 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 comment and recommendation contained herein. Any formal response received has been incorporated into this report. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next examination.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA POWER REVIEW BOARD

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Power Review Board
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balance of the Nebraska Power Review Board (Board) for the period July 1, 2018, through December 31, 2019. The Board's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balance based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balance 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Revenues, Expenditures, and Changes in Fund Balance is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Revenues, Expenditures, and Changes in Fund Balance. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule of Revenues, Expenditures, and Changes in Fund Balance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule of Revenues, Expenditures, and Changes in Fund Balance for the period July 1, 2018, through December 31, 2019, is based on the accounting system and procedures prescribed by the Department of Administrative Services, as set forth in Note 1, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Schedule of Revenues, Expenditures, and Changes in Fund Balance; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, 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 and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balance is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balance or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed no findings that are required to be reported under *Government Auditing Standards*.

The purpose of this report is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balance, as described in paragraph one above. Accordingly, this report is not suitable for any other purpose. This report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink, appearing to read "C. J. Janssen", with a long horizontal flourish extending to the right.

April 20, 2020

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska

NEBRASKA POWER REVIEW BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Period July 1, 2018, through December 31, 2019

	Nebraska Power Review Fund Fund 27410
REVENUES:	
Sales & Charges	\$ 520,285
Miscellaneous	15,828
TOTAL REVENUES	536,113
 EXPENDITURES:	
Personal Services	455,738
Operating	317,202
Travel	21,689
TOTAL EXPENDITURES	794,629
Excess (Deficiency) of Revenues Over (Under) Expenditures	(258,516)
 OTHER FINANCING SOURCES (USES):	
Sales of Assets	164
TOTAL OTHER FINANCING SOURCES (USES)	164
Net Change in Fund Balance	(258,352)
FUND BALANCE, JULY 1, 2018	677,140
FUND BALANCE, DECEMBER 31, 2019	\$ 418,788
 FUND BALANCE CONSISTS OF:	
General Cash	\$ 417,189
Deposits with Vendors	111
Accounts Receivable Invoiced	1,488
TOTAL FUND BALANCE	\$ 418,788

The accompanying notes are an integral part of the schedule.

NEBRASKA POWER REVIEW BOARD

NOTES TO THE SCHEDULE

For the Period July 1, 2018, through December 31, 2019

1. Criteria

The accounting policies of the Nebraska Power Review Board (Board) are on the basis of accounting, as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of 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 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 Balance 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, 2019, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2019, **does not** include amounts for goods and services received before December 31, 2019, which had not been posted to the general ledger as of December 31, 2019.

The Board had no accounts receivable not included in the Schedule at December 31, 2019. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The following fund type is established by the State and used by the Board:

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

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

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.

NEBRASKA POWER REVIEW BOARD

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Concluded)

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

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 the following:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to 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 Financing Sources – Proceeds of fixed asset dispositions.

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. **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.

4. **Capital Assets**

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

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

NEBRASKA POWER REVIEW BOARD

NOTES TO THE SCHEDULE

(Concluded)

4. 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 to five years. Capital asset activity of the Board recorded in the State Accounting System for the period July 1, 2018, through December 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 16,970	-	-	\$ 16,970
Less accumulated depreciation* for:				
Equipment				<u>\$ 11,379</u>
Total capital assets, net of depreciation				<u><u>\$ 5,591</u></u>

*Note: The accounting system-generated depreciation noted in the table above was only through December 19, 2019.

NEBRASKA POWER REVIEW BOARD

SUPPLEMENTARY INFORMATION

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

NEBRASKA POWER REVIEW BOARD
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Exhibit A

For the Period July 1, 2018, through June 30, 2019

	Nebraska Power Review Fund Fund 27410
REVENUES:	
Sales & Charges	\$ 285
Miscellaneous	10,625
TOTAL REVENUES	10,910
EXPENDITURES:	
Personal Services	297,902
Operating	213,768
Travel	14,336
TOTAL EXPENDITURES	526,006
Excess (Deficiency) of Revenues Over (Under) Expenditures	(515,096)
OTHER FINANCING SOURCES (USES):	
Sales of Assets	164
TOTAL OTHER FINANCING SOURCES (USES)	164
Net Change in Fund Balance	(514,932)
FUND BALANCE, JULY 1, 2018	677,140
FUND BALANCE, JUNE 30, 2019	\$ 162,208
FUND BALANCE CONSISTS OF:	
General Cash	\$ 162,097
Deposits with Vendors	111
TOTAL FUND BALANCE	\$ 162,208

Source: The State accounting system, EnterpriseOne

NEBRASKA POWER REVIEW BOARD
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Period July 1, 2019, through December 31, 2019

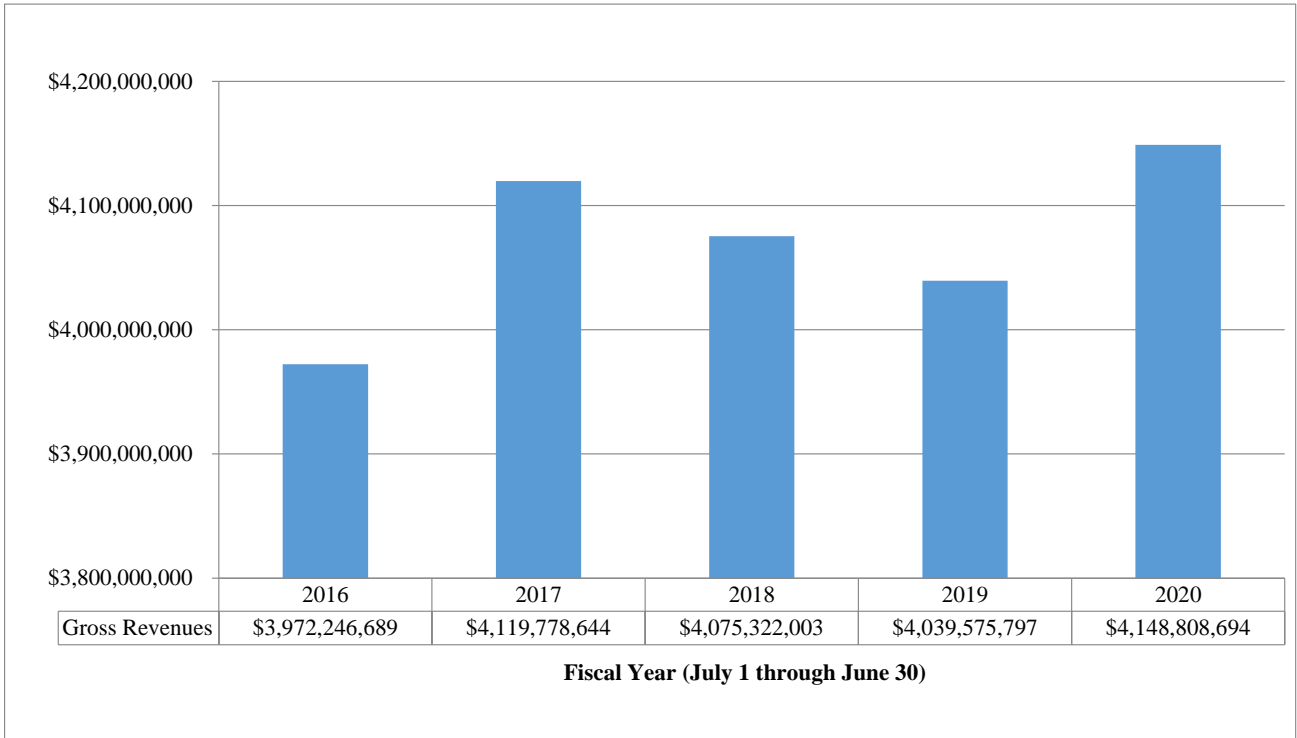
Exhibit B

	Nebraska Power Review Fund Fund 27410
REVENUES:	
Sales & Charges	\$ 520,000
Miscellaneous	5,203
TOTAL REVENUES	525,203
EXPENDITURES:	
Personal Services	157,836
Operating	103,434
Travel	7,353
TOTAL EXPENDITURES	268,623
Excess (Deficiency) of Revenues Over (Under) Expenditures	256,580
Net Change in Fund Balance	256,580
FUND BALANCE, JULY 1, 2019	162,208
FUND BALANCE, DECEMBER 31, 2019	\$ 418,788
FUND BALANCE CONSISTS OF:	
General Cash	\$ 417,189
Deposits with Vendors	111
Accounts Receivable Invoiced	1,488
TOTAL FUND BALANCE	\$ 418,788

Source: The State accounting system, EnterpriseOne

NEBRASKA POWER REVIEW BOARD
GROSS REVENUES OF POWER SUPPLIERS

Exhibit C

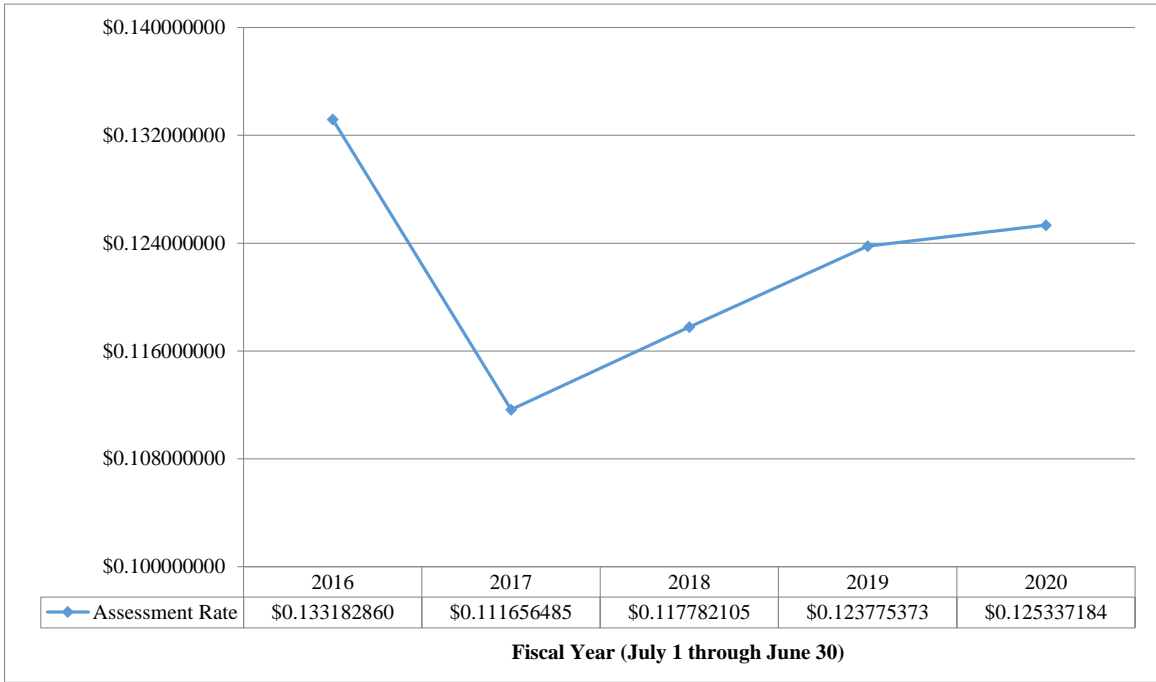


Note: The gross revenues reported by the power suppliers are from their preceding calendar year financials.

Source: Board's Assessment Spreadsheets

NEBRASKA POWER REVIEW BOARD
RATE ASSESSED ON POWER SUPPLIERS PER \$1,000 OF REVENUE

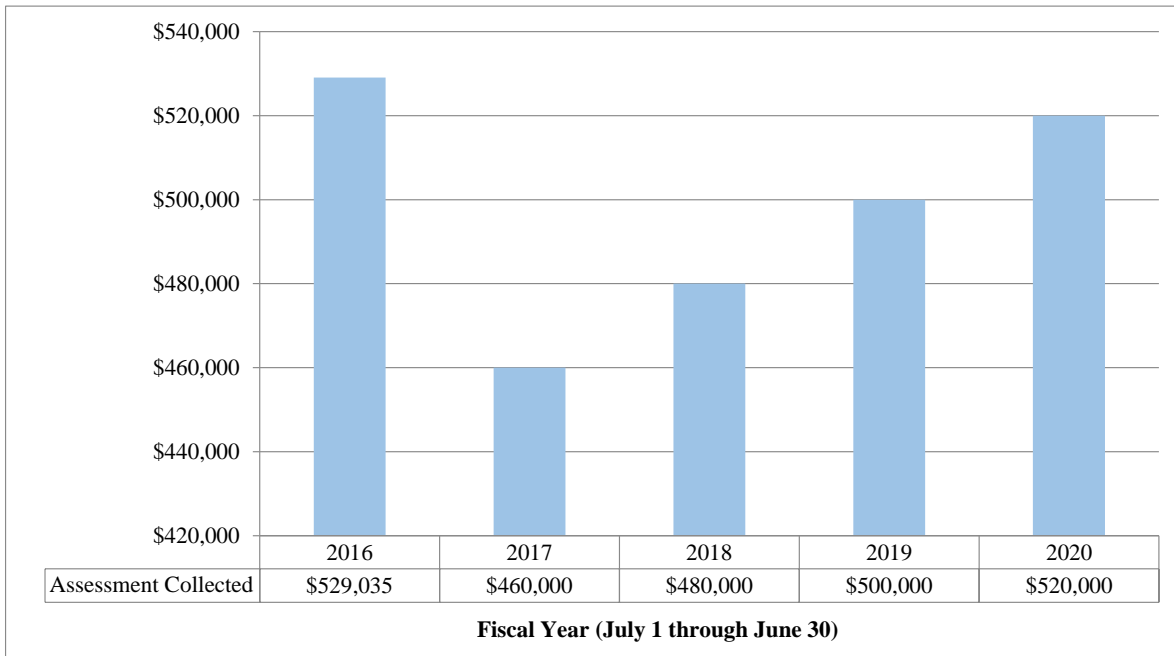
Exhibit D



Source: Board's Assessment Spreadsheets

NEBRASKA POWER REVIEW BOARD
ASSESSMENT COLLECTED FROM POWER SUPPLIERS

Exhibit E



Note 1: Fiscal year 2020 assessments were collected in July and August of 2019.

Note 2: Neb. Rev. Stat. § 70-1020 (Reissue 2018) states, "In order to defray the expenses of the Nebraska Power Review Board, there shall be imposed upon each public power district, public power and irrigation district, electric membership association, electric cooperative company, and municipality having an electric distribution system or generation and distribution system, and also upon all registered groups of municipalities, an assessment each fiscal year in such sum as shall be determined by the board and approved by the Governor. The total of such assessments shall not exceed the expenses of the board which may reasonably be anticipated for the fiscal year for which assessment is made and shall be apportioned among the various agencies in proportion to their gross income in the preceding calendar year"

Source: The State accounting system, EnterpriseOne