

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF  
NATURAL RESOURCES**

**JULY 1, 2006 THROUGH JUNE 30, 2007**

**This document is an official public record of the State of Nebraska, issued by  
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original  
document and may be prohibited by law.**

**Issued on May 16, 2008**

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1
Mission Statement	1
Organizational Chart	2
Commission Members	3
<b>Comments Section</b>	
Exit Conference	4
Comment and Recommendation	5 - 6
<b>Financial Section</b>	
Independent Accountant's Report	7 - 8
Schedule of Revenues, Expenditures, and Changes in Fund Balances	9 - 10
Notes to the Schedule	11 - 15
<b>Government Auditing Standards Section</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances Performed in Accordance with <i>Government Auditing Standards</i>	16 - 17
<b>Statistical Section</b>	18
Schedule of Direct Aid Payments to Natural Resources Districts	19
Schedule of Dam Inspections, Well Registrations, and Water Rights Applications	20

# NEBRASKA DEPARTMENT OF NATURAL RESOURCES

## **BACKGROUND**

The Department of Natural Resources (Department) was established on July 1, 2000, when the former Department of Water Resources and Natural Resources Commission were merged into a single agency. The Department is responsible for the administration and enforcement of State water laws pertaining to water quantity, well registration, and dam and reservoir construction approval and inspection. The Department negotiates and administers water compacts and administers court decrees with surrounding states. The Department also serves as the official agency of the State in connection with soil and water conservation, flood prevention, watershed protection, and flood control.

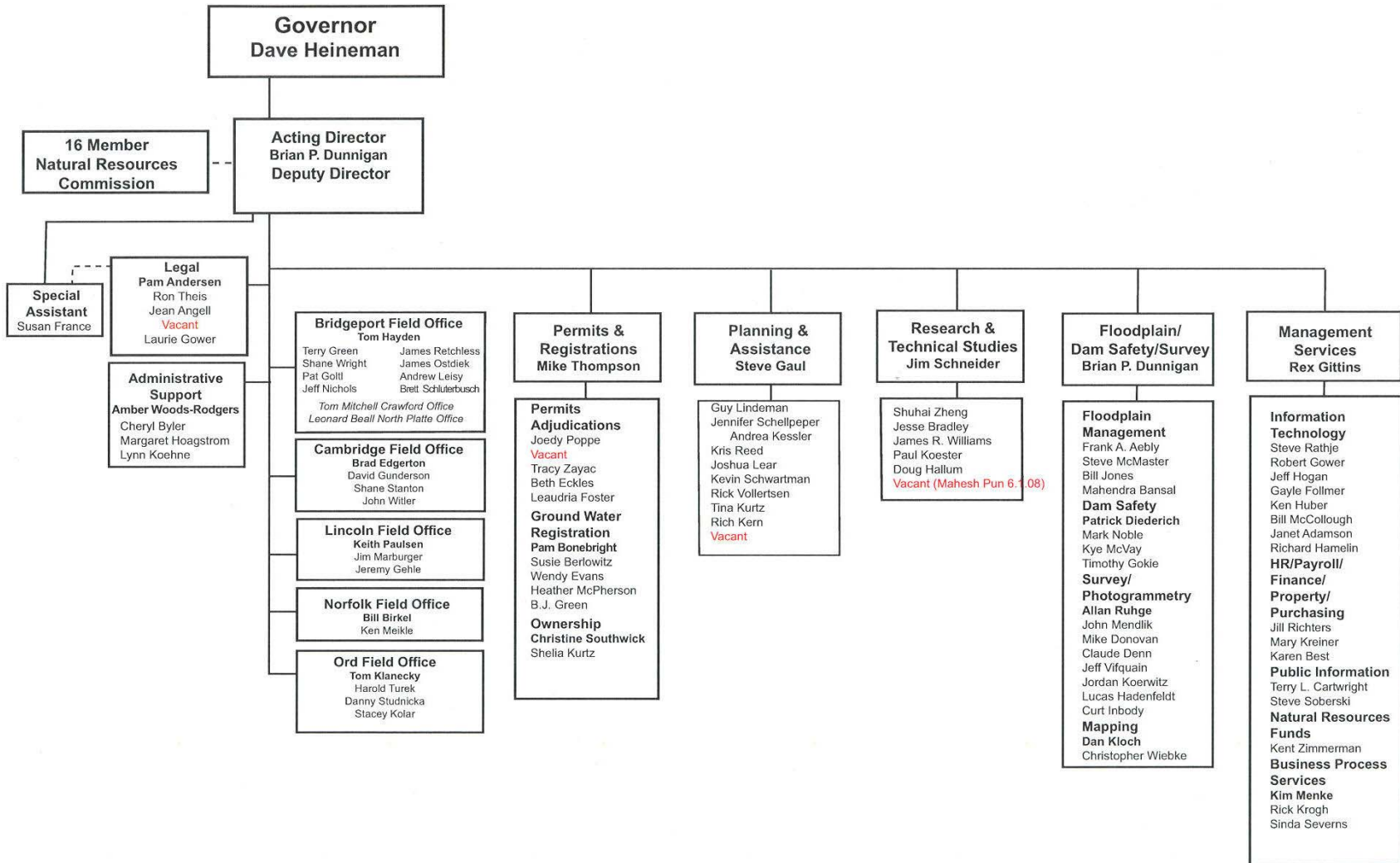
Sixteen members make up the Nebraska Natural Resources Commission (Commission), of which thirteen represent the State's recognized river basins. The Governor appoints the other three members with approval by the Legislature. Commission members representing river basins are selected for four-year terms. The Nebraska Natural Resources Commission carries out certain specific responsibilities in connection with natural resources districts. In addition, the Commission is responsible for adopting and amending the Department rules and regulations for the Small Watersheds Control Fund, the Nebraska Resources Development Fund, the Nebraska Soil and Water Conservation Fund, the Water Well Decommissioning Fund, and the Natural Resources Water Quality Fund all of which are administered by the Department of Natural Resources.

## **MISSION STATEMENT**

Administer and regulate surface water; direct floodplain management and dam safety programs; assemble and share data on land, water, and related resources in a user friendly manner; provide natural resources planning assistance; register ground water wells and issue permits; and manage State cost-share programs in an expedient and cost-effective manner to assure proper use and protection of Nebraska's land, water, and related resources.

# NEBRASKA DEPARTMENT OF NATURAL RESOURCES

## ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**COMMISSION MEMBERS**

**MEMBERS REPRESENTING RIVER BASINS**

N. Richard Hadenfeldt - Loup River Basin - Vice-Chairperson  
Beverly Donaldson - Missouri Tributaries River Basin  
David Kadlecek - Niobrara-White Hat River Basin  
Myron Lembke - North Platte River Basin  
Joseph Hergott - Little Blue River Basin  
Larry Moore - Big Blue River Basin.  
Vincent Kramper - Missouri Tributaries River Basin  
Dan Watermeier - Nemaha River Basin  
Ladd M. Reeves - Middle Platte River Basin  
John Burkholder - Republican River Basin  
Garry Anderson - Elkhorn River Basin  
Clint Johannes - Lower Platte River Basin - Chairperson  
Keith Rexroth - South Platte River Basin

**MEMBERS APPOINTED BY THE GOVERNOR**

Wayne Madsen - Ground Water Irrigators  
Roger Korell - Surface Water Irrigators  
Jim Van Marter - Municipal Water Users

(Current as of February 2008)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**EXIT CONFERENCE**

An exit conference was held April 24, 2008, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Natural Resources were:

<b>NAME</b>	<b>TITLE</b>
Brian Dunnigan	Acting Director
Rex Gittins	Director - Management Services Division
Pam Andersen	General Counsel
Karen Best	Accountant
Mary Kreiner	Accountant

## NEBRASKA DEPARTMENT OF NATURAL RESOURCES

### COMMENT AND RECOMMENDATION

During our examination of the Nebraska Department of Natural Resources, we noted a certain matter involving the internal control over financial reporting that is presented here.

#### **Expenditures and Contracts**

Good internal control requires supporting documentation be on file to support the vendor selection for expenditures, that a documented review by legal counsel is completed for contracts, and that applicable contracts have a clause allowing for termination. Neb. Rev. Stat. Section 81-1716(1) R.R.S. 1999 states that “each contract for professional services entered into by the agency shall contain a prohibition against contingent fees as follows: The architect, or registered land surveyor, professional engineer, or landscape architect, as applicable, warrants that he has not employed or retained any company or person, other than a bona fide employee working solely for him, to solicit or secure this agreement and that he has not paid or agreed to pay any person, company, corporation, individual, or firm, other than a bona fide employee working solely for him, any fee, commission, percentage, gift, or any other consideration contingent upon or resulting from the award or the making of this agreement.”

- Two of ten expenditures tested did not have adequate documentation on file. Expenditures to Embassy Suites and Teledyne Isco did not have supporting documentation on file to support the choice of vendor.
- Three of eight contracts tested were not reviewed by legal counsel or the legal counsel review was not documented. Contracts between the Department and URS Corporation, Lower Loup NRD and US Geological Survey were not reviewed by legal counsel.
- One of six applicable contracts tested did not have a termination clause. A contract between the Department and URS Corporation did not have a termination clause.
- All four professional service contracts tested did not have a clause prohibiting contingent fees. Professional service contracts between the Department and URS Corporation, McDonald & Morrissey Assoc., US Geological Survey, and UNL did not contain a clause prohibiting contingent fees.

Without adequate documentation to support vendors selected there is an increased risk of the loss or misuse of State funds. Without good internal control over the contracts there is the possibility of a loss or misuse of State funds. Without proper review, the Department may enter into a contract with language detrimental to the Department or the State. Without procedures to comply with State statute, there is an increased risk for the misuse for State funds.

**COMMENT AND RECOMMENDATION**

(Continued)

**Expenditures and Contracts** (Concluded)

We recommend the Department document the selection of vendors for necessary expenditures. In addition, policies and procedures should be implemented which ensure contracts are reviewed by legal counsel, for professional service contracts a clause prohibiting contingent fees is included, and contracts contain termination clauses.

*Department's Response:*

1. *Documentation supporting choice of vendor: Legal and accounting personnel will assure that all contracts from \$2,000 to \$10,000 which are not subjected to a formal bid process will be supported with informal bid documents, deviation justifications, and/or other pertinent documentation to identify vendors from which bids were solicited and to support our choice of vendor. Contract managers are required to provide this information for legal review, and will maintain the documentation in contract administration files.*
2. *Legal review of contracts: Existing department policy and procedure requiring contractual documents to be stamped and initialed by legal counsel as a prerequisite to the Director's approval have been discussed and re-emphasized.*
3. *Termination clauses: A termination clause as well as a "not to exceed" amount are now standard inclusions in all professional services contracts.*
4. *Contingent fees: A clause prohibiting contingent fees has been added to the list of standard inclusions in all professional services contracts.*

It should be noted this report is critical in nature as 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 report and to respond to the comment and recommendation included in this report. The formal response received has been incorporated into this report. The response has been objectively evaluated and recognized, as appropriate, in the report. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.





## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

---

Mike Foley  
State Auditor

Mike.Foley@apa.ne.gov  
P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

### NEBRASKA DEPARTMENT OF NATURAL RESOURCES

#### INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Natural Resources  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Natural Resources (Department) for the fiscal year ended June 30, 2007. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Natural Resources for the fiscal year ended June 30, 2007, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2008, on our consideration of the Nebraska Department of Natural Resources' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

Handwritten signature of Timothy J. Chambers CPA in black ink.

Assistant Deputy Auditor

May 12, 2008

NEBRASKA DEPARTMENT OF NATURAL RESOURCES  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2007

	General Fund 10000	Natural Resources Water Issues Fund 22900	Small Watersheds Flood Control Fund 25510	Nebraska Resources Development Fund 25520	Nebraska Soil & Water Conservation Fund 25530	Natural Resources Water Quality Fund 25540	Water Well Decommissioning Fund 25550
<b>REVENUES:</b>							
Appropriations	\$ 23,927,371	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	51,704	-	-	-	-	-	-
Sales & Charges	66,104	-	-	-	-	-	122,724
Miscellaneous	16,010	1,474	54,200	26,582	15,876	11,213	1,175
<b>TOTAL REVENUES</b>	<b>24,061,189</b>	<b>1,474</b>	<b>54,200</b>	<b>26,582</b>	<b>15,876</b>	<b>11,213</b>	<b>123,899</b>
<b>EXPENDITURES:</b>							
Personal Services	5,515,413	-	-	-	-	-	-
Operating	2,281,203	33,952	-	-	-	-	-
Travel	305,707	4,057	-	-	-	-	-
Capital Outlay	154,281	-	-	-	-	-	-
Government Aid	15,670,767	42,553	854,700	100,000	-	855,000	127,625
<b>TOTAL EXPENDITURES</b>	<b>23,927,371</b>	<b>80,562</b>	<b>854,700</b>	<b>100,000</b>	<b>-</b>	<b>855,000</b>	<b>127,625</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	133,818	(79,088)	(800,500)	(73,418)	15,876	(843,787)	(3,726)
<b>OTHER FINANCING SOURCES (USES):</b>							
Sales of Assets	447	-	-	-	-	-	-
Adjustment to Fund Balance	(66)	-	-	-	-	-	-
Deposit to General Fund	(134,265)	-	-	-	-	-	-
Deposit to/from Common Fund	-	-	-	-	-	952,000	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(133,884)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>952,000</b>	<b>-</b>
Net Change in Fund Balances	(66)	(79,088)	(800,500)	(73,418)	15,876	108,213	(3,726)
FUND BALANCES, JULY 1, 2006	2,823	79,251	1,254,194	169,656	9,915	225,277	13,306
FUND BALANCES, JUNE 30, 2007	<u>\$ 2,757</u>	<u>\$ 163</u>	<u>\$ 453,694</u>	<u>\$ 96,238</u>	<u>\$ 25,791</u>	<u>\$ 333,490</u>	<u>\$ 9,580</u>
<b>FUND BALANCES CONSIST OF:</b>							
General Cash	\$ -	\$ 163	\$ 453,694	\$ 78,835	\$ 25,791	\$ 333,490	\$ 9,565
Deposits with Vendors	2,757	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-	-	15
Due From Other Funds	-	-	-	-	-	-	-
Loans Receivable	-	-	-	17,429	-	-	-
Due to Vendors	-	-	-	-	-	-	-
Due to Fund	-	-	-	(26)	-	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 2,757</u></b>	<b><u>\$ 163</u></b>	<b><u>\$ 453,694</u></b>	<b><u>\$ 96,238</u></b>	<b><u>\$ 25,791</u></b>	<b><u>\$ 333,490</u></b>	<b><u>\$ 9,580</u></b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2007

	Water Policy Task Force Fund 25570	Interstate Water Rights Fund 25580	Water Resources Trust Fund 25590	Department of Natural Resources Cash Fund 26600	Dam Safety Fund 42910	Federal Drought Monitoring Fund 42920	Federal Water Resources Plan Fund 45520	<b>Totals (Memorandum Only)</b>
<b>REVENUES:</b>								
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,927,371
Intergovernmental	24,759	-	-	25,610	88,645	23,798	596,235	810,751
Sales & Charges	-	-	-	161,666	-	-	-	350,494
Miscellaneous	7,454	1,420	4,326	28,676	2,363	52	6,219	177,040
<b>TOTAL REVENUES</b>	<b>32,213</b>	<b>1,420</b>	<b>4,326</b>	<b>215,952</b>	<b>91,008</b>	<b>23,850</b>	<b>602,454</b>	<b>25,265,656</b>
<b>EXPENDITURES:</b>								
Personal Services	-	-	-	80,475	110,581	-	110,117	5,816,586
Operating	15,511	-	-	42,031	10,324	-	250,839	2,633,860
Travel	9,016	-	-	-	264	-	14,265	333,309
Capital Outlay	-	-	-	35,257	-	-	43,143	232,681
Government Aid	-	-	-	-	-	23,798	146,316	17,820,759
<b>TOTAL EXPENDITURES</b>	<b>24,527</b>	<b>-</b>	<b>-</b>	<b>157,763</b>	<b>121,169</b>	<b>23,798</b>	<b>564,680</b>	<b>26,837,195</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,686	1,420	4,326	58,189	(30,161)	52	37,774	(1,571,539)
<b>OTHER FINANCING SOURCES (USES):</b>								
Sales of Assets	-	-	-	-	-	-	-	447
Adjustment to Fund Balance	-	-	-	-	-	-	-	(66)
Deposit to General Fund	-	-	-	-	-	-	-	(134,265)
Deposit to/from Common Fund	-	-	-	-	-	-	-	952,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>818,116</b>
Net Change in Fund Balances	7,686	1,420	4,326	58,189	(30,161)	52	37,774	(753,423)
FUND BALANCES, JULY 1, 2006	157,753	30,206	92,018	594,852	94,634	584	22,164	2,746,633
FUND BALANCES, JUNE 30, 2007	<u>\$ 165,439</u>	<u>\$ 31,626</u>	<u>\$ 96,344</u>	<u>\$ 653,041</u>	<u>\$ 64,473</u>	<u>\$ 636</u>	<u>\$ 59,938</u>	<u>\$ 1,993,210</u>
<b>FUND BALANCES CONSIST OF:</b>								
General Cash	\$ 165,439	\$ 31,626	\$ 96,344	\$ 638,041	\$ 30,828	\$ 636	\$ 56,033	\$ 1,920,485
Deposits with Vendors	-	-	-	-	-	-	-	2,757
Accounts Receivable Invoiced	-	-	-	-	33,645	-	18,911	52,571
Due From Other Funds	-	-	-	15,000	-	-	-	15,000
Loans Receivable	-	-	-	-	-	-	-	17,429
Due to Vendors	-	-	-	-	-	-	(6)	(6)
Due to Fund	-	-	-	-	-	-	(15,000)	(15,026)
<b>TOTAL FUND BALANCES</b>	<b>\$ 165,439</b>	<b>\$ 31,626</b>	<b>\$ 96,344</b>	<b>\$ 653,041</b>	<b>\$ 64,473</b>	<b>\$ 636</b>	<b>\$ 59,938</b>	<b>\$ 1,993,210</b>

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2007

1. Criteria

The accounting policies of the Nebraska Department of Natural Resources (Department) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2006, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

In accordance with Neb. Rev. Stat. Section 81-1111(1) R.R.S. 1999, The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes the Nebraska Information System (NIS) to maintain the general ledger and all detail accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information kept on NIS. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payables recorded in the general ledger as of June 30, 2007, include only those payables posted in the general ledger before June 30, 2007, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2007, **does not** include amounts for goods and services received before June 30, 2007, which had not been posted to the general ledger as of June 30, 2007.

Other liabilities are recorded in an account titled Due to Fund for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Department are:

**10000 – General Fund** – accounts for activities funded by general tax dollars and related expenditures and transfers.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NOTES TO THE SCHEDULE**

(Continued)

1. **Criteria** (Continued)

**20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

**40000 – Federal Funds** – accounts for the financial activities related to the receipt and disbursement of funds generated from the federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable federal requirements.

The major revenue account classifications established by State Accounting used by the Department are:

**Appropriations** – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

**Intergovernmental** – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

**Sales & Charges** – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

**Miscellaneous** – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure account classifications established by State Accounting used by the Department are:

**Personal Services** – Salaries, wages, and related employee benefits provided for all persons employed by the Department.

**Operating** – Expenditures directly related to a program's primary service activities.

**Travel** – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

**Capital Outlay** – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

**Government Aid** – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant accounting classifications and procedures established by State Accounting and used by the Department include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to the fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Department's funds at June 30, 2007, included amounts recorded in Due to Fund. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

**Other Financing Sources** – Operating transfers, proceeds of fixed asset dispositions, and long-term debt proceeds.

**2. Reporting Entity**

The Nebraska Department of Natural Resources is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department included in the general ledger.

The Nebraska Department of Natural Resources is part of the primary government for the State of Nebraska.

**3. Totals**

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

**NOTES TO THE SCHEDULE**

(Continued)

**4. General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

**5. Capital Assets**

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System.

For the CAFR, the State requires the Department to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements are capitalized. Building improvements and renovations are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Buildings and equipment are depreciated in the CAFR using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3-10 years



NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NOTES TO THE SCHEDULE**

(Continued)

**5. Capital Assets (Concluded)**

Capital asset activity of the Department recorded in the State Accounting System for the fiscal year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Land	\$ 1,202	\$ -	\$ -	\$ 1,202
Buildings	59,680	-	-	59,680
Equipment	1,752,168	253,459	76,610	1,929,017
Total	<u>\$ 1,813,050</u>	<u>\$ 253,459</u>	<u>\$ 76,610</u>	<u>1,989,899</u>
Less accumulated depreciation for:				
Buildings				45,229
Equipment				<u>1,422,626</u>
Total				<u>1,467,855</u>
Total capital assets, net of depreciation				<u>\$ 522,044</u>

**6. Deposits to/from Common Funds**

The Natural Resources Water Quality Fund receives a portion of the registration fee charged for pesticides that are not classified as a specialty pesticide per Neb. Rev. Stat. Section 2-2634 R.S.Supp., 2006. The Fund also receives the commercial applicator license fee collected per Neb. Rev. Stat. Section 2-2638 R.S.Supp., 2006 and the private applicator license fee collected per Neb. Rev. Stat. Section 2-2641 R.S.Supp., 2006. The fees are collected and deposited by the Nebraska Department of Agriculture.

**7. Reconciliation of Bank Records to the State's General Ledger**

Through their bank reconciliation procedures, State Accounting has identified a large unknown statewide variance between the State Treasurer's bank statements and the State's balances in the general ledger. This unknown variance indicates the bank records are short as compared to the accounting records. Some adjustments to the accounting records may be needed and may affect the fund balances of the Department. At this time, it has not been determined how or when adjustments to the accounting records might be made. State Accounting is unable to determine the affect of such adjustment, if any, on the Department's balances; however, State Accounting believes it will not have a material impact on the Department's operations.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

Mike.Foley@apa.ne.gov  
P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
www.auditors.state.ne.us

NEBRASKA DEPARTMENT OF NATURAL RESOURCES  
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Nebraska Department of Natural Resources  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Natural Resources as of and for the year ended June 30, 2007, and have issued our report thereon dated May 12, 2008. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Natural Resources' internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Natural Resources' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Natural Resources' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska Department of Natural Resources' ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services such that there is more than a remote likelihood that a misstatement of the Nebraska Department of Natural Resources' financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska Department of Natural Resources' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedule will not be prevented or detected by the Nebraska Department of Natural Resources' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Natural Resources' financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain additional item that we reported to management of the Nebraska Department of Natural Resources in the Comments Section of this report as Expenditures and Contracts.

The Nebraska Department of Natural Resources' written response to the finding identified in our examination is described in the Comments Section of the report. We did not examine the Nebraska Department of Natural Resources' response and accordingly, we express no opinion on it. Where no response is indicated, the Department declined to respond.

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

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

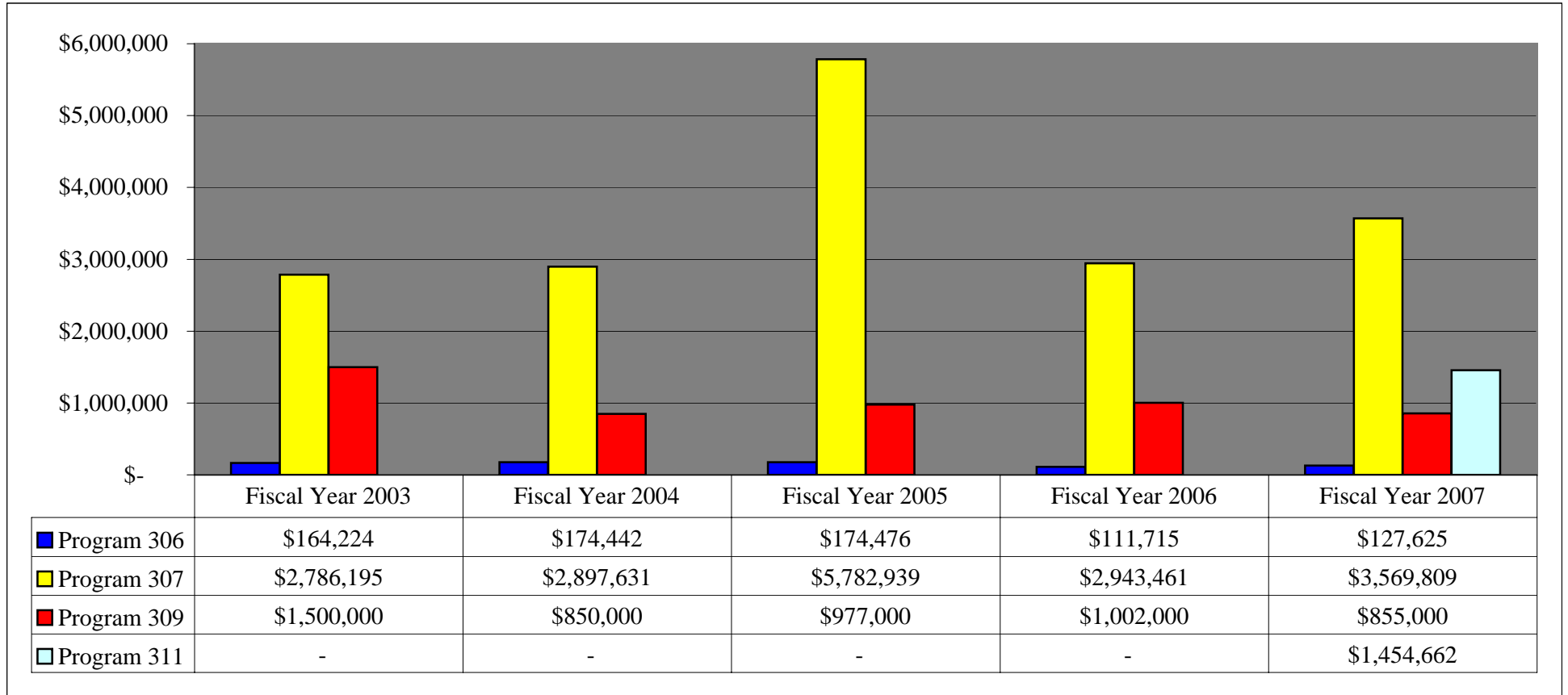
May 12, 2008

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**STATISTICAL SECTION**

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

**NEBRASKA DEPARTMENT OF NATURAL RESOURCES**  
**SCHEDULE OF DIRECT AID PAYMENTS TO NATURAL RESOURCES DISTRICTS**  
 Fiscal Years 2003, 2004, 2005, 2006, and 2007



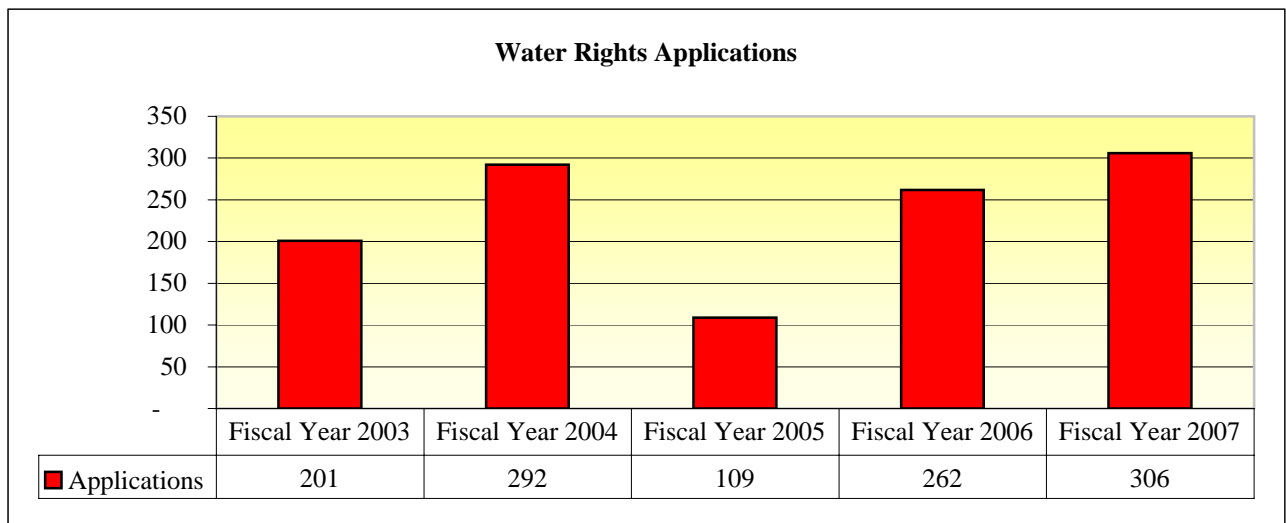
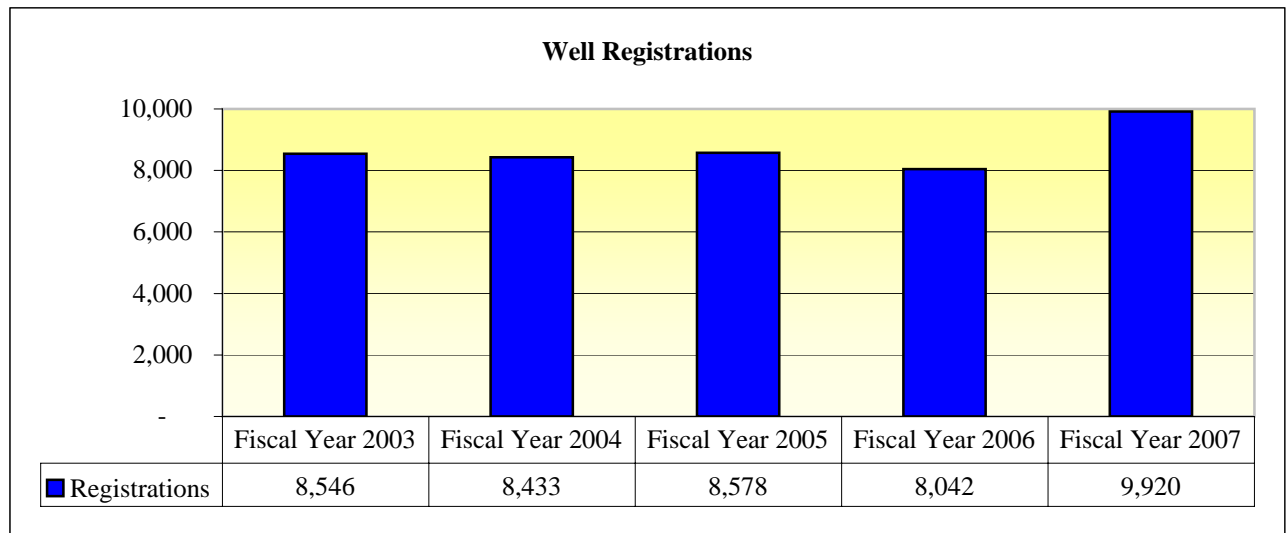
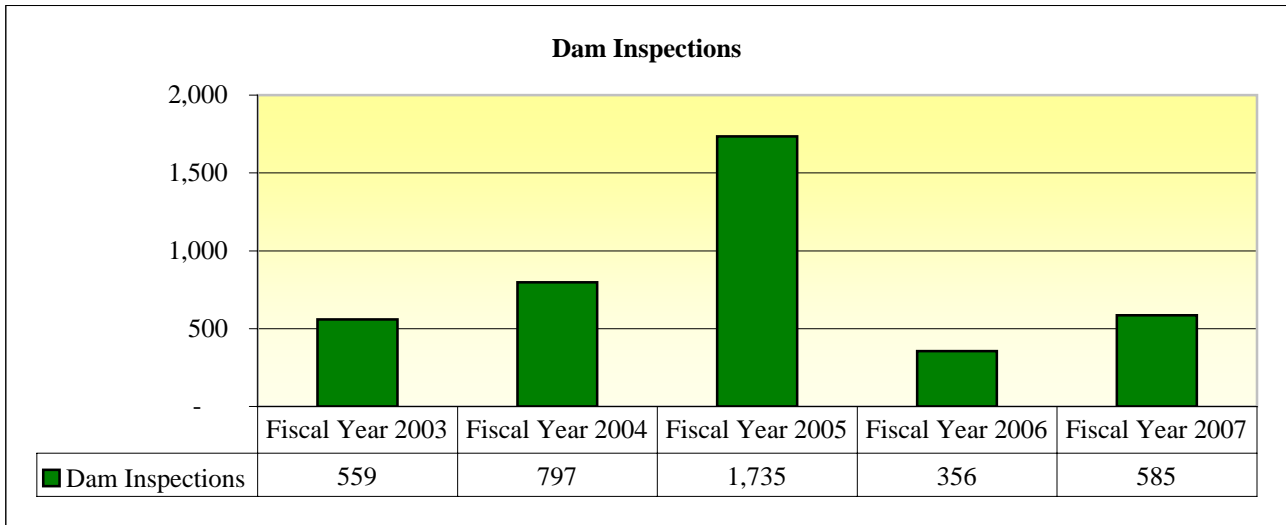
Program 306 - To provide funds for decommissioning wells in order to prevent contaminants from entering the groundwater. The Natural Resources Districts implement qualified well decommissioning programs.

Program 307 - To provide funding assistance for the construction of water conservation and development projects in Nebraska. Funding can be provided for up to seventy-five percent of the local project cost as a loan or grant, with an additional fifteen percent available as a loan only.

Program 309 - Natural Resources Districts receive grants from the Department to carry out projects that meet State-mandated water quality improvement and monitoring responsibilities. The Districts must provide a \$3 match for every \$2 received.

Program 311 - To provide funding assistance to Natural Resources Districts for duties arising under the Nebraska Groundwater Management and Protection Act starting in fiscal Year 2007.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES  
**SCHEDULE OF DAM INSPECTIONS, WELL REGISTRATIONS,  
 AND WATER RIGHTS APPLICATIONS**  
 Fiscal Years 2003, 2004, 2005, 2006, and 2007



Source: Department of Natural Resources