

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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March 8, 2006

Kate Witek
State Auditor
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John Craig, Director
Nebraska Department of Roads
1500 Highway 2
Lincoln, Nebraska 68509-4759

Deann Haeffner, CPA
Deputy State Auditor
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Dear Mr. Craig:

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2005, and have issued our report thereon dated December 19, 2005. We have also audited the State's compliance with requirements applicable to major Federal award programs and have issued our report thereon dated February 2, 2006. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the Federal Office of Management and Budget (OMB) Circular A-133 (the Single Audit); and not to provide assurance on internal control. We have not considered internal control since the date of our report.

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In connection with our audit described above, we noted an internal control matter related to the activities of the Nebraska Department of Roads (the 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.

Dennis Meyer, CGFM
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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.

Perry Pirsch, JD, MPA
Legal Counsel
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Our comments and recommendations for the year ended June 30, 2005, are shown on the following pages.

COMMENT RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Accounts Payable

Accounts payables were misstated because of construction contract payments at various agencies. The misstatements were the result of the following:

- The payable was determined based on the date the Agency received an invoice and not on the date the services were actually provided. This resulted in an understatement of the accounts payables.
- The payable was based on an estimate of how long the payment process took and not when the services were provided. A review of selected July 2005 payments indicated the estimated processing time was overstated and, therefore, the accounts payables were also overstated.

Governmental Accounting, Auditing, and Financial Reporting states, “Under accrual accounting, expenses are recognized as soon as the liability is incurred, regardless of the timing of the related cash flows.” GASB 34 Q&A #163 states, for reimbursement-based grants, providers should recognize liabilities when all eligibility requirements are met. Reimbursement eligibility requirements are met when recipients incur allowable costs, not when those costs are submitted for reimbursement.

Failure to correctly record accounts payable results in inaccurate financial statements.

We recommend accounts payables be based on the date the recipients incur the costs and not on the date the costs are submitted for reimbursements. We further recommend the Agency review their policy as to when a payable is recorded for contractor payments.

Department’s Response: The Department of Roads will review its invoices from political subdivisions for construction services to more accurately record these payments in the correct fiscal year. However, because of the delay in receiving such invoices from political subdivisions, it is possible that, depending on cutoff dates for recording such transactions in CAFR, items billed after that cutoff date may not be reflected as costs attributable to the appropriate fiscal year.

The Department of Roads will review our process for making contractor payments to more accurately reflect the payments made in the current fiscal year that were attributable to the prior fiscal year and report them accordingly.

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 you.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this report is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.

Sincerely,

A handwritten signature in black ink that reads "Don Dunlap CPA". The signature is written in a cursive style with a clear "CPA" at the end.

Don Dunlap
Assistant Deputy Auditor