



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Charlie Janssen  
State Auditor

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January 23, 2019

Jim Macy, Director  
Nebraska Department of Environmental Quality  
1200 N Street, Suite 400  
P.O. Box 98922  
Lincoln, Nebraska 68509-8922

Dear Mr. Macy:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report thereon dated January 4, 2019. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska Department of Environmental Quality (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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies

in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Agency, pursuant to AICPA Auditing Standards AU-C Section 265.A17, in a separate early communication letter dated September 27, 2018.

Draft copies of this letter were furnished to the Agency to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such 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 it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2018.

**1. Bond Issuance Journal Entry**

During a review of fiscal year 2018 activity, we noted an erroneous balance in the bond issuance revenue object account. Each year, the Agency issues short-term bonds and deposits the proceeds through the bond issuance revenue object account. The Agency then reverses the activity to record the bonds as payables. These short-term bonds are issued and paid off within the same fiscal year. The Agency did not record all necessary bond issuance-related journal entries during fiscal year 2018, resulting in revenues (bond issuance) being overstated by \$2,560,000. The Agency posted an entry to correct the error after being brought to its attention by the Auditor of Public Accounts.

Good internal controls require adequate procedures to ensure journal entries are recorded in the accounting system and activity is properly reflected in the State's financial statements.

When journal entries are not properly performed in the accounting system, there is an increased risk errors will occur and go undetected, causing financial statement misstatements.

We recommend the Agency perform all annual journal entries related to bond issuances to ensure bond transactions are properly reflected on the State's financial statements.

*Agency Response: The Nebraska Department of Environmental Quality acknowledges a journal entry omission involving the issuance of short-term bonds. As corrective action, the agency has modified a standard operating procedure which details the steps in the short-term bond issuance and corresponding journal entries. It will be the Budget Officer's duty to make sure the procedure is being followed for the issuance of future short-term bonds.*

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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 the Agency.

This communication is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be, and should not be, used by anyone other than the specified parties. However, this communication is a matter of public record, and its distribution is not limited.



Philip J. Olsen, CPA, CISA  
Assistant Deputy Auditor