

**MANAGEMENT LETTER
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY
CLEAN WATER
STATE REVOLVING FUND PROGRAM
JULY 1, 2005 THROUGH JUNE 30, 2006**

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Issued on April 17, 2007

STATE OF NEBRASKA
Auditor of Public Accounts



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March 21, 2007

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, 2006, and have issued our report thereon dated March 21, 2007. 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 March 21, 2007, and a Report on Compliance and Internal Control over 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 a certain matter involving the internal control over financial reporting that is presented here. The comment and recommendation is intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

Our Comment and Recommendation for the Program for the fiscal year ended June 30, 2006, is included on page 3.

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Pat Reding, CPA

Pat Reding
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND PROGRAM

COMMENT AND RECOMMENDATION

Cash Variance

The Nebraska Information System (NIS) was established by the Nebraska Legislature to be the official accounting system of the State of Nebraska. Sound accounting practice and good internal controls require information reported on the financial statements to reconcile to accounting records.

Certain information reported in the Program's financial statements could not be reconciled to NIS. Cash in NIS, at June 30, 2006, was \$21,638 higher than Cash in State Treasury as recorded on the financial statements. The prior audit noted cash in NIS, at June 30, 2005, was \$21,668 higher than Cash in State Treasury as recorded on the financial statements.

| | NIS | Financial Statements | Variance |
|------------------------|---------------|----------------------|-------------|
| Cash in State Treasury | \$ 39,465,104 | \$ 39,443,466 | \$ (21,638) |

While the variance is 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 activity was properly recorded and accounted for.

We recommend the Department continue to reconcile activity recorded on the financial statements to actual activity recorded on NIS. In addition, a corrective adjustment should be made in NIS.

It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement.

Draft copies of this report were furnished to the Department to provide them an opportunity to review the letter and to respond to the comment and recommendation 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.