



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Mike Foley  
State Auditor

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February 16, 2010

Monty Fredrickson, Director  
Nebraska Department of Roads  
1500 Highway 2  
Lincoln, Nebraska 68509-4759

Dear Mr. Fredrickson:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2009, and have issued our report thereon dated December 28, 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 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 Roads (the Agency) or another operational matter 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, 2009.

**1. Accrual Information**

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the CAFR, State Accounting requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. A good internal control plan requires procedures to accurately report these payables and receivables to State Accounting.

During our audit of the fiscal year 2009 Comprehensive Annual Financial Report (CAFR), we noted the following concerning payables and receivables reported by the Agency to State Accounting:

- The amount of prior year obligations per the Agency's Roads Payment System (RPS) did not agree to prior year obligations in NIS for July through September 2009. The difference was not reported on the Agency's accrual form. The total variance was \$920,131; of which \$725,397 was explained as a new document type in RPS as a prior year obligation that goes into NIS as a current year obligation. The remaining \$194,734 was unexplained.
- The amount retained did not agree to the Agency's Supplemental and Standards Specification Book or the Capital Facilities Project Manual for one of ten contractor's retentions tested. The amount to be retained for a payment on August 11, 2008, was \$1,115; however, the entire payment was coded to the retention account in RPS, causing the contractor to have a debit retention balance at June 30, 2009, of \$97,124. This resulted in an understatement of retention payable of \$106,900 at June 30, 2009.
- The amount the Agency reported to State Accounting for the "Accounts Receivable – Other" accrual did not agree to the detailed listing of accounts receivable outstanding at June 30, 2009. The amount reported was overstated by \$78,345.

State Accounting did make correcting entries for all material amounts as recommended by the Auditor of Public Accounts (APA).

Without proper controls to ensure amounts reported to State Accounting are accurate, there is an increased risk the financial statements could be misstated.

We recommend the Agency implement procedures to ensure receivable and payable amounts reported are complete and accurate. The prior year obligations per RPS should be reconciled to prior year obligations per NIS in a timely manner and any necessary adjustments reported to State Accounting.

***Management Response:***

*Regarding prior year obligations. The Department of Roads has an interface process in place between NIS and the Roads Payment System to ensure that prior year obligations that are to be paid in the following year are processed properly in both systems. The current interface process is under review and changes will be implemented to ensure that data is interfaced properly in both systems.*

*Regarding accurate recording of retention. The error that occurred was human error regarding coding; however, payment was made in the correct amount. The error was found in November and corrected in December through a journal voucher entry. A retention report is run each month and reconciliations are made to correct any errors that occur.*

*Regarding "Accounts Receivable Other" reporting. In future years, reconciliation will be performed before reporting this data to the Department of Administrative Services State Accounting Division.*

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 the Agency.

This report 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 and is not intended to be and should not be used by anyone other than the specified parties. However, this report 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, CPA, CFE  
Assistant Deputy Auditor