



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 17, 2009

Stuart MacTaggart, Director
Department of Aeronautics
P.O. Box 82088
Lincoln, NE 68501-2088

Dear Mr. MacTaggart:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We have also audited the State's compliance with requirements applicable to major Federal award programs and have issued our report thereon dated February 10, 2009. 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 a certain internal control or compliance matter related to the activities of the Nebraska Department of Aeronautics (the Agency) that is presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Agency's management, is 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 comment 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 comment and recommendation included in this letter. The formal response received has been incorporated into this letter. The response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was 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, 2008.

COMMENT RELATED TO THE SINGLE AUDIT

Finding #08-17-01

Program: CFDA 20.106 – Airport Improvement Program – Allowable Costs/Cost Principles

Grant Number & Year: All Open Grants

Federal Grantor Agency: U.S. Department of Transportation

Criteria: OMB Circular A-87 Attachment E, B.6. discusses the requirement to carry forward an adjustment for the difference between estimated costs and actual costs. OMB Circular A-87 Attachment E, C.2.b. requires capital expenditures to be excluded from indirect costs.

Condition: The difference between actual and estimated indirect costs was not carried forward as an adjustment to the rate computation of the subsequent period. The Agency has been using 1.5 as their indirect cost rate for a number of years and the FAA has been paying them. The indirect cost rate calculation included capital assets which are not an allowable indirect cost.

Questioned Costs: Unknown

Context: Total administrative costs charged to the Federal projects were \$215,307. Administrative costs included both direct and indirect costs.

Cause: Unknown

Effect: The indirect costs charged may be more or less than allowed.

Recommendation: We recommend the Agency prepare their indirect cost rate plan in accordance with OMB Circular A-87.

Management Response: We agree with the finding.

Corrective Action Plan: We have compiled new figures for overhead, in compliance with OMB Circular A-87. We will request that State Accounting review and certify our methodology. Upon confirmation from their office, we will forward the certification to the FAA.

Contact: Robin Edwards and Russell Gasper

Anticipated Completion Date: Submission to State Accounting by December 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.

Signed Original on File

Pat Reding
Assistant Deputy Auditor

Signed Original on File

Don Dunlap
Assistant Deputy Auditor