

**MANAGEMENT LETTER
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY
DRINKING WATER
STATE REVOLVING FUND PROGRAM
JULY 1, 2000 THROUGH JUNE 30, 2001**

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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January 3, 2002

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

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

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

Dear Mr. Linder:

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@vmhost.cdp.state.ne.us

We have audited the financial statements of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program (Program) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 3, 2002. 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 January 3, 2002.

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@vmhost.cdp.state.ne.us

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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion.

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

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.

Dennis Meyer
Budget Coordinator
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Mark Avery
Subdivision Audit
Review Coordinator
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Our Summary of Comments, and our Comments and Recommendations for the Program for the fiscal year ended June 30, 2001 are as follows:

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

SUMMARY OF COMMENTS

1. **Cash Reconciliation:** The cash and cash equivalents as recorded on the Nebraska Accounting System (NAS) were \$13,757 more than were reported on the financial statements.
2. **Federal Report:** The Department filed their financial status report with the United States Environmental Protection Agency (EPA) for the federal fiscal year ending September 30, 2000 on December 27, 2001.
3. **Loan Records:** The Department accounted for loans using both internal records and NAS, instead of using NAS only.

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 report were furnished to the Nebraska Department of Environmental Quality to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

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

COMMENTS AND RECOMMENDATIONS

1. **Cash Reconciliation**

The Nebraska Accounting System (NAS) 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 the assets of the Program to be separately documented in the entity's accounting records.

During our audit of the Drinking Water State Revolving Fund Program (Program), we noted the Cash and Cash Equivalents as recorded on NAS were \$13,757 more than were reported on the Program's balance sheet at June 30, 2001. The Department explained this variance as posting errors made to NAS cash accounts.

COMMENTS AND RECOMMENDATIONS

1. **Cash Reconciliation** (Concluded)

While the variance is small in relation to the entire Program balance, it is important to reconcile Program activity as recorded on NAS in order to ensure all of the Program's activity was properly recorded and accounted for. If NAS is not corrected for the posting errors made during the fiscal year ended June 30, 2001, the Department will continue to have problems in future years reconciling Program cash to NAS cash.

We recommend the Department reconcile the cash activity as recorded on NAS to actual activity of the Program every year. In addition, we recommend the Department determine errors made in the fiscal year ended June 30, 2001 and make the adjustments to NAS as required.

Department's Response: The department will correct transactions that affect the cash balances.

2. **Federal Report**

The Code of Federal Regulations establishes requirements for Federal programs. 40 C.F.R. Section 31.41(b)(4) 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 for the federal fiscal year ending September 30, 2000 until December 27, 2001.

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

Department's Response: The department has implemented a process to ensure that all FSR are completed by their due dates.

3. **Loan Records**

A significant part of accounting for the Program's activity is the loan activity. Currently the Department accounts for this activity using both internal records and NAS. The internal records include loan files for each city, and ledger sheets showing loan approvals, loan payments, interest and principal payments on loans, and loan balances. This was also noted in the prior three audits for the fiscal years ending June 30, 1998, 1999, and 2000.

COMMENTS AND RECOMMENDATIONS

3. Loan Records (Concluded)

While the Department did reconcile their internal records to NAS, we believe it would be more efficient, and internal controls would be improved, if each loan and its activity were recorded on NAS. Efficiency would be improved because the system would record the transactions, and separate spreadsheets and reconciliations to NAS would not need to be prepared. Internal controls would be improved as there would be a reduced likelihood of posting errors, because the original transaction would be recorded based on the approved transactions, and it would not be necessary to again record that transaction on a spreadsheet.

We recommend the Department work toward getting all loans and loan activities recorded on NAS.

Department's Response: The department is in the process of adding the loan receivable balances to the Nebraska Accounting System so that they may be incorporated when the NIS project takes effect.

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,



Tim Channer
Audit Manager