

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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March 8, 2006

**Deann Haeffner, CPA**  
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Mike Linder, Director  
Nebraska Department of Environmental Quality  
P.O. Box 98922  
Lincoln, Nebraska 68509-8922

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
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Dear Mr. Linder:

**Pat Reding, CPA**  
Asst. Deputy Auditor  
[Pat.Reding@apa.ne.gov](mailto:Pat.Reding@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 certain internal control matters related to the activities of the Nebraska Department of Environmental Quality (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Agency's management, are intended to improve internal control or result in other operating efficiencies.

**Mark Avery, CPA**  
Subdivision Audit  
Review Coordinator  
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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**  
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Our comments and recommendations for the year ended June 30, 2005, are shown on the following pages.

## **COMMENTS RELATED TO THE SINGLE AUDIT**

### **1. Program: CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Fund – Subrecipient Monitoring and CFDA #66.458 - Capitalization Grants for Clean Water State Revolving Fund – Subrecipient Monitoring**

**Federal Grantor Agency:** U.S. Environmental Protection Agency

**Criteria:** Per OMB Circular A-133, a pass-through entity is responsible for the following:

- *Award Identification* - at the time of the award, identifying to the subrecipient the Federal award information (e.g. CFDA title and number, award name, name of Federal agency), and applicable compliance requirements;
- *During-the-award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved;
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings; and
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

**Condition:** The Agency has not performed the following:

- 1) Obtained all required A-133 reports from Subrecipients,
- 2) Reviewed A-133 reports, and
- 3) Followed up on findings and related corrective action.

**Questioned Costs:** None.

**Context:** The Agency did not obtain all required A-133 reports from subrecipients, review the A-133 reports, or follow up on findings and related corrective action. The Agency has obtained A-133 single audit reports from subrecipients; however, they have not been reviewed since 2002 and the Agency does not have controls in place to ensure they have received all the reports. The Agency does perform on-site and desk reviews to monitor their subrecipients' annual activity, but does not ensure proper follow up is conducted on the subrecipients' A-133 single audit reports. During fiscal year 2005, 27 subrecipients received \$11,289,690 from the Drinking Water program. Of these 27 subrecipients, seven received more than \$500,000. During fiscal year 2005, 16 subrecipients received \$8,477,178 from the Clean Water program. Of these 16 communities, six received more than \$500,000.

**Cause:** The Agency has not been able to properly review single audit reports.

**Effect:** The Agency is not in compliance with subrecipient monitoring requirements and is unable to provide assurance that the subrecipients are in compliance with Federal requirements.

**Recommendation:** We recommend the Agency continue to refine its centralized monitoring procedures and develop a monitoring tool, as well as written policies and procedures, to ensure that all required single audit reports are received, reviewed, and appropriate action is taken on any findings noted within time requirements.

**Management Response:**

**Corrective Action Plan:** Implemented.

**Contact:** Bart Moore

**Anticipated Completion Date:** Completed

**2. Program: CFDA #66.468 – FSR Reporting for Drinking Water State Revolving Fund - Reporting**

**Federal Grantor Agency:** U.S. Environmental Protection Agency

**Criteria:** Sound accounting practice requires supporting documentation agree to the required Federal reports submitted.

**Condition:** One of two financial status reports tested did not agree to NIS and supporting documentation.

**Questioned Costs:** None.

**Context:** The financial status report for grant #FS997805-02 for the Federal fiscal year ended September 30, 2004, did not agree to supporting documentation. The cumulative amount reported was accurate, but the Federal share was understated and the State share was overstated by \$315,685.

**Cause:** The report submitted for the period ended September 30, 2004, had incorrect beginning balance numbers which were calculated by an employee who had quit. The numbers were relied on without verifying the amounts.

**Effect:** This resulted in inaccurate reporting on the financial status reports.

**Recommendation:** We recommend the Agency ensure the amounts reported on the financial status reports agree to NIS and supporting documentation.

**Management Response:**

**Corrective Action Plan:** Implemented.

**Contact:** Bart Moore

**Anticipated Completion Date:** Completed

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.

*Pat Reding, CPA*

Pat Reding  
Assistant Deputy Auditor