

**MANAGEMENT LETTER
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY
CLEAN WATER
STATE REVOLVING FUND PROGRAM
JULY 1, 2002 THROUGH JUNE 30, 2003**

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STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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Kate Witek
State Auditor
kwitek@mail.state.ne.us

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

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

Dear Mr. Linder:

We have audited the financial statements of the Nebraska Department of Environmental Quality (Department) – Clean Water State Revolving Fund Program (Program) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 26, 2004. We have also issued a Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, dated May 26, 2004 and a Report on Compliance with Requirements Applicable to the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program in Accordance with *U.S. Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting, and on the Program's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

We noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

Our Comments and Recommendations for the Program for the fiscal year ended June 30, 2003 are included on pages 4-6.

This letter is intended solely for the information and use of the Department, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Pat Reding, CPA

Pat Reding
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Environmental Quality – Clean Water State Revolving Fund Program, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. **Accounting Records:** Some of the Department's information on the financial statements could not be reconciled to the Nebraska Information System (NIS). Also, some prior year adjustments were not corrected.
2. **Loan Records:** Loans were not properly accounted for on NIS. Loans receivable at June 30, 2003 per NIS were \$77,364,685, however, the Department's internal records showed loans receivable of \$91,183,380. The amount of loans not accounted for on NIS at June 30, 2003 was \$13,818,695.
3. **Annual Federal Report:** The Department did not file their annual report with the EPA for the State fiscal year ending June 30, 2003 in a timely manner. The report was due September 30, 2003, but was not filed until April 2004.
4. **Annual Financial Status Report (FSR):** The Department did not file their annual financial status report with the United States Environmental Protection Agency (EPA) for the federal fiscal year ending September 30, 2002 in a timely manner. The report was due December 31, 2002, but was not filed until March 28, 2003. Also, the Department did not maintain documentation to support the amounts reported on the FSR.
5. **Federal Cash Transaction Reports:** The Department submitted the federal cash transaction reports after the deadline.

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

Draft copies of this letter were furnished to the Department to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. The Department declined to respond.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Accounting Records

NIS was established by the Nebraska Legislature to be the official accounting system of the State of Nebraska. Sound accounting practices and good internal controls require information reported on the financial statements to reconcile to accounting records. Prior year adjustments should also be corrected.

Certain information reported in the financial statements could not be reconciled to NIS:

	NIS	Financial Statements	Variance
Cash and Cash Equivalents	\$ 38,470,300	\$ 38,496,151	\$ (25,851)
Cash Transfers Out	\$ 116,655	122,667	\$ 6,012
Loan Fees Administration	\$ 948,973	933,935	\$ 15,038
Payments to Borrowers	\$ 21,586,058	21,623,065	\$ 37,007

While the variances are small in relation to the entire Program balance, it is important to reconcile Program activity as recorded on NIS in order to ensure all of the Program's activity was properly recorded and accounted for. If NIS is not corrected for the posting errors made during the fiscal year ended June 30, 2003, the Department will continue to have problems in future years reconciling Program cash to NIS cash. The Department did not correct the variance of \$14,417 noted in the audit for the fiscal year ended June 30, 2002. The variance continues to change and reconciliation will become more difficult as time passes.

We recommend the Department reconcile the activity recorded on the financial statements to actual activity recorded in NIS and make any adjustments necessary. In addition, we recommend the Department correct prior year adjustments.

2. Loan Records

Good internal controls require that all loan activity be recorded on NIS.

Loan activity was not properly accounted for on NIS. Loans receivable at June 30, 2003 per NIS were \$77,364,685, however, the Department's internal records showed loans receivable in the amount of \$91,183,380. The amount of loans not accounted for in NIS was \$13,818,695, which resulted in the accounting system showing incorrect financial information.

We recommend the Department record all loan activity on NIS.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Annual Federal Report

Title 40 C.F.R. Section 35.3165(a) (2002) requires the State to submit a biennial report to the EPA describing how the Program met the goals and objectives of the previous two fiscal years as stated in the Intended Use Plan and capitalization grant agreements. This report is to be filed according to the schedule established in the grant agreement. Per the grant agreement, the State must submit a biennial report to the EPA within 90 days of the end of the State fiscal year. The Department has decided to prepare an annual report for the Program, instead of the biennial report.

The Department did not file the Program's annual report for the State fiscal year ending June 30, 2003 until April 2004. This report was due September 30, 2003. The annual report for fiscal year ending June 30, 2002 was not filed until February 2003. This resulted in noncompliance with the grant agreement. A similar finding was noted in the prior report.

We recommend the Department implement procedures to ensure the annual reports are filed in a timely manner and in compliance with Federal regulations.

4. Annual Financial Status Report

The Code of Federal Regulations (C.F.R.) establishes requirements for Federal programs. Title 40 C.F.R. Section 31.41(b)(4) (2002) states annual financial status reports for construction grants are due 90 days after the grant year. For the Program, the grant year ends each September 30.

The Department did not file their annual financial status report with the United States Environmental Protection Agency (EPA) for the federal fiscal year ending September 30, 2002 in a timely manner. This report was due December 31, 2002, but was not filed until March 28, 2003. In addition, the Department did not maintain documentation to support the amounts recorded on the annual financial status report. This resulted in noncompliance with Federal requirements. A similar finding was noted in the prior report.

We recommend the Department implement procedures to ensure the financial status reports are filed in a timely manner and in compliance with Federal regulations. We also recommend the Department maintain documentation to support the amounts reported.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Federal Cash Transactions Reports

The United States EPA Electronic Funds Transfer Payment Process Recipients' Manual (May 2002) requires submission of the SF-272 Federal Cash Transactions Report to the EPA semi-annually. This report is to be submitted within 15 days following the periods December 31 and June 30.

The Department filed the reports tested more than 15 days after the end of the semi-annual periods. This resulted in noncompliance with Federal requirements. A similar finding was noted in the prior report.

We recommend the Department implement procedures to ensure the cash transactions reports are filed in a timely manner.