

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF NATURAL RESOURCES**

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on March 6, 2006

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

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NEBRASKA DEPARTMENT OF NATURAL RESOURCES

BACKGROUND

The Department of Natural Resources was established on July 1, 2000, when the former Department of Water Resources and Natural Resources Commission were merged into a single agency. The Department is responsible for the administration and enforcement of State water laws pertaining to water quantity, well registration, and dam and reservoir construction approval and inspection. The Department negotiates and administers water compacts and administers court decrees with surrounding states. The Department also serves as the official agency of the State in connection with soil and water conservation, flood prevention, watershed protection, and flood control.

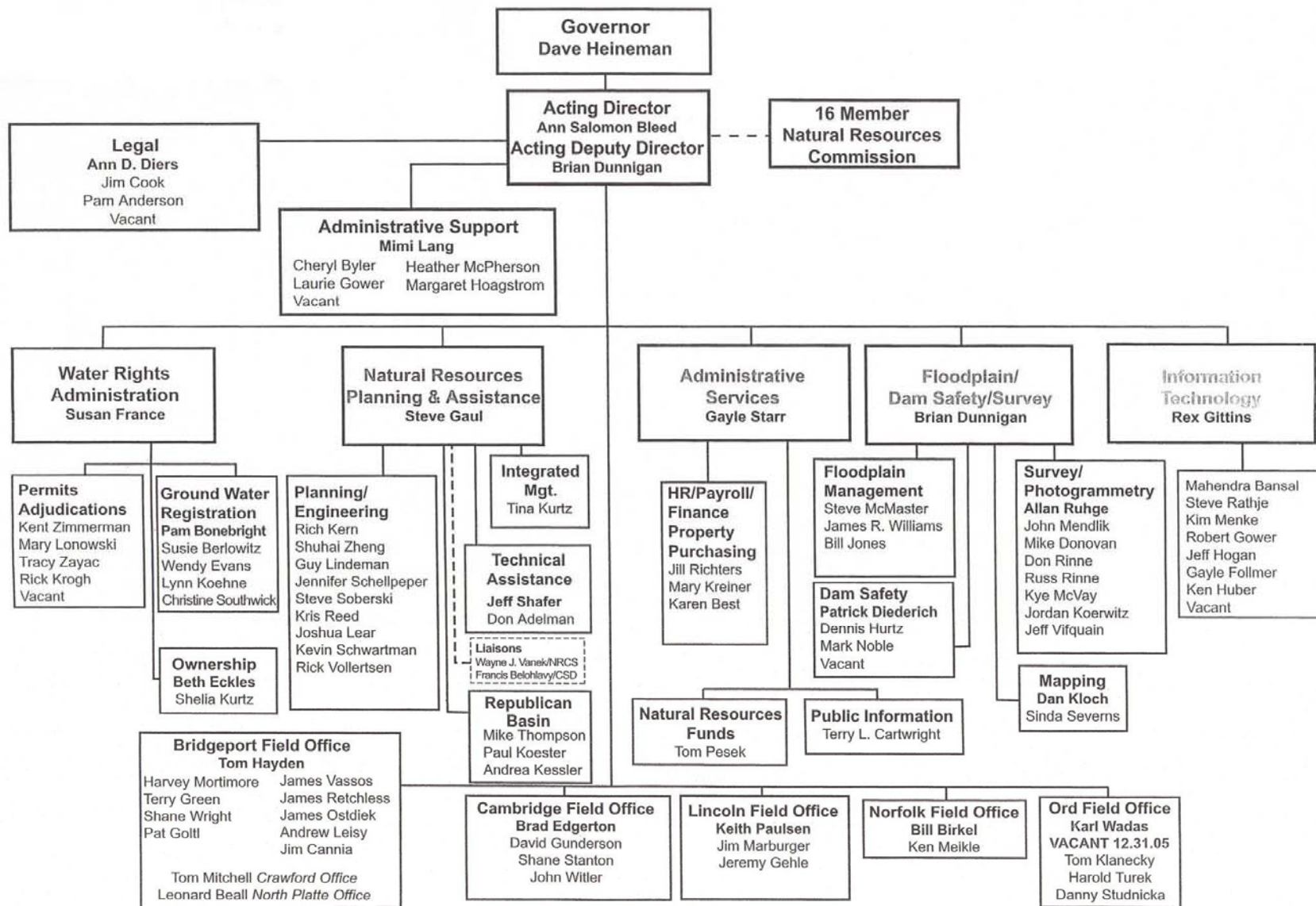
Sixteen members make up the Nebraska Natural Resources Commission, of which thirteen represent the State's recognized river basins. The Governor appoints the other three members with approval by the Legislature. Commission members representing river basins are selected for four-year terms. The Nebraska Natural Resources Commission carries out certain specific responsibilities in connection with natural resources districts. In addition, the Commission is responsible for adopting and amending the Department rules and regulations for the Small Watersheds Control Fund, the Nebraska Resources Development Fund, the Nebraska Soil and Water Conservation Fund, the Water Well Decommissioning Fund, and the Natural Resources Water Quality Fund, all of which are administered by the Department of Natural Resources.

MISSION STATEMENT

Administer and regulate surface water; direct floodplain management and dam safety programs; assemble and share data on land, water, and related resources in a user friendly manner; provide natural resources planning assistance; register ground water wells and issue permits; and manage State cost-share programs in an expedient and cost-effective manner to assure proper use and protection of Nebraska's land, water, and related resources.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF NATURAL RESOURCES

EXIT CONFERENCE

An exit conference was held January 31, 2006, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Natural Resources were:

NAME	TITLE
Brian Dunnigan	Acting Deputy Director
Gayle Starr	Administrative Officer
Rex Gittins	Management Services Division
Jill Richters	Administrative Assistant
Mary Kreiner	Accountant
Karen Best	Accountant

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

SUMMARY OF COMMENTS

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

1. ***Travel Expenses:*** Meal logs were not maintained and Federal lodging guidelines were exceeded. Expense reimbursements were not complete and supporting documentation was not adequate.
2. ***Monitoring of Contracts:*** Contract payments exceeded the allowable amount per the contracts and adequate supporting documentation was not received to support the payments.
3. ***No Review of Additions and Retirements Report:*** No one reviewed the Additions and Retirements Report or compared the asset listings to ensure all items added and deleted were proper.
4. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

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

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.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

COMMENTS AND RECOMMENDATIONS

1. Travel Expenses

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 5, states “Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, place (e.g. city) or description, and purpose for each expense or meal/food cost.”

Good internal control requires procedures to ensure requirements of the State’s accountable plan are met and reimbursements are in compliance with guidelines set through Federal Travel Regulations.

Good internal control also requires procedures to ensure the employee’s expense reimbursement agrees with information on the receipts, expense vouchers, and any agendas related to the expenses incurred to ensure the dates, times, amounts, and locations all agree.

The Department had \$366,693 in travel expenditures for the fiscal year ended June 30, 2005. We tested six travel expenditure documents totaling \$4,368. We noted the following:

- One expense reimbursement document contained reimbursement for lodging which was not reasonable based on the Federal guideline for place of travel. The Federal lodging amount for Phoenix, AZ, is \$121 per night but the employee was reimbursed at \$179 per night. The Federal lodging amount for Tucson, AZ, is \$105 per night but the employee was reimbursed at \$139 per night. The total amount over the Federal guidelines for the trip was \$242.
- Four reimbursement documents contained reimbursement for meals which were not adequately documented. These documents did not include completed meal logs.
- Two reimbursement documents contained reimbursements for out-of-state travel for which there were no conference agendas on file.

Without an adequate accounting of meal expenses from the employee to the employer, the State could lose its accountable plan status and then all employee reimbursements would be included as taxable income. When the Federal guidelines are not followed, there is an increased risk of reimbursement for unreasonable expenses.

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Travel Expenses (Concluded)

We recommend the Department implement procedures to ensure provisions of the State's accountable plan are met and amounts reimbursed for travel expenses are reasonable. We also recommend the Department ensure expense documents are completed and adequate documentation is on file to support reimbursements.

2. Monitoring of Contracts

Good internal controls require monitoring of contracts to ensure payments for services are allowable.

We noted the following when reviewing contracts:

- The interlocal cooperation agreement with the natural resources district (NRD) required a \$1 match for every \$1 of State of Nebraska funds. One expenditure tested did not have adequate documentation to support the payment. The invoice received from the NRD did not detail the amount of expenditures. There was only a total amount; therefore, the \$1 match requirement could not be verified.
- Two expenditures tested exceeded the amount allowable under the contract for the fiscal year. Amounts paid exceeded the amount allowed for fiscal year 2004/2005 by \$7,528 for one NRD and \$35,415 for another NRD. The contracts were a result of the Republican River Compact Litigation.

Without adequate monitoring of contracts, there is an increased risk loss or misuse of State funds.

We recommend the Department implement policies and procedures to review invoices for accuracy and completeness. We also recommend the Department implement policies and procedures to ensure the expenditures eligible for reimbursement are in accordance with the amounts set forth in the contracts.

COMMENTS AND RECOMMENDATIONS

(Continued)

3. No Review of Additions and Retirements Report

Good internal controls require the “Additions and Retirements Report” to be reviewed on a regular basis to ensure any errors are detected and corrected. Reviewing this report also ensures all deletions are appropriate and items are removed from the list when deleted.

No one reviewed the “Additions and Retirements Report” or compared the asset listings to ensure all items were added and deleted properly. This was also noted in the 2003 management letter.

Without adequate controls in place, there is an increased risk of errors and irregularities related to capital assets.

We recommend a documented review of the “Additions and Retirements Report” to ensure all items are correctly recorded on NIS.

4. Reconciliation of Bank Records to the Nebraska Information System

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer’s actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA’s previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

The APA recommends DAS Accounting Division continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

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NEBRASKA DEPARTMENT OF NATURAL RESOURCES

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 Natural Resources (Department) for the fiscal year ended June 30, 2005. 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.

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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, 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.

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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 Natural Resources for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2006, on our consideration of the Nebraska Department of Natural Resource's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report

is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

January 31, 2006

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	General Fund 10000	Natural Resources Water Issues Fund 22900	Small Watersheds Flood Control Fund 25510	Nebraska Resources Development Fund 25520	Nebraska Soil & Water Conservation Fund 25530	Natural Resources Water Quality Fund 25540	Water Well Decommissioning Fund 25550	Water Policy Task Force Fund 25570
REVENUES:								
Appropriations	\$ 15,715,306	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	460	-	-	264,013	-	-	13,298
Sales & Charges	58,030	-	-	-	-	-	149,769	-
Miscellaneous	1,168	27,978	32,764	11,066	19,551	8,680	2,039	8,743
TOTAL REVENUES	15,774,504	28,438	32,764	11,066	283,564	8,680	151,808	22,041
EXPENDITURES:								
Personal Services	4,914,541	-	-	-	-	-	-	77,517
Operating	1,717,266	304,852	-	-	-	-	-	27,526
Travel	325,848	12,498	-	-	-	-	-	9,922
Capital Outlay	146,241	-	-	-	-	-	-	-
Government Aid	8,611,410	-	-	-	293,668	977,000	174,476	-
TOTAL EXPENDITURES	15,715,306	317,350	-	-	293,668	977,000	174,476	114,965
Excess (Deficiency) of Revenues Over (Under) Expenditures	59,198	(288,912)	32,764	11,066	(10,104)	(968,320)	(22,668)	(92,924)
OTHER FINANCING SOURCES (USES):								
Sales of Assets	2,591	-	332,966	-	-	-	-	-
Adjustment to Fund Balance	(9)	-	-	-	-	-	-	-
Deposit to General Fund	(61,789)	-	-	-	-	-	-	-
Deposit to Common Fund	-	-	-	-	-	1,034,129	-	-
Operating Transfers In	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(59,207)	-	332,966	-	-	1,034,129	-	-
Net Change in Fund Balances	(9)	(288,912)	365,730	11,066	(10,104)	65,809	(22,668)	(92,924)
FUND BALANCES, JULY 1, 2004	2,832	900,357	838,187	141,138	13,464	354,655	45,473	275,566
FUND BALANCES, JUNE 30, 2005	\$ 2,823	\$ 611,445	\$ 1,203,917	\$ 152,204	\$ 3,360	\$ 420,464	\$ 22,805	\$ 182,642
FUND BALANCES CONSIST OF:								
General Cash	\$ -	\$ 611,445	\$ 1,203,917	\$ 101,180	\$ 3,360	\$ 420,464	\$ 22,790	\$ 182,642
Deposits with Vendors	2,757	-	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-	-	15	-
Due From Other Funds	-	-	-	-	-	-	-	-
Customer Deposits	66	-	-	-	-	-	-	-
Loans Receivable	-	-	-	51,050	-	-	-	-
Due to Fund	-	-	-	(26)	-	-	-	-
TOTAL FUND BALANCES	\$ 2,823	\$ 611,445	\$ 1,203,917	\$ 152,204	\$ 3,360	\$ 420,464	\$ 22,805	\$ 182,642

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	Interstate Water Rights Fund 25580	Water Resources Trust Fund 25590	Department of Natural Resources Cash Fund 26600	Dam Safety Fund 42910	Federal Drought Monitoring Fund 42920	Federal Water Resources Plan Fund 45520	Total (Memorandum Only)
REVENUES:							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,715,306
Intergovernmental	-	-	71,881	94,726	340,718	293,785	1,078,881
Sales & Charges	-	-	130,830	-	-	-	338,629
Miscellaneous	1,005	31,537	21,154	-	1,117	990	167,792
TOTAL REVENUES	1,005	31,537	223,865	94,726	341,835	294,775	17,300,608
EXPENDITURES:							
Personal Services	-	-	258,598	65,576	-	114,592	5,430,824
Operating	-	-	85,400	19,552	261,109	101,395	2,517,100
Travel	-	-	-	5,000	-	13,425	366,693
Capital Outlay	-	-	12,680	-	59,774	37,883	256,578
Government Aid	-	517,757	-	-	127,199	17,842	10,719,352
TOTAL EXPENDITURES	-	517,757	356,678	90,128	448,082	285,137	19,290,547
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,005	(486,220)	(132,813)	4,598	(106,247)	9,638	(1,989,939)
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	335,557
Adjustment to Fund Balance	-	-	-	-	-	-	(9)
Deposit to General Fund	-	-	-	-	-	-	(61,789)
Deposit to Common Fund	-	-	-	-	-	-	1,034,129
Operating Transfers In	-	1,000,000	-	-	-	-	1,000,000
TOTAL OTHER FINANCING SOURCES (USES)	-	1,000,000	-	-	-	-	2,307,888
Net Change in Fund Balances	1,005	513,780	(132,813)	4,598	(106,247)	9,638	317,949
FUND BALANCES, JULY 1, 2004	27,990	-	620,563	83,146	106,412	(6,277)	3,403,506
FUND BALANCES, JUNE 30, 2005	<u>\$ 28,995</u>	<u>\$ 513,780</u>	<u>\$ 487,750</u>	<u>\$ 87,744</u>	<u>\$ 165</u>	<u>\$ 3,361</u>	<u>\$ 3,721,455</u>
FUND BALANCES CONSIST OF:							
General Cash	\$ 28,995	\$ 513,780	\$ 472,750	\$ 87,744	\$ 165	\$ 18,361	\$ 3,667,593
Deposits with Vendors	-	-	-	-	-	-	2,757
Accounts Receivable Invoiced	-	-	-	-	-	-	15
Due From Other Funds	-	-	15,000	-	-	-	15,000
Customer Deposits	-	-	-	-	-	-	66
Loans Receivable	-	-	-	-	-	-	51,050
Due to Fund	-	-	-	-	-	(15,000)	(15,026)
TOTAL FUND BALANCES	<u>\$ 28,995</u>	<u>\$ 513,780</u>	<u>\$ 487,750</u>	<u>\$ 87,744</u>	<u>\$ 165</u>	<u>\$ 3,361</u>	<u>\$ 3,721,455</u>

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Department of Natural Resources 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(2) R.S.Supp., 2004, 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, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

NIS also records other liabilities in an account titled Due to Fund. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

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.

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.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

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.

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.

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.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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 and are reported as recorded on NIS.

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 liabilities recorded on NIS for the Department's funds at June 30, 2005, included Deposits and Due to Fund. The activity of these accounts are not recorded on the Schedules of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

2. State Agency

The Nebraska Department of Natural Resources (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 Natural Resources is part of the primary government for the State of Nebraska.

3. 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.

4. 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. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO THE SCHEDULE
(Continued)

4. Capital Assets (Concluded)

items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Department's values 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 \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, building improvements, and land are capitalized. Depreciation expenses would be 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 asset life is not capitalized.

Buildings and Equipment are depreciated using the straight-line method. The following useful lives are used to compute depreciation:

Buildings 40 years
Equipment 3-10 years

Capital asset activity of the Department for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Land	\$ 1,202	\$ -	\$ -	\$ 1,202
Buildings	59,680	-	-	59,680
Equipment	1,773,434	259,640	164,386	1,868,688
Total	<u>\$ 1,834,316</u>	<u>\$ 259,640</u>	<u>\$ 164,386</u>	<u>1,929,570</u>
Less accumulated depreciation for:				
Buildings				43,518
Equipment				1,387,859
Total				<u>1,431,377</u>
Total capital assets, net of depreciation				<u>\$ 498,193</u>

5. Transfers

Neb. Rev. Stat. Section 81-15,174 R.S.Supp., 2004 required the State Treasurer to transfer one million dollars from the Nebraska Environmental Trust Fund to the Water Resources Trust Fund. The Water Resources Trust Fund was created for the purposes described in the Nebraska Ground Water Management and Protection Act.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO THE SCHEDULE

(Continued)

6. Deposits to Common Funds

The Natural Resources Water Quality Fund receives a portion of the registration fee charged for pesticides that are not classified as a specialty pesticide per Neb. Rev. Stat. Section 2-2634 R.S.Supp., 2004. The Fund also receives the commercial applicator license fee collected per Neb. Rev. Stat. Section 2-2638 R.S.Supp., 2004 and the private applicator license fee collected per Neb. Rev. Stat. Section 2-2641 R.S.Supp., 2004. The fees are collected and deposited by the Nebraska Department of Agriculture.

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NEBRASKA DEPARTMENT OF NATURAL RESOURCES REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 Natural Resources for the fiscal year ended June 30, 2005, and have issued our report thereon dated January 31, 2006. We conducted our examination 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.

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Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Natural Resource'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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Natural Resource's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 4 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable 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 caused by error or fraud 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, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Natural Resource'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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional items that we reported to management of the Nebraska Department of Natural Resources in the Comments Section of this report as Comment Number 1 (Travel Expenses), Comment Number 2 (Monitoring of Contracts), and Comment Number 3 (No Review of Additions and Retirements Report).

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

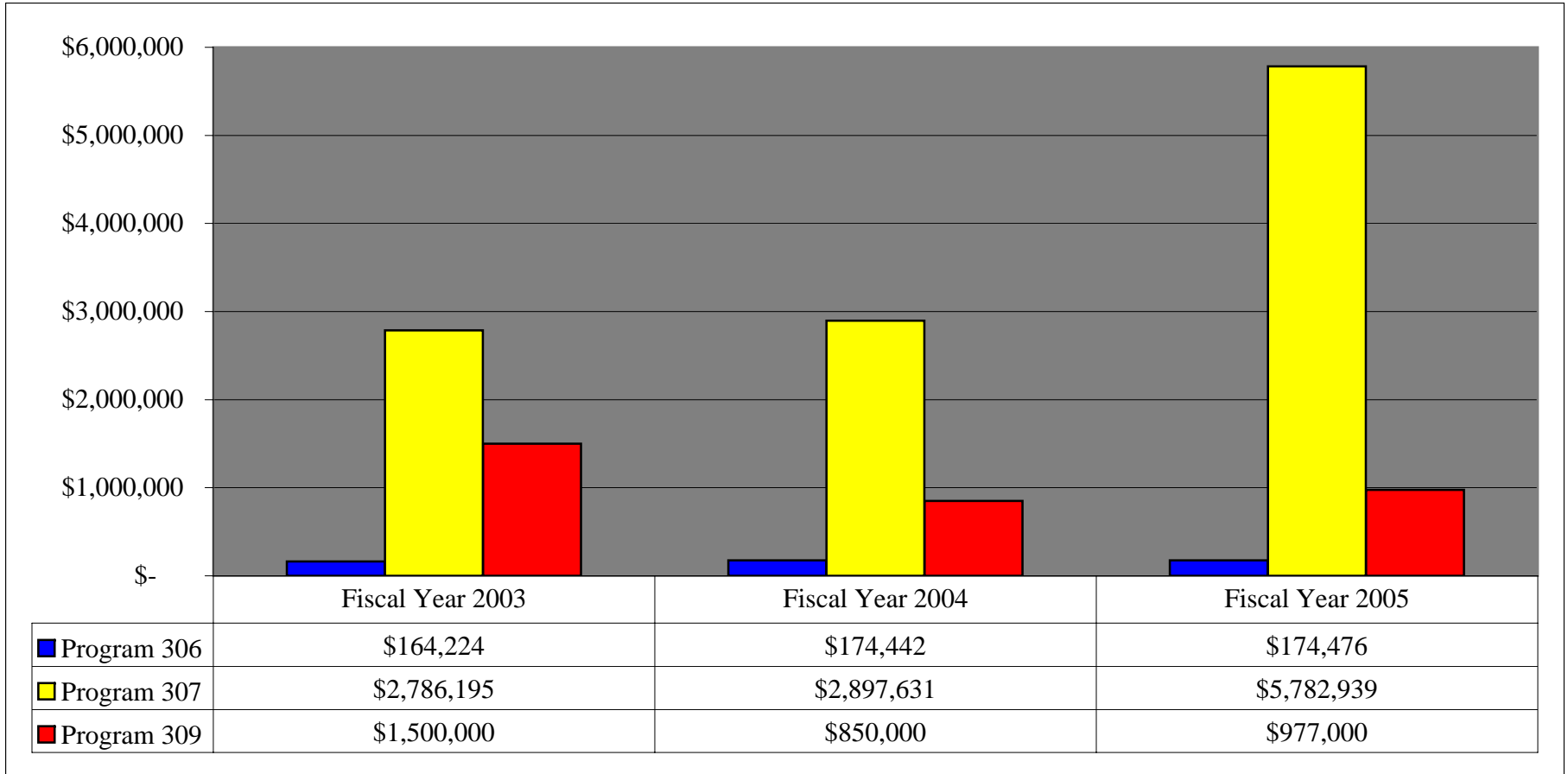
January 31, 2006

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

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 NATURAL RESOURCES
SCHEDULE OF DIRECT AID PAYMENTS TO NATURAL RESOURCES DISTRICTS
 Fiscal Years 2003, 2004, and 2005

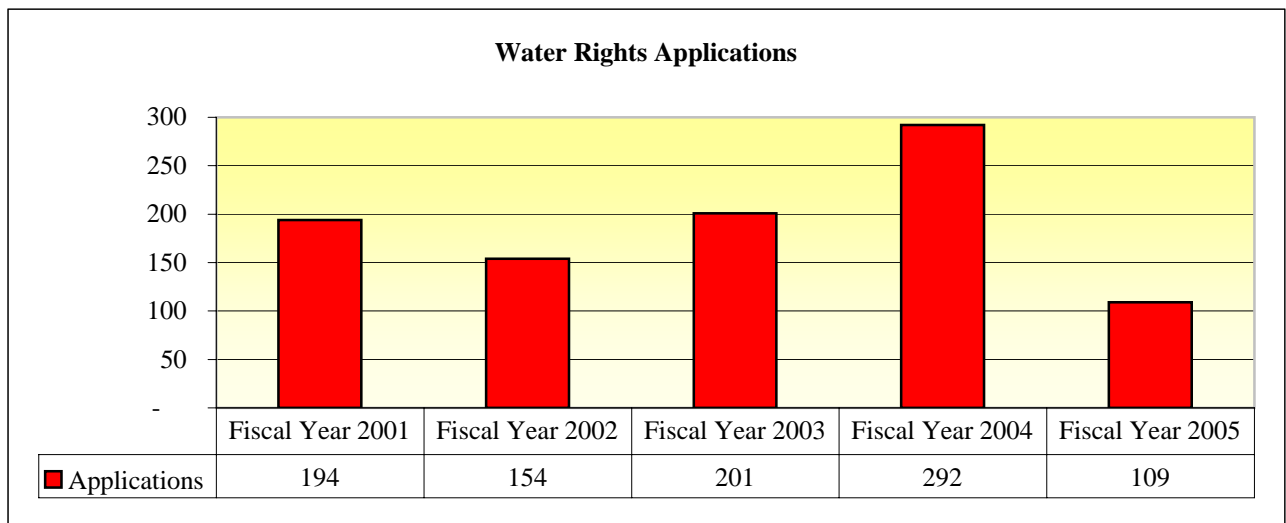
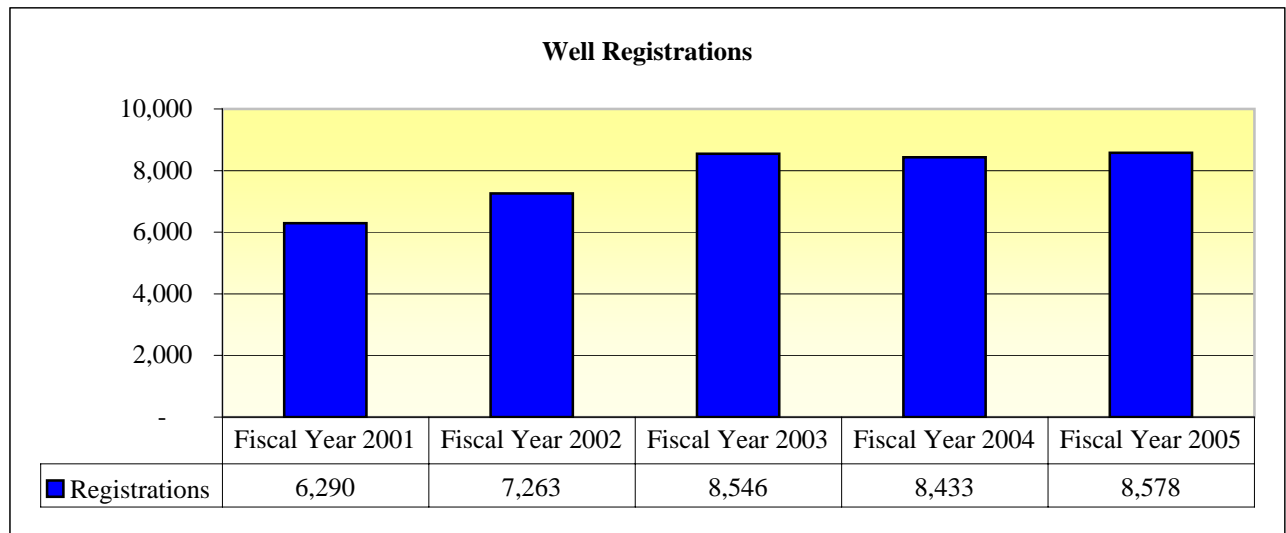
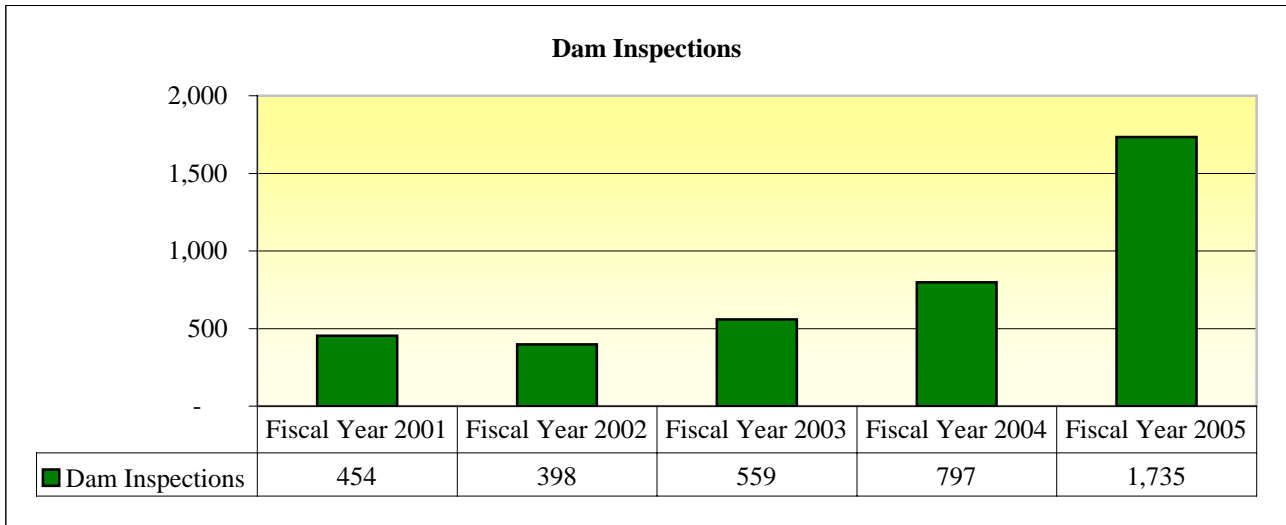


Program 306 - To provide funds for decommissioning wells in order to prevent contaminants from entering the groundwater. The Natural Resources Districts implement qualified well decommissioning programs.

Program 307 - To provide funding assistance for the construction of water conservation and development projects in Nebraska. Funding can be provided for up to seventy five percent of the local project cost as a loan or grant, with an additional fifteen percent available as a loan only.

Program 309 - Natural Resources Districts receive grants from the Department to carry out projects that meet State-mandated water quality improvement and monitoring responsibilities. The Districts must provide a \$3 match for every \$2 received.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES
**SCHEDULE OF DAM INSPECTIONS, WELL REGISTRATIONS,
 AND WATER RIGHTS APPLICATIONS**
 Fiscal Years 2001, 2002, 2003, 2004, and 2005



Source: Department of Natural Resources