

STATE OF NEBRASKA
Auditor of Public Accounts



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March 7, 2007

Mr. John Craig, Director
Nebraska Department of Roads
1500 Highway 2
Lincoln, Nebraska 68509-4759

Dear Mr. Craig:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 6, 2007. 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.

In connection with our audit described above, we noted a certain internal control matter related to the activities of the Department of Roads (the Agency) or other operational matters that is 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.

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.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comment and recommendation included in this letter. The formal response received has been incorporated into this letter. The response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next audit.

Our comment and recommendation for the year ended June 30, 2006, is shown on the following page.

COMMENT RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Payables and Receivables

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the State of Nebraska's Comprehensive Annual Financial Report (CAFR), State Accounting requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year. Good internal control requires procedures be established by the Agency to accurately report payables and receivables to State Accounting.

Our review of the accruals reported by the Agency for the fiscal year ended June 30, 2006, noted several discrepancies. These discrepancies were caused by reporting payables and receivables that were already recorded on NIS, reporting duplicate payables, using prior year percentages to estimate receivables which did not accurately reflect the current year expenditures, and the transposition of numbers when manually reporting payables. The total result of the discrepancies noted resulted in the Highway Fund's payables being overstated by \$49,018,684, receivables being understated by \$493,687, and prepaid items being overstated by \$2,525.

While all material discrepancies were corrected during the preparation of the basic financial statements, the failure to correctly report payables and receivables could result in inaccurate financial statements.

We recommend the Agency implement policies and procedures which ensure receivables and payables are accurately reported.

Department's Response: We concur with your audit findings pertaining to data provided by the Department of Roads for inclusion in the basic financial statements as reported in the State of Nebraska's Comprehensive Annual Financial Report (CAFR).

After discussions with State Accounting Division personnel and your audit staff, we (Department of Roads' accounting personnel) have a good understanding of financial information that should, or should not be reported by our agency to the Department of Administrative Services, State Accounting Division, for inclusion in the State's CAFR.


As you stated in your audit report, the State Accounting Division corrected discrepancies as reported by our agency, for purposes of the CAFR. The end result was the State's CAFR was reported accurately. Also, the Department of Roads' financial statements were not impacted, resulting from the data we submitted to DAS State Accounting for CAFR purposes.

All future data provided by the Department of Roads for the State's CAFR will be reported properly.

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
Assistant Deputy Auditor



Don Dunlap
Assistant Deputy Auditor