



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Mike Foley  
State Auditor

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February 11, 2011

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, 2010, and have issued our report thereon dated December 28, 2010. 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, 2010.

## 1. Accrual Information

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the Comprehensive Annual Financial Report (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 testing of payables reported to State Accounting, we noted the Agency incorrectly included \$3,537,500 in the accounts payable – deposits by local balance, for State Infrastructure Bank (SIB) funding and the applicable State match funding. SIB is a Federal loan program the Agency believes is highly unlikely to be repaid to the Federal Government and the State's match is not due to any outside entity. As a result, the payables were overstated by \$3,537,500. State Accounting did make the correcting entry 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 of financial statement misstatements not being detected and corrected in a timely manner.

We recommend the Agency implement procedures to ensure payable amounts reported are complete and accurate.

**Management Response:** *The Nebraska State Infrastructure Bank is a State loan program, with the bank capitalized using \$2,830,000 of Federal highway funds and \$707,500 of State funds.*

*The Department of Roads should not have reported the \$3,537,500 as an accounts payable. The Finance Administrator will review all future data reported by our Agency to the DAS State Accounting Division for CAFR purposes.*

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 recommendations 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