



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 28, 2008

Richard Baier, Director
Department of Economic Development
301 Centennial Mall South, 4th Floor
Lincoln, Nebraska 68509-4666

Dear Mr. Baier:

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 Department of Economic Development (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 is our comment and recommendation for the year ended June 30, 2007.

COMMENT RELATED TO THE SINGLE AUDIT

Finding #07-72-01

Program: CFDA 11.611 – Manufacturing Extension Partnership – Allowability/Subrecipient Monitoring

Grant Number & Year: #70NANB5H1129, FFY2007

Federal Grantor Agency: U.S. Department of Commerce

Criteria: Per OMB Circular A-133, an Agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. A-133 section 400(d) (5) states, the pass-through entity shall issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. Good internal control requires procedures be in place to ensure reimbursement requests are for allowable activities prior to payment.

Condition: The Agency did not require detailed supporting documentation for expenses from the subrecipients before reimbursement.

Questioned Costs: Unknown

Context: The Agency reviewed financial information on a test basis when they performed annual on-site reviews. However, there was not a detailed account of the financial information reviewed. This was an after-the-fact review and would not detect an unallowable activity or cost prior to reimbursement. One subrecipient did submit detailed documentation and the other two subrecipients submitted detailed support after requested by the auditors. Subrecipients were reimbursed \$362,371 during fiscal year 2007. This finding was also noted by auditors in a 2006 report.

Cause: Inadequate reimbursement procedures.

Effect: Increased risk of unallowable expenditures.

Recommendation: We recommend the Agency implement procedures to ensure expenditures are allowable by reviewing detail supporting documentation before reimbursing the subrecipient.

Management Response: While there were no questioned costs cited in the audit, we acknowledge that the report's recommendation (to obtain further substantiating documentation prior to reimbursing partners/subrecipients) is a prudent step, which will further strengthen our review of the reimbursement requests received from our partners/subrecipients. We have previously instituted a practice of reviewing various types of reimbursement substantiating documentation at our annual, on-site monitoring of partners/subrecipients, but of course we recognize such reviews are after-the-fact auditing

reviews, rather than pre-disbursement reviews. We will also continue with our previously established practice of reviewing budgeted vs. actual expenditures reports from the partners/subrecipients, used as another measure of verification in our monitoring.

Corrective Action Plan: We will require of partners/subrecipients that they provide us with further substantiation of their claimed expenditures, and we will require them to provide such to us before we will disburse reimbursement payments to them. The additional substantiation required will mandate that partners/subrecipients produce, and provide to us, copies of documentation generated directly from their internal accounting systems and reports, which documentation must correlate with, and verify, the expenditure amounts claimed on the reimbursement requests submitted by them. This requirement will apply to substantiating all expenses, including those for which direct reimbursement is sought, as well as those claimed as matching expenses by the partners/subrecipients.

Contact: Neoma Parks

Anticipated Completion Date: Implementation of the requirement of receiving (from the partner/subrecipient requesting reimbursement) their correlating/verifying internal accounting system reports, will begin immediately with applicability to the quarterly reimbursement period of January 1, 2008, through March 31, 2008.

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