



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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April 28, 2022

Tom Riley, Director  
Nebraska Department of Natural Resources  
301 Centennial Mall South  
P.O. Box 94676  
Lincoln, Nebraska 68509

Dear Director Riley:

We were engaged to audit 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, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and we have issued our report thereon dated April 28, 2022. In connection with our engagement to audit the financial statements, 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, 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 engagement to audit the financial statements as described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska Department of Natural Resources (Department) or other operational matters that are presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Department'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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses may exist that have not been identified.

Draft copies of this letter were furnished to the Department to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. The Department declined to respond.

The following is our comment and recommendation for the year ended June 30, 2021.

## Department's Outside Account

The Department prepaid \$15,245,113 in State revenues, from August 2013 through June 2016, from the Water Resources Cash Fund to the Basin Coalition Fund for a reservoir project. Unlike the Water Resources Cash Fund, which is created and governed by State statute, the Basin Coalition is managed by the Nebraska Community Foundation (NCF), a private entity that operates outside of State government.

The NCF had not expended any monies since October 2013, at which time only \$3.8 million of the original \$15.2 million had been expended. The remaining \$11.4 million is being held by the NCF and, therefore, has not been earning investment income in a State bank account. According to the Department, the monies were paid in advance for the reservoir project but have sat idle since first funded.

This issue was first reported by the Auditor of Public Accounts (APA) in the July 1, 2017, through December 31, 2018, attestation of the Department. The APA has followed up every year thereafter to determine the status of the transactions. However, no new funds have been paid to NCF or spent by NCF on the reservoir project.

Good internal control requires State funds to be in a State controlled bank account earning interest income until actual expenditures have been incurred.

When State funds are not held in State bank accounts, there is a loss of interest income and an increased risk monies will be used inappropriately or not recouped if the project is discontinued.

We recommend the Department work with NCF to determine if the project will be completed in a timely manner. The Department should ensure all unexpended funds are returned and deposited in a State bank account.

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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 Department 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 Department.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Department, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.



Kris Kucera, CPA, CFE  
Assistant Deputy Auditor