



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

February 28, 2008

Michael Smith, Director
Nebraska State Historical Society
1500 R Street; PO Box 82554
Lincoln, Nebraska 68501-2554

Dear Mr. Smith:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2007, and have issued our report thereon dated December 28, 2007. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 13, 2008. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the federal Office of Management and Budget (OMB) Circular A-133 (the Single Audit) and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska State Historical Society (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Agency's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

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

The following are our comments and recommendations for the year ended June 30, 2007.

COMMENTS RELATED TO THE SINGLE AUDIT

Finding #07-54-01

Program: CFDA 15.904 – Historic Preservation – Reporting/Matching

Grant Number & Year: #31-06-21530, FFY 2006; #31-05-20429, FFY 2005

Federal Grantor Agency: U.S. Department of Interior

Criteria: Title 43 CFR 12.60 requires fiscal control and accounting procedures of the State must be sufficient to – (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. In addition, the grant agreement states the Agency is required to provide 40% of nonfederal match.

The Nebraska Information System (NIS) is the official accounting system of the State and all expenditures are generated from NIS. Good internal control requires timely, periodic reconciliations between the Historic Preservation Grants and the accounting system.

Condition: For both annual reports submitted for the two grants open during the State fiscal year, we could not trace amounts reported to the Federal government to amounts recorded on NIS. Nonfederal match is provided from two different sources including State expenditures on NIS and local match; the amount of match used for NIS expenditures could not be verified.

The variance between the Historic Preservation expenditures reported compared to the expenditures noted on NIS was as follows:

<u>Aid Expenditures</u>	<u>Federal</u>	<u>Nonfederal</u>
Per Report	\$ 576,490	\$ 413,983
Per NIS	544,445	322,127
Local		<u>151,789</u>
Variance	\$ 32,045	\$ (59,933)

(All figures are based on a Federal fiscal year, October 1, 2005, thru September 30, 2006.)

Questioned Costs: Unknown

Context: The Historic Preservation grant is a reimbursable grant. The Agency submitted a draw down request to the Federal grantor requesting reimbursement for the Federal expenditures they had incurred. The Agency requested \$618,158 from the Federal grantor agency during Federal fiscal year 2006; however, this amount did not agree to the Federal expenditures on NIS or the amount on the Federal report.

The Agency did not utilize separate business units on NIS for each new grant; therefore, expenditures could not be tracked within the accounting system for each grant separately. Also, if a cost was initially paid for with Federal funds but later determined to be an ineligible cost, no journal entry was done to transfer the Federal expenditures out of the Federal Fund on NIS. The Agency did not have a process to reconcile actual grant expenditures to amounts reimbursed by the Federal government.

Cause: The Agency did not utilize separate business units on NIS to account for the nonfederal match.

Effect: Without adequate controls, there is an increased risk for misuse of funds and inaccurate reporting.

Recommendation: We recommend the Agency ensure the expenditures reported for the Historic Preservation grants reconcile to NIS.

Management Response: All operational expenditures are split 60/40 at time of payment as reflected in NIS. Project contracts require contractor and/or the Certified Local Government to provide and document match, but there is no provision in NIS to record those specific amounts. Therefore, it is not possible for the entire amount of match to be reported in NIS, although supporting hard copy documentation is in Nebraska State Historical Society files.

Corrective Action Plan: Historic Preservation is reconciling expenditures to the state accounting system on a monthly basis. Separate business units will be utilized for the new Federal FY08 grant.

Contact: Michelle Furby, Accountant

Anticipated Completion Date: July 1, 2007

Finding #07-54-02

Program: CFDA 15.511 – Cultural Resources Management – Allowable Costs/Cost Principles

Grant Number & Year: #04FC601910, FFY 2006

Federal Grantor Agency: U.S. Department of Interior

Criteria: OMB Circular A-87, Attachment B, Section 11, Subsection h(3) states, “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

Condition: Employees' time worked on a Federal grant was not certified for two of three employees tested who were paid from the Cultural Resources Management Bureau of Reclamation grant.

Questioned Costs: Unknown

Context: The employee's timesheets did not show 100% of their time was spent working on the Cultural Resources Management Bureau of Reclamation grant. The two employee's annual salaries were \$22,216 and \$22,214. There were five employees who were paid from this grant during the State's fiscal year 2007.

Cause: Unknown

Effect: Without a certification of hours worked on a Federal grant there is an increased risk of misuse of Federal and State monies.

Recommendation: We recommend the Agency comply with Circular A-87.

Management Response: Signatures by employee and supervisor certify that timesheets are true and accurate reflection of hours worked. Additional documentation will be provided by having time worked certified semi-annually for all employees paid with federal funds.

Corrective Action Plan: Program managers will certify time worked at the end of pay periods closest to January 1 and June 30 of each year as is currently done for the Federal Historic Preservation Grant. Certification will be added to master project files maintained by Nebraska State Historical Society Accounting.

Contact: Michelle Furby, Accountant

Anticipated Completion Date: July 1, 2007

Finding #07-54-03

Program: CFDA 15.608 – Fish and Wildlife Management Assistance – Allowability/Cash Management

Grant Number & Year: #301816J122, FFY 2006

Federal Grantor Agency: U.S. Department of Interior

Criteria: Section VII, subsection E of Cooperative Agreement No. 301816J122 between the U.S. Fish and Wildlife Service and the Nebraska State Historical Society states "Reimbursable payments will be made by electronic transfer on a quarterly basis." Section VII, subsection H, states "... The Center agrees to furnish the following information in support of each invoice: 1. The period of the performance for the itemized costs claimed. 2. Number of artifacts treated." Title 43 CFR 12.60 requires fiscal control and accounting procedures of the State must be sufficient to permit the tracing of funds to a level of

expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Good internal control requires review of agreements to ensure the Agency had complied with written agreements.

Condition: The Agency requested funds from the Federal grantor agency on an advance rather than on a reimbursable basis as required by the cooperative agreement. The Agency did not have adequate documentation that expenditures were in accordance with the grant.

Questioned Costs: \$40,452

Context: The Agency had a cooperative agreement with the U.S. Fish and Wildlife Service in the amount of \$81,552. The Agency requested \$61,164 in reimbursement, during fiscal year 2007, from the U.S. Fish and Wildlife Service but had only recorded \$20,712 in expenses for the project, an excessive request of \$40,452. The Agency requested reimbursement from the Federal agency in four quarterly payments of \$20,388. The amount requested for reimbursement did not agree to the expenditures recorded on NIS. We also noted invoices for the work performed did not include itemized costs claimed.

Cause: The Agency indicated the expenditures were made from the cash fund instead of the Federal fund. The Federal expenditures were not separately identified in the cash fund.

Effect: Increased risk of noncompliance with grant agreements and possible loss or misuse of Federal funds.

Recommendation: We recommend the Agency comply with the cooperative agreement and only request funds on a reimbursement basis. We further recommend the Agency review invoices to ensure compliance with agreements and maintain supporting documentation for invoices submitted for reimbursement.

Management Response: Cooperative agreement with the US Fish and Wildlife Service was negotiated on the basis of a project proposal that resulted in an agreement to conserve a specific number of objects at a specific cost. Permission was granted from the US Fish and Wildlife Service contracting officer to invoice in four quarterly billings.

Corrective Action Plan: Future invoices to the US Fish and Wildlife Service will itemize the number of artifacts or group treated per billing period including the negotiated indirect costs.

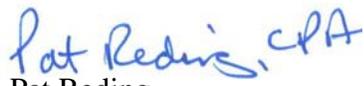
Contact: Michelle Furby, Accountant

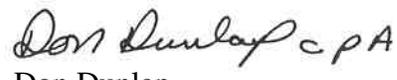
Anticipated Completion Date: These will be ongoing procedures through the term of the cooperative agreement.

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 Agency 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 you.

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

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.


Pat Reding
Assistant Deputy Auditor


Don Dunlap
Assistant Deputy Auditor