

**MANAGEMENT LETTER
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY
CLEAN WATER
STATE REVOLVING FUND PROGRAM
JULY 1, 2003 THROUGH JUNE 30, 2004**

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Issued on June 1, 2005

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

April 25, 2005

Kate Witek
State Auditor
kwitek@mail.state.ne.us

Mike Linder, Director
Nebraska Department of Environmental Quality
1200 N Street, Suite 400
Lincoln, Nebraska 68509-8922

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Dear Mr. Linder:

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

We have audited the financial statements of the Nebraska Department of Environmental Quality (Department) – Clean Water State Revolving Fund Program (Program) as of and for the year ended June 30, 2004, and have issued our report thereon dated April 25, 2005. We have also issued a Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, dated April 25, 2005 and a Report on Compliance and Internal Control Over Compliance with Requirements Applicable to the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program in Accordance with *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting, and on the Program's 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 statement amounts.

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

We noted a certain matter involving the internal control over financial reporting that is presented here. The comment and recommendation is intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

Perry Pirsch, JD, MPA
Legal Counsel
ppirsch@mail.state.ne.us

Our Comment and Recommendation for the Program for the fiscal year ended June 30, 2004 is included on page 3.

This letter is intended solely for the information and use of the Department, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties. However, this letter is a matter of public record and its distribution is not limited.

Sincerely,

Pat Reding, CPA

Pat Reding
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

Accounting Records

NIS was established by the Nebraska Legislature to be the official accounting system of the State of Nebraska. Sound accounting practices and good internal controls require information reported on the financial statements to reconcile to accounting records. Prior year adjustments should also be corrected.

Accounting records for current year loans receivable were overstated by \$2,193,323. Financial statements were adjusted because loans had been paid off but the accounting records still had the community payments included on the current year list.

Certain information reported in the financial statements could not be reconciled to NIS:

	NIS	Financial Statements	Variance
Loans Receivable	\$ 85,256,842	\$ 85,428,147	\$ (171,305)
Interest on Loans	\$ 2,985,378	\$ 2,976,836	\$ 8,542

While the variances are small in relation to the entire Program balance, it is important to reconcile Program activity as recorded on NIS in order to ensure all of the Program's activity was properly recorded and accounted for. If NIS is not corrected for the posting errors made during the fiscal year ended June 30, 2004, the Department will continue to have problems in future years reconciling Program cash to NIS cash. Furthermore, the Department did not correct a net variance of \$104,992 noted in the audit for the fiscal year ended June 30, 2003.

We recommend the Department reconcile the activity recorded on the financial statements to actual activity recorded in NIS and make any adjustments necessary. In addition, we recommend the Department correct prior year variances.

It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this letter were furnished to the Department to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Where no response has been included, the Department declined to respond.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.