

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY**

JULY 1, 2002 THROUGH JUNE 30, 2003

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

BACKGROUND

The Department of Environmental Control was created in 1971 by the Nebraska Environmental Protection Act. Legislation passed in 1992 changed the Agency's name to the Department of Environmental Quality. The 1971 Act established the Environmental Control Council, which now is the Environmental Quality Council. The Council consists of 16 members appointed by the Governor. Fifteen of the 16 members represent a specific interest or industry affected by and or concerned with pollution control. The Department Director is appointed by the Governor upon recommendation of the Council and with the Legislature's consent. The Director serves as Secretary of the Council.

The Department operates with State general funds, cash funds, and federal funds. The Department is organized into six divisions and one program: Water Quality Division, Air Division, Waste Division, Management Services Division, Environmental Assistance Division, Legal Division, and the Low-Level Radioactive Waste Program. The Department administers several aid programs, including the Litter Reduction and Recycling Program, the Waste Reduction and Recycling Incentive Grant Program, the Scrap Tire Reduction and Recycling Incentive Program, the Landfill Closure Assistance Program, the Clean Water and Drinking Water State Revolving Loan Programs (which provide low-interest loans for wastewater and drinking water facilities), and the Title 200 Petroleum Release Reimbursement Program.

The Department administers the rules, regulations, and standards adopted to protect and improve water, air, and land quality in the State. The Department also provides service to towns, industries, and citizens through requested conferences, meetings, and environmental assistance, as well as reviews of pollution control facility plans and specifications.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

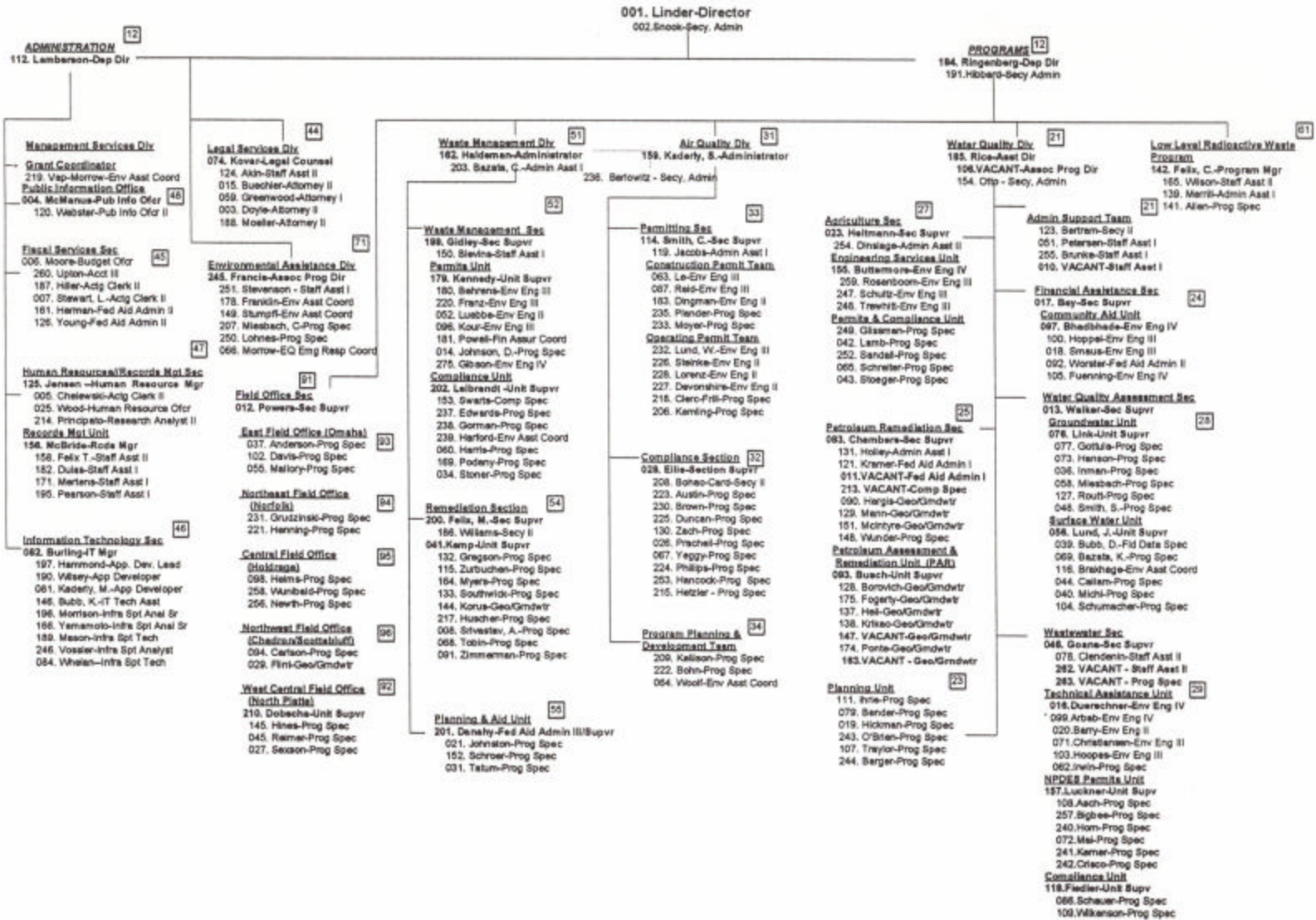
MISSION STATEMENT

Whereas the water, land, and air of this State are among its most precious resources and the pollution thereof becomes a menace to the health and welfare of each person, and the public in general, in this State and whereas pollution of these resources in this State is likewise a concern in adjoining states, the public policy of this State is hereby declared to be:

- (1) To conserve the water in this State and to protect and improve the quality of water for human consumption, wildlife, fish and other aquatic life, industry, recreation, and other productive, beneficial uses;
- (2) To achieve and maintain such a reasonable degree of purity of the natural atmosphere of this State that human beings and all other animals and plants which are indigenous to this State will flourish in approximately the same balance as they have in recent history and to adopt and promulgate laws, rules, and regulations and enforce uniformly the same in such a manner as to give meaningful recognition to the protection of each element of the environment, air, water, and land;
- (3) To cooperate with other states and the Federal government to accomplish the objectives set forth in the Environmental Protection Act, the Integrated Solid Waste Management Act, and the Livestock Waste Management Act; and
- (4) To protect human health through environmental enforcement.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

EXIT CONFERENCE

An exit conference was held May 26, 2004 with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Environmental Quality were:

NAME	TITLE
Bart Moore	Budget/Fiscal Officer

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Environmental Quality, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. **Nebraska Information System:** Significant concerns or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operational efficiency were identified.
2. **Capital Assets:** Our review noted the Department had one individual who was responsible for performing all duties related to capital assets, ancillary costs were not capitalized, items on the capital asset listing could not be located, and assets were not properly retired.
3. **Grant Requirements:** The Department did not correctly match Federal funds and a Financial Status Report did not agree to supporting documentation.
4. **NIS Access:** The NIS User Authorizations did not provide an adequate segregation of duties and three individuals were authorized to prepare and approve their own batches. The Department did not have effective controls to compensate for these weaknesses.
5. **Travel Expenses:** Travel reimbursements tested were not in accordance with State Statute or IRS regulations.
6. **Payroll Deductions:** The Department did not maintain adequate documentation to support payroll deductions.
7. **Labor Distribution:** The Department did not review the automatically assigned NIS payroll adjustments for accuracy.
8. **Annual Financial Status Report:** The Annual Financial Status Report was not filed in a timely manner. The report was due December 31, 2003, but was not filed until February 19, 2004.
9. **Timeliness of Deposits:** The Department did not deposit all funds within the time period required by statute.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

SUMMARY OF COMMENTS

(Continued)

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Department declined to respond.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System

Good internal control requires a plan of organization, procedures, and records, designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data, and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the "Nebraska Information System" (NIS). Two major components were the Payroll component, which went live on January 3, 2003, and the Financial component, which went live on March 1, 2003. All Nebraska Accounting System (NAS) financial data from July 1, 2002 through February 28, 2003 (excluding payroll from January through February as NIS payroll went live January 3, 2003) was converted to NIS as of March 1, 2003. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA has identified other concerns related to NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. The following are the more significant concerns or areas where improvement is needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the NAS/NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the Department of Administrative Services (DAS) Accounting Division performed some reconciliation procedures. As of April 28, 2004, the June 30, 2003 reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records. The monthly reconciliations during the audit period and subsequent months indicate fluctuations in the variance amounts. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be done timely and on a monthly basis to ensure all financial information is correct in NIS.
- b. Two key financial reports to be prepared and presented by the DAS Accounting Division were not completed in a timely manner. The Annual Budgetary Report as of June 30, 2003 was not completed until January 2004. The Comprehensive Annual Financial Report has yet to be completed for the fiscal year ended June 30, 2003. Timely reporting of the State's financial

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System (Continued)

information is key to all users of such information, especially State policy makers, when making informed policy decisions.

- c. As of June 30, 2003 a comprehensive written NIS policy and procedures manual had not been prepared. Subsequent to June 30, 2003, DAS Accounting Division has made some progress in updating the prior Nebraska Accounting System (NAS) and Nebraska Employees Information System (NEIS) policy and procedures manuals to incorporate NIS policies. However, as of the date of this report these policy updates are not complete. With hundreds of users of NIS, it becomes imperative the State has a comprehensive policy and procedure manual to help ensure consistent and accurate accounting of the State's financial transactions.
- d. Labor distribution - The NIS payroll application is not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to most agencies' funds, programs, and grants.
- e. A detailed analysis has not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. Training provided for the implementation of NIS was limited to navigational training and did not include explanatory informational training.
- f. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only states, "Obsolete with implementation of NIS."
- g. The payroll component is not designed to promote an effective segregation of duties.
- h. Critical function access rights - Access to sensitive General Accounting functions has been provided to individuals who may not require such access as a part of their job responsibilities.
- i. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.
- j. Business continuity planning - The State has not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure.

The issues identified above are the responsibility of the Department of Administrative Services Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System (Concluded)

results of the consultant's study of NIS were communicated in a separate report to the Department of Administrative Services, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

2. Capital Assets

Good internal control requires an adequate segregation of duties for maintaining, adding, approving, and reviewing capital assets. Good business practices require that adequate supporting documentation be maintained for assets that are retired. Neb. Rev. Stat. Section 81-161.04(2) R.S.Supp., 2002, states, “. . . the proceeds of the sales shall be deposited with the State Treasurer and credited to the General Fund unless the using agency certifies to the materiel division that the property was purchased in part or in total from either cash accounts or federal funds or from a percentage of such accounts or funds, in which case the proceeds of the sale to that extent shall be credited to the cash or federal account in the percentage used in originally purchasing the property.” Proper record keeping requires that assets that are listed as being surplused be removed from capital asset listings. The Department's capitalization policy requires assets purchased for greater than \$1,500 be capitalized and included on the capital asset listing. Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999 states each department “shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or in control of any executive, department, commission, or other state agency.” Also Subsection (2) states, “If any of the property of the state, referred to in subsection (1) of this section, is lost, destroyed, or unaccounted for by the negligence or carelessness of the executive, department, commission or other state agency, the administrator shall, with the advice of the Attorney General, take the proper steps to recover such State property or the reasonable value thereof . . .” GASB Codification 1400.102 states, “Capital assets should be recorded at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition - such as freight and transportation charges, site preparation costs and professional fees.”

During review of the Department's capital assets, we noted the following:

- One individual was responsible for maintaining capital asset records, adding items to the capital asset records, preparing Surplus Property Notification forms, deleting assets from the capital asset records, and ensuring new purchases were added to the capital asset records. There was no review of the employee's work. This was a prior year comment.

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Capital Assets (Concluded)

- For one of five capital asset retirements tested there was not adequate supporting documentation on file and it was still listed on NIS as a working asset.
- Items sold for \$3,225 at surplus property sales were deposited into the Indirect Cost Fund 48440. There were no journal entries performed to credit the fund of original purchase. The original funds varied from the General Fund to Federal funds. This was a prior year comment.
- One of four capital purchases tested were not included on the capital assets listing. The purchase cost was \$8,317.
- One of five items tested from the capital asset listing could not be located. The item was a printer.
- Three of four asset additions tested did not capitalize ancillary costs.
- Four of five assets tested were not included on the capital assets listing. The items were three computers and a cable access unit.

As a result, there was an increased risk of loss or misuse of State funds and assets. Also, there is a possible financial statement misrepresentation when items are improperly coded.

We recommend the Department:

- Ensure there is adequate segregation of duties over capital assets.
- Maintain documentation for capital assets that have been retired and review retirement reports to ensure retired assets are removed from fixed asset listings.
- Deposit all proceeds from the sale of surplus property into the General Fund or fund of origination.
- Ensure all items coded to capital outlay are added to the Department's capital asset listing.
- Perform an annual inventory to ensure accuracy of the capital asset listing.
- Capitalize all costs required to put an asset into service along with the actual cost of the asset.

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Grant Requirements

The Catalog of Federal Domestic Assistance (CFDA) 66.460 (Nonpoint Source Implementation Grants) requires the Department to provide “Nonfederal matching funds of at least 40 percent of projected costs.” CFDA 66.460 also requires, “financial records, including all documents to support entries on accounting records and to substantiate charges to each grant, must be kept available to personnel authorized to examine EPA grant accounts.”

A final Financial Status Report filed for a Nonpoint Source Implementation Grant did not identify a 40% match. The match identified was only 27%. The match was not met by \$331,538. The recipient share of outlays from the Financial Status Report submitted did not agree to supporting documentation. There was a variance of \$17,682 between the supporting documentation and the Financial Status Report.

We recommend the Department meet Federal match requirements and ensure they are met before issuing financial status reports to the Environmental Protection Agency. We also recommend the Department maintain accurate documentation for reports submitted.

4. NIS Access

Good internal control requires adequate control over accounting functions, and without an adequate segregation of duties there is an increased risk of loss or theft of State funds. Good internal control also requires procedures to ensure all financial transactions are authorized, complete, and accurate, especially when other State employees have statewide access to the accounting system.

During our review we noted the following:

- There were six individuals on the NIS User Authorizations Spreadsheet for Accounts Receivable with a functional matrix code 36, which is to be used only by agencies that are not able to segregate their receivable duties. These individuals were able to enter, revise, delete, void, and approve a deposit. Five of six individuals were able to approve deposit batches and were also able to make changes to the deposit document and approve the changes.
- One individual was on the NIS User Authorizations Spreadsheet but was not on the NIS Batch Management. The individual would be able to prepare a document but no one in the Department was set up on Batch Management to approve/post the document.

COMMENTS AND RECOMMENDATIONS

(Continued)

4. NIS Access (Concluded)

- Three individuals were authorized in the NIS Batch Management Spreadsheet to both prepare and approve/post their own batches. The three individuals who can prepare and approve/post their own batches have access on the NIS User Authorization Spreadsheet to accounts payable transactions. Due to these individuals having the ability to perform all functions of a transaction, there is a lack of segregation of duties.
- The Department did not have procedures in place to review general ledger reports to ensure all transactions posted to its business units were authorized and accurate.

With the possibility that an individual could prepare and approve/post the same batch, there is an increased risk that errors or fraud may occur and not be detected, resulting in loss or misuse of State funds. Without documented reviews of general ledger reports, there is an increased risk of unauthorized or incorrect transactions posting to the Department's business units.

We recommend the Department review access to NIS and take corrective action to ensure there is an adequate segregation of duties.

5. Travel Expenses

According to the Nebraska Accounting System Manual, CONC-005, (now Nebraska State Accounting Manual, AM-005), Travel Expense Policies, Section 5, the Internal Revenue Service (IRS) requires employees to substantiate the cost for travel expenses. Adequate accounting requires a documentation record such as a log listing the date, amount, place or description, and purpose for each expense or meal/food cost. CONC-005, Section 3 stated original receipts and a document showing the date, purpose, and agenda of the conference must be attached to the payment document. IRS Publication 463 regarding reimbursement for travel expenses states that a restaurant receipt should include, "The name and location of the restaurant." IRS Publication 463 also requires lodging and meal expenses in excess of the Federal General Services Administration (GSA) to be substantiated. Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2003 states employees entitled to reimbursement for expenses must present a request each month to the Director of Administrative Services and each request must be fully itemized including when, where, and why.

During our review of seven of the Department's travel expense reimbursement documents, we noted the following:

- The Department did not have conference agendas on file for any of the conferences attended.

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Travel Expenses (Concluded)

- The support to substantiate the meal expenses was inadequate. The meal log did not contain the name of the restaurant on four documents totaling \$560. There were no meal logs or receipts attached to the other two documents which totaled \$282.
- One document exceeded the total set by the GSA for the day and no receipts were attached to support the expense.
- Two documents exceeded the per meal GSA policies on 4 meals totaling \$92. No receipts were attached to substantiate the expenses.
- Two documents were not completed on a monthly basis. One document was for reimbursement of expenses incurred during July 2001, but was not claimed until March 2003.
- One document noted an employee claimed expenses for meals totaling \$34, three days after the conference appears to have ended. The employee also rented a car on a weekly basis, even though the conference only lasted 3-4 days. The vehicle was driven a total of 566 miles during the week. There was no documentation to support the additional cost.
- Two documents exceeded the Federal GSA for lodging by \$75 and \$49 a day without any documentation to substantiate the additional expense. Each employee stayed three days, resulting in GSA policies being exceeded by \$225 and \$147, respectively.

As a result of not adequately documenting travel expenses, there is an increased risk of improper or excessive travel expenses being reimbursed. A similar comment was noted in the prior report.x

We recommend the Department:

- Retain or attach copies of conference agendas;
- Include name of restaurant on meal logs;
- Ensure receipts or meal logs are attached to expense reimbursements;
- Attach receipts when the GSA for meal expenses are exceeded;
- Complete and process expense reimbursements on a monthly basis;
- Document reasons for exceeding GSA costs for lodging, such as if the conference was held at the hotel where the employee stayed;
and
- Review miscellaneous expenses to ensure they are reasonable.

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Payroll Deductions

Good business practice requires documentation be maintained to support authorizations and amounts for payroll deductions.

Authorizations for payroll deductions for 6 of 21 employees tested were not documented in employees' personnel files, or amounts deducted were incorrect. W-4 forms on file did not agree to withholding information in NIS and NEIS. Also, amounts for charitable contributions were deducted in excess of one employee's authorization. Without adequate supporting documentation, there is an increased risk of loss or misuse of State funds.

We recommend the Department implement procedures to ensure payroll deductions are maintained in personnel files and that the correct amounts are deducted.

7. Labor Distribution

Good internal control requires procedures be established to provide reliable financial records.

We noted the NIS payroll application did not allocate salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. The adjustments were automatically assigned to the employee's home business unit. We noted this problem for all 11 employees selected for testing, which resulted in a misallocation of \$1,071 of the \$38,469 sampled. The Federal government was undercharged \$26. The Department did not review the adjustments for accuracy. Without a review, the allocation between Federal and State funds could be inaccurate which could result in inaccurate reporting of expenditures.

We recommend the Department establish procedures to ensure the reporting of expenditures are correctly stated between Federal and State funds.

8. Annual Financial Status Report

The Code of Federal Regulations (C.F.R.) establishes requirements for Federal programs. Title 40 C.F.R. Section 31.41(b)(4) (2004) states annual financial status reports are due 90 days after the grant year. For Performance Partnership Grants, the grant year ends September 30.

The annual financial status report was not submitted until February 19, 2004. This resulted in noncompliance with Federal requirements.

We recommend the Department implement procedures to ensure financial status reports are filed in a timely manner and in compliance with Federal regulations.

COMMENTS AND RECOMMENDATIONS

(Continued)

9. Timeliness of Deposits

Neb. Rev. Stat. Section 84-710 R.R.S. 1999, states, “It shall be unlawful for any executive department . . . to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.”

During our review of the Department’s receipts, we noted three of fifteen receipts tested were not deposited within the three or seven day requirement. Of the three receipts not meeting the requirement, the largest receipt was \$15,883. The receipts were deposited eight days to thirteen days after the date received. This was a prior year comment.

As a result, there was an increased risk of loss or misuse of State funds and a loss of investment income.

We recommend the Department make timely deposits as required by statute.

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

INDEPENDENT ACCOUNTANT'S REPORT

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Environmental Quality (Department) for the fiscal year ended June 30, 2003. The Department'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 financial-related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Environmental Quality for the fiscal year ended June 30, 2003, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2004, on our consideration of the Nebraska Department of Environmental Quality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of a financial-related audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

May 26, 2004

Pat Reding, CPA
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	General Fund 10000	Livestock Waste Management Fund 28330	Clean Air Title V Fund 28340	Remedial Action Plan Monitoring Fund 28350	Solid Waste Landfill Closure Fund 28370	Integrated Solid Waste Management Fund 28380
REVENUES:						
Appropriations	\$ 5,964,083	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	112	-	-	-
Sales & Charges	92,554	49,150	3,746,026	73,987	-	1,539,801
Miscellaneous	3,105	18,825	76,015	2,541	-	366,392
TOTAL REVENUES	6,059,742	67,975	3,822,153	76,528	-	1,906,193
EXPENDITURES:						
Personal Services	2,842,742	284,745	1,127,716	80,689	-	872,793
Operating	3,005,434	-	950,028	32,731	-	462,257
Travel	57,183	255	33,612	1,448	-	35,813
Capital Outlay	195	-	-	-	-	2,722
Government Aid	58,529	-	-	-	-	111,579
TOTAL EXPENDITURES	5,964,083	285,000	2,111,356	114,868	-	1,485,164
Excess (Deficiency) of Revenues Over (Under) Expenditures	95,659	(217,025)	1,710,797	(38,340)	-	421,029
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	-
Deposits to General Fund	(95,659)	-	-	-	-	-
Adjustments to Fund Balance	-	-	2,684	-	-	2,684
Deposits from Common Fund	-	-	-	-	-	-
Bond Issuance	-	-	-	-	-	-
Operating Transfers In	-	250,000	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(95,659)	250,000	2,684	-	-	2,684
Net Change in Fund Balances	-	32,975	1,713,481	(38,340)	-	423,713
FUND BALANCES, JULY 1, 2002	785	151,531	160,737	69,578	4	3,461,688
FUND BALANCES, JUNE 30, 2003	\$ 785	\$ 184,506	\$ 1,874,218	\$ 31,238	\$ 4	\$ 3,885,401
Fund Balances consist of:						
Cash	\$ -	\$ 184,506	\$ 1,874,589	\$ 31,243	\$ 4	\$ 3,912,862
Deposits with Vendors	785	-	440	-	-	640
Accounts Receivable	-	-	-	-	-	-
Loans Receivable	-	-	-	-	-	-
Long Term Investments	-	-	-	-	-	-
Liabilities	-	-	(811)	(5)	-	(28,101)
Total	\$ 785	\$ 184,506	\$ 1,874,218	\$ 31,238	\$ 4	\$ 3,885,401

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	Waste Red/Recycling Incentive Fund 28390	Litter Reduction & Recycling Fund 28400	Environmental Quality Cash Fund 28410	Chemigation Cost Fund 28420	Petroleum & Hazard Storage Handling Fund 28430	Low Level Radioactive Waste Fund 28440
REVENUES:						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	700,000	-	-	-
Sales & Charges	1,191,647	100	57,113	34,468	-	-
Miscellaneous	266,771	87,805	2,424	3,202	5	9,296
TOTAL REVENUES	1,458,418	87,905	759,537	37,670	5	9,296
EXPENDITURES:						
Personal Services	174,430	85,606	47,736	13,469	-	-
Operating	62,917	28,163	754,423	12,552	-	4,372,381
Travel	5,199	1,373	6,451	59	-	91,738
Capital Outlay	-	-	-	-	-	-
Government Aid	2,760,514	1,107,818	10,672	-	-	-
TOTAL EXPENDITURES	3,003,060	1,222,960	819,282	26,080	-	4,464,119
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,544,642)	(1,135,055)	(59,745)	11,590	5	(4,454,823)
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-
Adjustments to Fund Balance	25,457	13,971	8,395	1,478	-	-
Deposits from Common Fund	2,268,539	1,377,769	-	-	-	-
Bond Issuance	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	4,325,929
Operating Transfers Out	(2,115,000)	(10,000)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	178,996	1,381,740	8,395	1,478	-	4,325,929
Net Change in Fund Balances	(1,365,646)	246,685	(51,350)	13,068	5	(128,894)
FUND BALANCES, JULY 1, 2002	6,104,876	1,002,850	320,438	63,359	121	682,061
FUND BALANCES, JUNE 30, 2003	\$ 4,739,230	\$ 1,249,535	\$ 269,088	\$ 76,427	\$ 126	\$ 553,167
Fund Balances consist of:						
Cash	\$ 4,738,642	\$ 1,248,989	\$ 271,383	\$ 76,427	\$ 126	\$ 553,167
Deposits with Vendors	885	546	-	-	-	175
Accounts Receivable	-	-	-	-	-	-
Loans Receivable	-	-	-	-	-	-
Long Term Investments	-	-	-	-	-	-
Liabilities	(297)	-	(2,295)	-	-	(175)
Total	\$ 4,739,230	\$ 1,249,535	\$ 269,088	\$ 76,427	\$ 126	\$ 553,167

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	Wastewater Treatment OP Cert Fund 28450	Wastewater Loan Administration Fund 28460	LLRW Monitoring Community Fund 28470	LLRW Community Improvements Fund 28480	Petroleum Release Cash Fund 28490	Drinking Water Administration Fund 28630
REVENUES:						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-
Sales & Charges	73,875	926,180	-	-	-	405,925
Miscellaneous	669	63,640	-	-	1,057,418	27,797
TOTAL REVENUES	74,544	989,820	-	-	1,057,418	433,722
EXPENDITURES:						
Personal Services	59,367	405,002	-	-	747,703	-
Operating	23,066	175,555	-	-	3,906,922	-
Travel	2,686	9,043	-	-	15,896	-
Capital Outlay	-	1,187	-	-	7,283	-
Government Aid	-	324,622	-	-	6,244,134	-
TOTAL EXPENDITURES	85,119	915,409	-	-	10,921,938	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,575)	74,411	-	-	(9,864,520)	433,722
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-
Adjustments to Fund Balance	9,422	70,878	-	-	-	-
Deposits from Common Fund	-	-	-	-	11,438,320	-
Bond Issuance	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	(10,315,123)	-
TOTAL OTHER FINANCING SOURCES (USES)	9,422	70,878	-	-	1,123,197	-
Net Change in Fund Balances	(1,153)	145,289	-	-	(8,741,323)	433,722
FUND BALANCES, JULY 1, 2002	8,681	1,601,601	6,779	23,538	33,261,836	572,371
FUND BALANCES, JUNE 30, 2003	\$ 7,528	\$ 1,746,890	\$ 6,779	\$ 23,538	\$ 24,520,513	\$ 1,006,093
Fund Balances consist of:						
Cash	\$ 7,323	\$ 1,749,443	\$ 6,779	\$ 23,538	\$ 24,858,035	\$ 1,006,093
Deposits with Vendors	222	-	-	-	200	-
Accounts Receivable	-	-	-	-	-	-
Loans Receivable	-	-	-	-	-	-
Long Term Investments	-	-	-	-	-	-
Liabilities	(17)	(2,553)	-	-	(337,722)	-
Total	\$ 7,528	\$ 1,746,890	\$ 6,779	\$ 23,538	\$ 24,520,513	\$ 1,006,093

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	Low Level Radioactive Waste Fund 48400	Water Pollution Fund 48410	Solid Waste Fund 48420	Air Pollution Fund 48430	Indirect Cost Fund 48440	Department of Defense Sites Fund 48450
REVENUES:						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	19,195,688	1,381,243	1,043,882	2,475,040	109,192
Sales & Charges	-	300	(150)	-	14,449	-
Miscellaneous	-	34,356	15,366	6,385	51,418	1,426
TOTAL REVENUES	-	19,230,344	1,396,459	1,050,267	2,540,907	110,618
EXPENDITURES:						
Personal Services	-	1,956,169	722,973	326,526	1,190,820	85,090
Operating	-	6,016,649	671,818	452,089	1,055,533	24,307
Travel	-	136,762	38,738	22,376	32,499	6,467
Capital Outlay	-	58,343	4,357	-	1,520	-
Government Aid	-	10,979,475	-	421,868	-	-
TOTAL EXPENDITURES	-	19,147,398	1,437,886	1,222,859	2,280,372	115,864
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	82,946	(41,427)	(172,592)	260,535	(5,246)
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	1,728	-
Deposits to General Fund	-	-	-	-	-	-
Adjustments to Fund Balance	-	(9,514)	-	7,571	-	-
Deposits from Common Fund	-	-	-	-	-	-
Bond Issuance	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(9,514)	-	7,571	1,728	-
Net Change in Fund Balances	-	73,432	(41,427)	(165,021)	262,263	(5,246)
FUND BALANCES, JULY 1, 2002	471,537	461,660	20,140	169,061	568,218	16,282
FUND BALANCES, JUNE 30, 2003	\$ 471,537	\$ 535,092	\$ (21,287)	\$ 4,040	\$ 830,481	\$ 11,036
Fund Balances consist of:						
Cash	\$ 471,537	\$ 766,210	\$ (3,380)	\$ 28,132	\$ 832,082	\$ 11,036
Deposits with Vendors	-	3,070	451	712	798	-
Accounts Receivable	-	91,338	-	-	-	-
Loans Receivable	-	-	-	-	-	-
Long Term Investments	-	-	-	-	-	-
Liabilities	-	(325,526)	(18,358)	(24,804)	(2,399)	-
Total	\$ 471,537	\$ 535,092	\$ (21,287)	\$ 4,040	\$ 830,481	\$ 11,036

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	Hazardous Waste Sites Fund 68450	Leaking Underground Storage Tanks Fund 68460	Wastewater Facility Construction Loan Fund 68470	Drinking Water Facility Loans Fund 68480	Total (Memorandum Only)
REVENUES:					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ 5,964,083
Intergovernmental	-	-	-	-	24,905,157
Sales & Charges	-	-	-	-	8,205,425
Miscellaneous	28	2,859	22,516,428	2,677,328	27,291,499
TOTAL REVENUES	28	2,859	22,516,428	2,677,328	66,366,164
EXPENDITURES:					
Personal Services	-	-	-	-	11,023,576
Operating	-	-	-	1,173,509	23,180,334
Travel	-	-	-	-	497,598
Capital Outlay	-	-	-	-	75,607
Government Aid	-	-	19,048,696	2,447,275	43,515,182
TOTAL EXPENDITURES	-	-	19,048,696	3,620,784	78,292,297
Excess (Deficiency) of Revenues Over (Under) Expenditures	28	2,859	3,467,732	(943,456)	(11,926,133)
OTHER FINANCING SOURCES (USES):					
Sales of Assets	-	-	-	-	1,728
Deposits to General Fund	-	-	-	-	(95,659)
Adjustments to Fund Balance	-	-	90,887,429	29,879,496	120,899,951
Deposits from Common Fund	-	-	-	-	15,084,628
Bond Issuance	-	-	1,250,000	1,614,910	2,864,910
Operating Transfers In	-	-	-	-	4,575,929
Operating Transfers Out	-	-	-	-	(12,440,123)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	92,137,429	31,494,406	130,891,364
Net Change in Fund Balances	28	2,859	95,605,161	30,550,950	118,965,231
FUND BALANCES, JULY 1, 2002	1,127	66,847	27,753,178	2,553,649	79,574,533
FUND BALANCES, JUNE 30, 2003	\$ 1,155	\$ 69,706	\$ 123,358,339	\$ 33,104,599	\$ 198,539,764
Fund Balances consist of:					
Cash	\$ 1,155	\$ 69,706	\$ 32,552,664	\$ 3,135,913	\$ 78,408,204
Deposits with Vendors	-	-	-	-	8,924
Accounts Receivable	-	-	-	-	91,338
Loans Receivable	-	-	90,887,429	29,879,496	120,766,925
Long Term Investments	-	-	-	111,869	111,869
Liabilities	-	-	(81,754)	(22,679)	(847,496)
Total	\$ 1,155	\$ 69,706	\$ 123,358,339	\$ 33,104,599	\$ 198,539,764

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2003

1. Criteria

The accounting policies of the Nebraska Department of Environmental Quality are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107 R.R.S. 1999, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Department was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2003 includes only those payables posted to NIS before June 30, 2003 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2003 **does not** include amounts for goods and services received before June 30, 2003 which had not been posted to NIS as of June 30, 2003.

Prior to the implementation of NIS, the State utilized the Nebraska Employees Information System (NEIS) and the Nebraska Accounting System (NAS) to record transactions. NEIS was converted to NIS effective January 1, 2003, and NAS was converted to NIS effective March 1, 2003.

The Department had accounts receivable included in revenues of \$91,338 from Federal drawdowns that had posted to NIS but had not been received. The Department had accounts payable for services received but not yet paid of \$847,496 included in expenditures. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Department are:

10000 – General Fund – accounts for all financial resources not required to be accounted for in another fund.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

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 all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

The major revenue object account codes established by NIS used by the Department are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

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

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

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income and loan repayments from communities involved in the Clean Water and Drinking Water Programs.

The major expenditure object account titles established by NIS used by the Department are:

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

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.

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

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

Other significant object account codes established by NIS and used by the Department include:

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 and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance.

Other Financing Sources – Issuance of bonds, operating transfers, and proceeds of fixed asset dispositions.

2. State Agency

The Nebraska Department of Environmental Quality (Department) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department.

The Nebraska Department of Environmental Quality is part of the primary government for the State of Nebraska.

3. Beginning Balance

As noted above, the official accounting system of the State was converted during the fiscal year from NEIS and NAS to NIS. NEIS and NAS were strictly cash basis accounting. Under the cash basis of accounting, revenues are recognized when received and expenditures are recognized when paid for all funds of the Department. Therefore, the beginning fund balances do not include accounts receivables or accounts payable. The beginning balances for three funds were adjusted to include a prior year liability balance that was never reported in NAS but is now reported in NIS as follows: Indirect Cost Fund 48440 decreased \$579 for sales tax that had not been remitted to the Department of Revenue; Wastewater Facility Construction Loan Fund 68470 increased \$4,102,149 to reflect a prior year balance of loan interest collected; Drinking Water Facility Loans Fund 68480 decreased \$67,267 to reflect a prior year balance of loan interest on hand that had not been remitted to the trustee and by \$3,192,875 to remove the bank accounts at Wells Fargo that are not reported in NIS.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

(Continued)

4. 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.

5. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures in governmental funds. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). Depreciation expenses would be reported in the CAFR for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Capital asset activity of the Department for the fiscal year ended June 30, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets:				
Equipment	\$ 2,811,835	\$ 115,983	\$ 107,110	\$ 2,820,708

6. Transfers

Material Transfers consists of the following:

Fund/Explanation	Amount
Transfers In:	
Low Level Radioactive Waste Fund 28440	
Statutory transfer from the General Fund	\$ 4,100,000
Transfers Out:	
Waste Reduction/Recycling Incentive Fund 28390	
Statutory Transfer to the General Fund	\$ 2,100,000
Petroleum Release Cash Fund 28490	
Statutory Transfer to the General Fund	4,100,000
Petroleum Release Cash Fund 28490	
Statutory Transfer to the General Fund	6,000,000
Total	\$ 12,200,000

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

(Continued)

7. Adjustments to Fund Balance

Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a revenue or expenditure account. The Wastewater Facility Construction Loan Fund 68470 and the Drinking Water Facility Loans Fund 68480 had adjustments to fund balance because loans receivable were not included in the prior year balance. The loans are now tracked on NIS and therefore, part of the NIS balance.

8. Deposits from Common Funds

The Nebraska Department of Revenue (Revenue) collects various fees, which are required to be deposited in various common funds of the Department of Environmental Quality and Revenue. The amount deposited in these funds is available for disbursements by the Department of Environmental Quality for various environmental programs. The total collected by Revenue and deposited into common funds is as follows:

<u>Fund</u>	<u>Amount</u>
Petroleum Release Cash Fund 28490	\$ 10,911,371
Waste Reduction/Recycling Incentive Fund 28390	2,268,539
Litter Reduction & Recycling Fund 28400	1,377,769
Total	<u>\$ 14,557,679</u>

The State Fire Marshal also collects a fee, deposited into a common fund. The amount deposited in the Petroleum Release Cash Fund is available for disbursements by the Department of Environmental Quality for various environmental programs. The total collected by the State Fire Marshal was \$526,949.

9. Loans Receivable

The State operates the Wastewater and Drinking Water Programs as direct loan programs, whereby loans are made to communities, and, on the average, are 83.33% federally funded, and 16.67% funded by the State. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan. Interest is calculated from the date that funds are advanced, and after the final disbursement has been made. The interest rates on loans range from 3% to 4% and the terms are between 5 and 30 years. With the implementation of NIS, the loans receivable are now included on the schedule.

10. Issuance of Bonds

The Wastewater and Drinking Water Programs are funded with Federal money and the matching requirement is funded by the Department through the issuance of bonds.

NOTES TO THE SCHEDULE

(Continued)

11. Bonds Payable

Bonds Payable are not recorded on NIS and therefore, not included on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Bonds Payable and the future debt service requirements are included in separate audit reports issued for the Drinking Water State Revolving Fund Program and the Clean Water State Revolving Fund Program.

12. Litigation

On September 30, 2002, U.S. Federal District Court Judge Richard Kopf issued a decision in a lawsuit filed December of 1998 by the Central Interstate Low-Level Radioactive Waste Compact Commission and the major generators of low-level radioactive waste in the compact. The Judge's Memorandum and Order concluded that the State of Nebraska breached its good faith obligations under the Compact and ordered the State to pay the Commission \$151,408,240 for its violation of its good faith obligations under the compact.

The State of Nebraska appealed the judgment to the U.S. Court of Appeals for the Eighth Circuit. A three judge panel of the Court of Appeals upheld the lower court's decision on February 18, 2004.

The State of Nebraska asked the entire U.S. Court of Appeals for the Eighth Circuit to review the ruling of the three judge panel. The full Court of Appeals, in April 2004, voted to not consider the three judge panel's ruling.

The State of Nebraska has appealed the case to the U.S. Supreme Court, and is waiting on the Court's decision.

The potential amount of liability involved in the above case or any other litigation pending against the Department could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgment against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Environmental Quality for the fiscal year ended June 30, 2003, and have issued our report thereon dated May 26, 2004. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Environmental Quality's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Environmental Quality in the Comments Section of this report as Comment Number 2 (Capital Assets), Comment Number 3 (Grant Requirements), Comment Number 5 (Travel Expenses), Comment Number 8 (Annual Financial Status Report), and Comment Number 9 (Timeliness of Deposits).

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Environmental Quality's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Department of Environmental Quality's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Nebraska Information System) and Comment Number 2 (Capital Assets).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Comment Number 1 (Nebraska Information System) to be a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Department of Environmental Quality in the Comments Section of the report as Comment Number 4 (NIS Access), Comment Number 6 (Payroll Deductions), and Comment Number 7 (Labor Distribution).

May 26, 2004

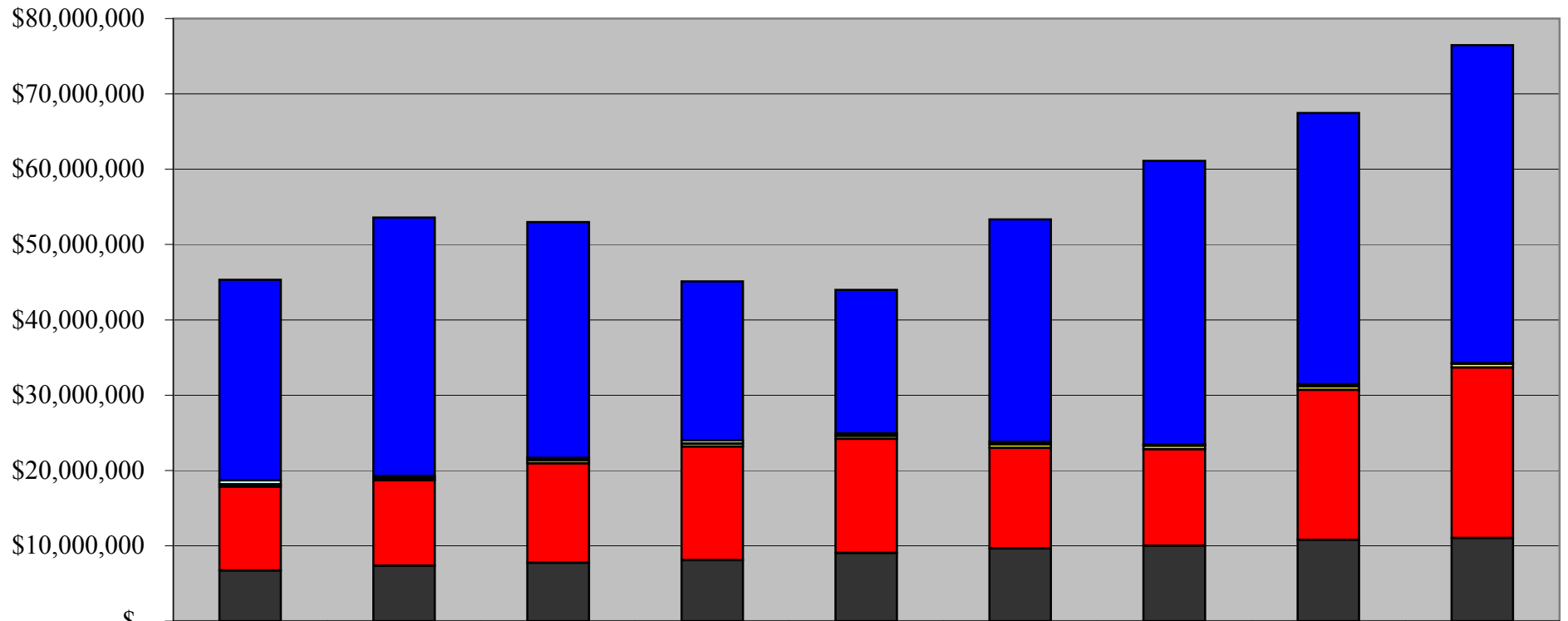
Pat Reding, CPA
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section 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 DEPARTMENT OF ENVIRONMENTAL QUALITY
EXPENDITURES BY MAJOR ACCOUNT CATEGORY
 Fiscal Years Ended June 30, 1995 Through 2003



	1995	1996	1997	1998	1999	2000	2001	2002	2003
■ Government Aid	\$26,640,615	\$34,354,127	\$31,324,291	\$21,129,735	\$19,079,770	\$29,568,068	\$37,634,577	\$36,034,069	\$42,255,626
□ Capital Outlay	\$520,334	\$291,259	\$315,811	\$413,715	\$292,607	\$344,340	\$193,770	\$281,530	\$75,608
■ Travel	\$313,686	\$274,782	\$405,932	\$383,070	\$405,170	\$437,528	\$455,165	\$460,272	\$497,601
■ Operating Expenses	\$11,137,407	\$11,319,469	\$13,188,561	\$15,072,053	\$15,141,766	\$13,349,107	\$12,832,464	\$19,908,426	\$22,622,980
■ Personal Services	\$6,714,922	\$7,355,698	\$7,743,382	\$8,102,004	\$9,047,825	\$9,650,219	\$9,979,451	\$10,769,123	\$11,023,572

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
EXPENDITURES BY FUND TYPE
 Fiscal Years Ended June 30, 1995 Through 2003

