

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF  
NATURAL RESOURCES**

**JANUARY 1, 2012 THROUGH DECEMBER 31, 2012**

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**Issued on May 8, 2013**

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### Audit Staff Working On This Examination

Pat Reding, CPA, CFE - Assistant Deputy Auditor  
Zach Wells, CPA, CISA - Senior Auditor-In-Charge  
Sara Leber, CPA - Auditor II  
Matt Schochenmaier - Auditor

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**Nebraska Auditor of Public Accounts**  
State Capitol, Suite 2303  
P.O. Box 98917  
Lincoln, Nebraska 68509  
Phone: 402-471-2111

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1
Mission Statement	1
Organizational Chart	2
Natural Resources Commission Members	3
<b>Comments Section</b>	
Exit Conference	4
Summary of Comments	5
Comments and Recommendations	6 - 11
<b>Financial Section</b>	
Independent Accountant's Report	12 - 13
Schedule of Revenues, Expenditures, and Changes in Fund Balances	14 - 17
Notes to the Schedule	18 - 23
<b>Supplementary Information</b>	24
Direct Aid Payments to Natural Resource Districts	25
Dam Inspections	26
Well Registrations	26
Surface Water Applications	26

# NEBRASKA DEPARTMENT OF NATURAL RESOURCES

## **BACKGROUND**

The Department of Natural Resources (Department) was established on July 1, 2000, when the former Department of Water Resources and Natural Resources Commission were merged into a single agency. The Department is responsible for the administration and enforcement of State water laws pertaining to water quantity, well registration, and dam and reservoir construction approval and inspection. The Department negotiates and administers water compacts and administers court decrees with surrounding states. The Department also serves as the official agency of the State in connection with soil and water conservation, flood prevention, watershed protection, and flood control.

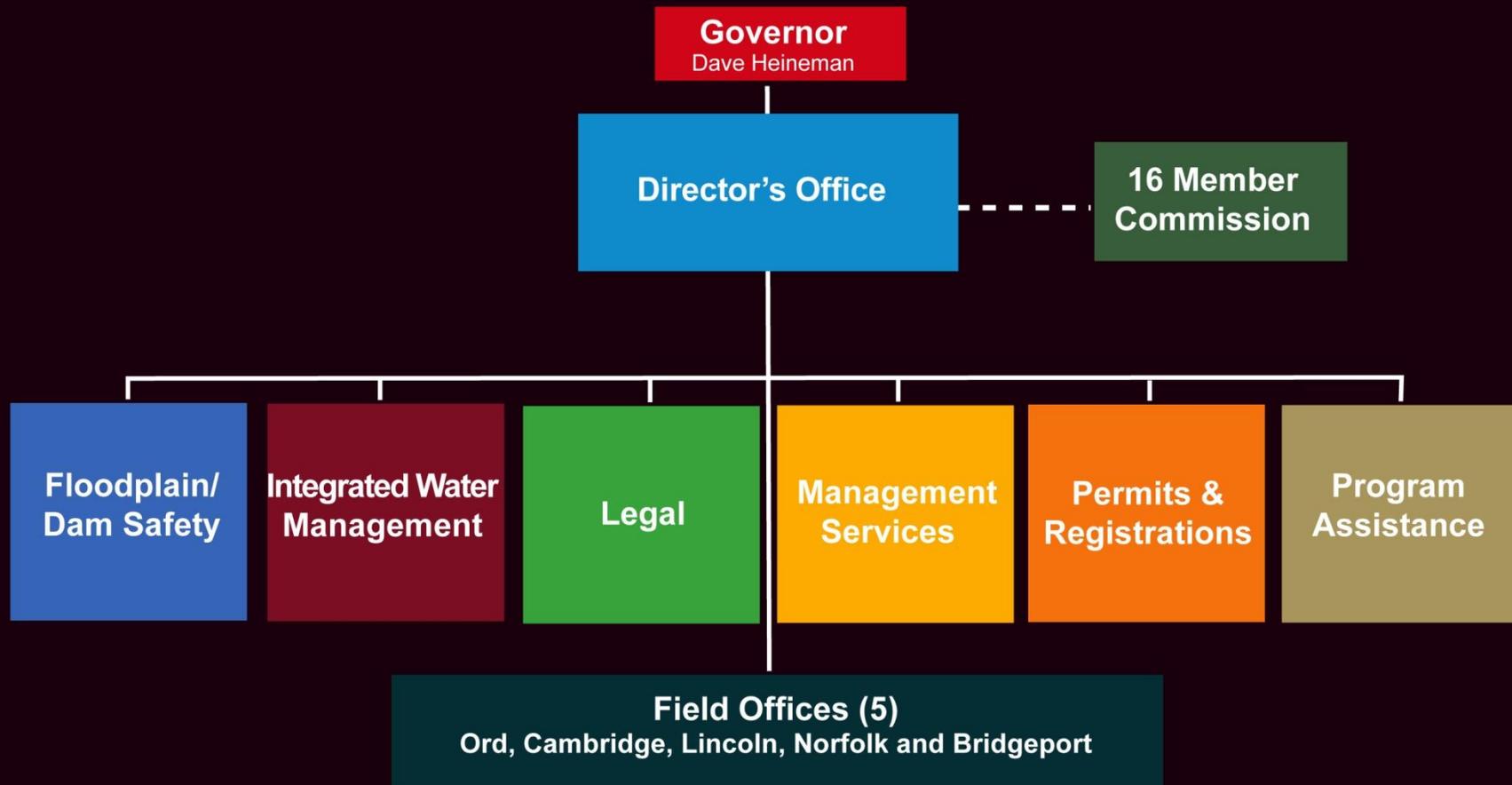
Sixteen members make up the Nebraska Natural Resources Commission (Commission), of which thirteen represent the State's recognized river basins. The Governor appoints the other three members with approval by the Legislature. Commission members representing river basins are selected for four-year terms. The Nebraska Natural Resources Commission carries out certain specific responsibilities in connection with natural resources districts. In addition, the Commission is responsible for adopting and amending the Department rules and regulations for the Small Watersheds Control Fund, the Nebraska Resources Development Fund, the Nebraska Soil and Water Conservation Fund, the Water Well Decommissioning Fund, and the Natural Resources Water Quality Fund, all of which are administered by the Department of Natural Resources.

## **MISSION STATEMENT**

Administer and regulate surface water; direct floodplain management and dam safety programs; assemble and share data on land, water, and related resources in a user friendly manner; provide natural resources planning assistance; register ground water wells and issue permits; and manage State cost-share programs in an expedient and cost-effective manner to assure proper use and protection of Nebraska's land, water, and related resources



# Nebraska Department of Natural Resources



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NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NATURAL RESOURCES COMMISSION MEMBERS**

**Members Representing River Basins:**

<b>N. Richard Hadenfeldt</b>	<b>Loup River Basin</b>
<b>Dave Deines</b>	<b>North Platte River Basin</b>
<b>Beverly Donaldson</b>	<b>Missouri Tributaries River Basin</b>
<b>David Kadlecek</b>	<b>Niobrara-White-Hat River Basin</b>
<b>Joseph Hergott</b>	<b>Little Blue River Basin</b>
<b>Darrell M. Rains</b>	<b>Big Blue River Basin</b>
<b>Jeff Steffen</b>	<b>Missouri Tributaries River Basin</b>
<b>Steven Sudgen</b>	<b>Nemaha River Basin</b>
<b>Mick Reynolds</b>	<b>Middle Platte River Basin</b>
<b>Kevin Fornoff</b>	<b>Republican River Basin</b>
<b>Garry Anderson</b>	<b>Elkhorn River Basin</b>
<b>Clint Johannes</b>	<b>Lower Platte River Basin</b>
<b>Keith Rexroth</b>	<b>South Platte River Basin</b>

**Members Appointed by Governor:**

<b>Dick Mercer</b>	<b>Ground Water Irrigators</b>
<b>Thomas L. Knutson</b>	<b>Surface Water Irrigators</b>
<b>Stan Clouse</b>	<b>Municipal Water Users</b>

(Current as of March, 2013)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**EXIT CONFERENCE**

An exit conference was held April 25, 2013, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Natural Resources were:

<b>NAME</b>	<b>TITLE</b>
Brian Dunnigan	Director
Jim Schneider	Deputy Director
Rex Gittins	Management Services Division Head
Jill Richters	Business Manager
Karen Best	Accountant

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**SUMMARY OF COMMENTS**

During our examination of the Nebraska Department of Natural Resources (Department), we noted certain deficiencies and other operational matters that are presented here.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. **Receipt Process:** The Department does not have adequate procedures in place to make sure all receipts are deposited and posted to the correct funds.
2. **Capital Asset Internal Controls:** One individual was responsible for adding, maintaining, and initiating the disposal of capital assets. In addition, the Department was not periodically running the asset integrity reports to ensure asset records were correctly maintained.
3. **Vehicle Mileage:** We noted trips using leased vehicles that did not appear reasonable given the points of destination on the mileage logs. Excessive mileage ranged from 27 to 167 miles.
4. **Contractor Meal Reimbursement:** The Department reimbursed a contractor for meal expenses with only credit card receipts as support. The contract required itemized meal receipts be submitted for reimbursement. For the expenditure tested, meals reimbursed with only a credit card receipt as support amounted to \$1,557.
5. **Pesticide Receipts:** The Department of Agriculture collected \$920,075 in pesticide registrations and applicator licenses which is then deposited into the Natural Resources Water Quality Fund. The Department of Agriculture does not have an adequate segregation of duties in receipt and deposit of pesticide registrations and applicator licenses.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Nebraska Department of Natural Resources.

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicates corrective action has been taken were not verified at this time, but will be verified in the next examination.

**COMMENTS AND RECOMMENDATIONS**

**1. Receipt Process**

A good internal control plan requires an initial receipt listing be created when the mail is opened and receipts are identified. Furthermore, good internal controls require that prior to deposit, a review should be performed to compare the deposit document to the initial receipt listing to ensure all money received was deposited. In addition, good internal control requires the Department review the general ledger to ensure deposits were correctly recorded to its funds. Good internal control also requires all checks received be deposited. Separate disbursements should be made for any amounts that need to be returned to the payee.

When the mail is opened, the Department creates an initial listing of all money received. However, prior to the funds being deposited, the Department does not compare the deposit document to the original receipt listing created when the mail was opened. A listing of all funds received through the mail is created each morning by individuals outside the deposit process. During the final review of deposit documents, no one compares the deposit document to the initial list of funds received for the day. When the approving individual is not comparing the deposit document to the initial receipt listing, there is an increased risk of possible loss of State funds.

The Department does not review the general ledger to ensure all deposits were recorded correctly to its funds. When a review is not performed to ensure all funds were correctly deposited, there is an increased risk deposits could be allocated to the incorrect funds.

The Department returns checks when an individual has not sent the appropriate or sufficient documentation with their application or if the check is not for the correct amount. When checks are not deposited when received, there is an increased risk of loss of State funds.

We recommend the Department implement a procedure to compare the deposit document and the initial receipt listing prior to deposit. We also recommend the Department review the general ledger detail for all receipts to ensure deposits are posted to the correct funds. We further recommend the Department deposit all checks into their accounts and then issue refunds, if needed.

*Department's Response: Receipt processing procedures are being reevaluated and will be revised to incorporate changes that will further assure the disposition of all receipts is verified and controlled, and that deposits are posted to the appropriate funds in EnterpriseOne.*

**2. Capital Asset Internal Controls**

A good internal control plan requires an adequate segregation of duties so no one individual is responsible for adding capital assets, maintaining asset records, and initiating asset disposals. In addition, good internal control requires a secondary review of asset reports to ensure records are correct. These reviews should be documented.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Capital Asset Internal Controls** (Concluded)

Sufficient internal controls do not exist over capital assets. We noted:

- There was not an adequate segregation of duties as one employee was responsible for adding assets, maintaining asset records, and initiating asset disposals.
- No one at the Department generated and reviewed the Fixed Asset Integrity Reports to ensure items were correctly recorded on EnterpriseOne, the State accounting system.
- No one reviewed the Additions and Retirements Report on a regular basis to ensure all assets were added and all deletions had been removed. In addition, no one compared the asset deletions on the Additions and Retirements Report to what was surplus.
- The secondary review of the Surplus Property Notification Form was not documented.

There is an increased risk of loss or misuse of State assets when a lack of segregation of duties exists.

We recommend the Department implement procedures to ensure an adequate segregation of duties over capital assets. This would include a documented review of the Additions and Retirements report and Surplus Property Notification forms. We also recommend the Department review the asset integrity reports to ensure items are correctly recorded on EnterpriseOne, the State's accounting system.

*Department's Response: Fixed assets processing procedures are being reviewed and revised to implement duties segregation, delineate approval responsibilities, and incorporate periodic integrity reviews and approvals.*

**3. Vehicle Mileage**

Neb. Rev. Stat. § 81-1025(1) (Reissue 2008) states,

*Each operator of a bureau fleet vehicle shall report the points between which the bureau fleet vehicle traveled each time used, the odometer readings at such points, the time of arrival and departure, the necessity and purpose of such travel, the license number of such vehicle, and the department to which such vehicle is assigned.*

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Vehicle Mileage** (Concluded)

TSB Policies and Procedures, Section 3, states “Vehicle coordinator responsibilities include but are not limited to...(2) Review, approve, and sign all official travel logs...” Section 7 states,

*State statutes mandate all travel in state-owned vehicles to be recorded and reported in detail (§81-1025). An entry is defined as a record of the following information required each time the vehicle is stopped and started: date, beginning and ending mileage, number of miles traveled, start time, finish time, from and to destinations, purpose of trip, and the driver’s signature.*

A good internal control plan requires mileage recorded on travel logs and claimed for reimbursement be reviewed for reasonableness and accuracy.

During testing of one billing from the Department of Administrative Services – Transportation Services Bureau (TSB), we noted the mileage appeared excessive. We reviewed seven trips from three vehicles and the mileage logged did not appear reasonable on four of the seven trips. Total miles reported, which appeared excessive, amounted to 369. Below is a summary of the four trips that appeared excessive.

Trip Identified on TSB Mileage Log	Mileage Reported	Mileage per MapQuest	Variance
Lincoln – Pawnee City – Lincoln	174	147	27
Lincoln – Hastings – Lincoln	250	210	40
Lincoln – Spencer	374	239	135
Lincoln – O’Neill	375	208	167

Per the Department, the mileage reported on the TSB mileage log may not agree to MapQuest because these employees are Dam Safety employees and may be driving to multiple dam locations in order to perform their job function. The mileage log should include all points of travel and be in sufficient detail for a reviewer to ensure the mileage is necessary and reasonable.

When mileage recorded on TSB travel logs is not reasonable, there is an increased risk of misuse of State equipment and loss of State funds.

We recommend the Department implement policies requiring staff to record each specific destination to support the mileage claimed for the vehicle.

*Department’s Response: Supervisors have been instructed to assure that additional detail regarding specific locations visited during each trip is provided on or with mileage logs. Supervisors were also directed to review and sign off on these logs prior to submission. The Department’s vehicle log policy will be revised accordingly.*

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Contractor Meal Reimbursement**

A good internal control plan requires payments be made to vendors based on adequate supporting documentation provided in accordance with contract terms.

For one of nine documents tested, adequate supporting documentation was not on file. The contract between the Department and a vendor specifically states, “All travel expenses must be accompanied by itemized receipts;” however, one invoice submitted only included credit card receipts for 14 of 16 meals of which reimbursement was requested. The meals supported by only a credit card receipt totaled \$1,556.97. The vendor requesting reimbursement was assisting the Department in pending litigation against the State as described in Note 8.

The meals supported by only credit card receipts are identified below.

Restaurant	Location	Date	Amount
Gilberts Chowder House	Portland, Maine	Could not determine	\$ 96.00
Gilberts Chowder House	Portland, Maine	August 11, 2012	115.00
Wendy’s	Lincoln, NE	August 11, 2012	6.43
Gilberts Chowder House	Portland, Maine	August 13, 2012	113.50
Three Dollar Deweys	Portland, Maine	August 14, 2012	108.63
Dimillo’s	Portland, Maine	August 15, 2012	137.58
Jameson Tavern	Freeport, Maine	August 17, 2012	262.23
Dimillo’s	Portland, Maine	August 20, 2012	173.01
Flatbread Company	Portland, Maine	August 20, 2012	28.27
City Deli	Portland, Maine	August 22, 2012	9.63
The Corner Room	Portland, Maine	August 22, 2012	77.00
The Grill Room	Portland, Maine	August 22, 2012	328.07
Bahama Breeze	Orange Village, Ohio	August 24, 2012	53.00
Gilberts Chowder House	Portland, Maine	August 24, 2012	48.62
		Total	\$ 1,556.97

When itemized receipts are not submitted as support for charges billed on invoices, payments made to the vendor are not in accordance with the contract terms and there is an increased risk for overpayments.

We recommend the Department implement policies and procedures to ensure the terms of existing contracts are followed.

*Department’s Response: Contract management and accounts payable procedures will be revised and reviewed with the appropriate functional area and accounting staff to reinforce attention to contract terms and conditions in the review of vendor invoices. State statutes and policies are being reviewed to determine if the terms related to meal expenditures exceed requirements as a consideration for adjusting terms and conditions in future service contracts.*

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Pesticide Receipts**

The Department of Agriculture is responsible for collecting fees for pesticide product registrations and pesticide applicator licenses. During the calendar year ended December 31, 2012, the Department of Agriculture collected \$920,075 in pesticide product registrations and applicator license fees and deposited those monies into the Natural Resources Water Quality Fund as required by State statute.

Since the Department of Agriculture is responsible for collecting pesticide registrations and applicator license fees, we reviewed their procedures to ensure the amount shown on the Department of Natural Resources financial statement, as Deposits from Common Fund, was correct.

A good internal control plan requires segregation of duties to ensure the employee who has initial custody of the checks is not also responsible for the record keeping function. In addition, a good internal control plan requires monies received be deposited intact, meaning all amounts received for the day should be deposited. Depositing intact is important for the control and safety of monies receipted, as all amounts are accounted for in the bank account.

The Department of Agriculture does not have an adequate segregation of duties over its pesticide registration and applicator license process. The individual who took initial custody of the checks was responsible for entering the receipts into the Department of Agriculture's record keeping system and then endorsing the checks for deposit only before a second individual became involved in the deposit process. As a result, the individual would have been able to withhold a check from the record keeping system and the deposit process, without the knowledge of the Department of Agriculture. When the recording keeping and custody functions are performed by the same individual, there is an increased risk of loss of State funds due to theft.

The Department of Agriculture returns checks to individuals who pay the incorrect amount or do not submit sufficient supporting documentation. When checks received by the Department of Agriculture are made out for an incorrect amount, the check, remittance form, and a letter are mailed back to the customer requesting the correct amount be mailed. Failure to deposit monies receipted intact relinquishes control of funds that could have been deposited into the State bank account. As a result, there is an increased risk money may be lost or stolen.

We recommend the Department of Agriculture strengthen control procedures by immediately endorsing all checks upon receipt, before they are given to the individual who enters them into the record keeping system. We also recommend creating an initial listing of receipts that can be compared to the EnterpriseOne deposit document to ensure all amounts received were deposited.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Pesticide Receipts**

We also recommend the Department of Agriculture deposit all checks received and if needed request additional amounts or issue a refund based on the amount received. If sufficient supporting documentation is not submitted with the checks, we recommend the Department of Agriculture deposit the checks and then request the additional supporting documentation needed.

*Department of Agriculture's Response: During the audit period for the DNR, the Department of Agriculture (NDA) transitioned to a central fee collection center. NDA understands the points referenced in the audit point and NDA is committed to reviewing the process currently used and to making improvements to the process. Corrective action will be taken immediately to have all checks endorsed at the time the mail is opened. NDA currently has accounts receivable software being developed to create a uniform process for receipting payments and to better cross utilize staff. This software will provide compensating controls that will improve the receipting process. This will help reduce the number of checks that are currently being returned, but in the case of license and product registration fees it will continue to be necessary to return checks that are not made out for the correct amount. LB 69 currently before the Legislature is intended to create one pesticide products registration fee. This will clarify the amount of fees due, also resulting in fewer checks needing to be returned.*



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Mike Foley  
State Auditor

Mike.Foley@nebraska.gov  
P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
www.auditors.state.ne.us

## NEBRASKA DEPARTMENT OF NATURAL RESOURCES

### INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Natural Resources  
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Department of Natural Resources (Department) for the calendar year ended December 31, 2012. The Department's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Schedule of Revenues, Expenditures, and Changes in Fund Balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, revenues, expenditures, and changes in fund balances of the Nebraska Department of Natural Resources for the calendar year ended December 31, 2012, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control

over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, others within the Department, and the appropriate Federal and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

May 6, 2013

Mike Foley  
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF NATURAL RESOURCES  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

For the Calendar Year Ended December 31, 2012

	General Fund 10000	Well Drillers Fund 22001	Water Resources Fund 22910	Water Contingency Fund 22920	Rep. River Basin Water Sustain Fund 22930
<b>REVENUES:</b>					
Appropriations	\$ 14,639,638	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	3,343,536	-	-
Sales & Charges	53,621	30,380	-	-	-
Miscellaneous	9,360	-	208,011	1,349	920
<b>TOTAL REVENUES</b>	<b>14,702,619</b>	<b>30,380</b>	<b>3,551,547</b>	<b>1,349</b>	<b>920</b>
<b>EXPENDITURES:</b>					
Personal Services	6,329,011	-	-	-	-
Operating	2,662,318	-	43,536	-	23,518
Travel	292,448	-	-	-	1,787
Capital Outlay	78,033	-	-	-	-
Government Aid	5,277,828	-	390,408	-	-
<b>TOTAL EXPENDITURES</b>	<b>14,639,638</b>	<b>-</b>	<b>433,944</b>	<b>-</b>	<b>25,305</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	62,981	30,380	3,117,603	1,349	(24,385)
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	1,482	-	-	-	-
Deposit to General Fund	(64,463)	-	-	-	-
Deposit to/from Common Fund	-	(30,380)	-	-	-
Operating Transfers In	-	-	3,300,000	-	-
Operating Transfers Out	-	-	(43,902)	(3,809,250)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(62,981)</b>	<b>(30,380)</b>	<b>3,256,098</b>	<b>(3,809,250)</b>	<b>-</b>
Net Change in Fund Balances	-	-	6,373,701	(3,807,901)	(24,385)
FUND BALANCES, JANUARY 1, 2012	2,757	-	5,509,012	7,544,613	33,249
FUND BALANCES, DECEMBER 31, 2012	<u>\$ 2,757</u>	<u>\$ -</u>	<u>\$ 11,882,713</u>	<u>\$ 3,736,712</u>	<u>\$ 8,864</u>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ -	\$ -	\$ 11,882,713	\$ 392	\$ 8,864
Deposits with Vendors	2,757	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-
Due From Other Funds	-	-	-	-	-
Loans Receivable	-	-	-	3,736,320	-
Due to Vendors	-	-	-	-	-
Due to Fund	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 2,757</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 11,882,713</u></b>	<b><u>\$ 3,736,712</u></b>	<b><u>\$ 8,864</u></b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF NATURAL RESOURCES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

For the Calendar Year Ended December 31, 2012

	Small Watersheds Flood Control Fund 25510	Nebraska Resources Development Fund 25520	Nebraska Soil & Water Conservation Fund 25530	Natural Resources Water Quality Fund 25540
<b>REVENUES:</b>				
Appropriations	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Sales & Charges	-	-	-	-
Miscellaneous	7,520	1,543	3,318	6,389
<b>TOTAL REVENUES</b>	<b>7,520</b>	<b>1,543</b>	<b>3,318</b>	<b>6,389</b>
<b>EXPENDITURES:</b>				
Personal Services	-	-	-	-
Operating	-	-	-	-
Travel	-	-	-	-
Capital Outlay	-	-	-	-
Government Aid	-	40,000	-	950,000
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>40,000</b>	<b>-</b>	<b>950,000</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,520	(38,457)	3,318	(943,611)
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	-	-	-	-
Deposit to General Fund	-	-	-	-
Deposit to/from Common Fund	-	-	-	920,075
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>920,075</b>
Net Change in Fund Balances	7,520	(38,457)	3,318	(23,536)
FUND BALANCES, JANUARY 1, 2012	304,969	67,408	13,854	549,440
FUND BALANCES, DECEMBER 31, 2012	<u>\$ 312,489</u>	<u>\$ 28,951</u>	<u>\$ 17,172</u>	<u>\$ 525,904</u>
<b>FUND BALANCES CONSIST OF:</b>				
General Cash	\$ 312,489	\$ 28,977	\$ 17,172	\$ 525,904
Deposits with Vendors	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-
Due From Other Funds	-	-	-	-
Loans Receivable	-	-	-	-
Due to Vendors	-	-	-	-
Due to Fund	-	(26)	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 312,489</u></b>	<b><u>\$ 28,951</u></b>	<b><u>\$ 17,172</u></b>	<b><u>\$ 525,904</u></b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF NATURAL RESOURCES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

For the Calendar Year Ended December 31, 2012

	Water Well Decommissioning Fund 25550	Carbon Sequestration Assessment Fund 25560	Water Resources Trust Fund 25590	Department of Natural Resources Fund 26600
<b>REVENUES:</b>				
Appropriations	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	21,855
Sales & Charges	104,404	-	130	97,886
Miscellaneous	757	8	55,735	22,174
<b>TOTAL REVENUES</b>	<b>105,161</b>	<b>8</b>	<b>55,865</b>	<b>141,915</b>
<b>EXPENDITURES:</b>				
Personal Services	-	-	-	85,367
Operating	-	-	33,329	56,379
Travel	-	-	-	8,940
Capital Outlay	-	-	-	-
Government Aid	56,403	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>56,403</b>	<b>-</b>	<b>33,329</b>	<b>150,686</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	48,758	8	22,536	(8,771)
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	-	-	-	-
Deposit to General Fund	-	-	-	-
Deposit to/from Common Fund	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	48,758	8	22,536	(8,771)
FUND BALANCES, JANUARY 1, 2012	21,999	332	338,527	509,777
FUND BALANCES, DECEMBER 31, 2012	<u>\$ 70,757</u>	<u>\$ 340</u>	<u>\$ 361,063</u>	<u>\$ 501,006</u>
<b>FUND BALANCES CONSIST OF:</b>				
General Cash	\$ 70,742	\$ 340	\$ 361,063	\$ 489,538
Deposits with Vendors	-	-	-	-
Accounts Receivable Invoiced	15	-	-	80
Due From Other Funds	-	-	-	15,000
Loans Receivable	-	-	-	-
Due to Vendors	-	-	-	(3,612)
Due to Fund	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 70,757</u></b>	<b><u>\$ 340</u></b>	<b><u>\$ 361,063</u></b>	<b><u>\$ 501,006</u></b>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

For the Calendar Year Ended December 31, 2012

	Dam Safety Fund 42910	Federal Drought Monitoring Fund 42921	Federal Water Resources Plan Fund 45520	<b>Totals (Memorandum Only)</b>
<b>REVENUES:</b>				
Appropriations	\$ -	\$ -	\$ -	\$ 14,639,638
Intergovernmental	179,497	40,000	357,932	3,942,820
Sales & Charges	-	-	-	286,421
Miscellaneous	592	183	1,760	319,619
<b>TOTAL REVENUES</b>	<b>180,089</b>	<b>40,183</b>	<b>359,692</b>	<b>19,188,498</b>
<b>EXPENDITURES:</b>				
Personal Services	159,181	1,385	324,364	6,899,308
Operating	3,813	34,615	40,832	2,898,340
Travel	1,336	-	12,535	317,046
Capital Outlay	9,570	-	7,576	95,179
Government Aid	-	-	-	6,714,639
<b>TOTAL EXPENDITURES</b>	<b>173,900</b>	<b>36,000</b>	<b>385,307</b>	<b>16,924,512</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,189	4,183	(25,615)	2,263,986
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	-	-	-	1,482
Deposit to General Fund	-	-	-	(64,463)
Deposit to/from Common Fund	-	-	-	889,695
Operating Transfers In	-	-	-	3,300,000
Operating Transfers Out	-	-	-	(3,853,152)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>273,562</b>
Net Change in Fund Balances	6,189	4,183	(25,615)	2,537,548
FUND BALANCES, JANUARY 1, 2012	42,438	(3,017)	62,033	14,997,391
FUND BALANCES, DECEMBER 31, 2012	<b>\$ 48,627</b>	<b>\$ 1,166</b>	<b>\$ 36,418</b>	<b>\$ 17,534,939</b>
<b>FUND BALANCES CONSIST OF:</b>				
General Cash	\$ 48,627	\$ 1,166	\$ 51,442	\$ 13,799,429
Deposits with Vendors	-	-	-	2,757
Accounts Receivable Invoiced	-	-	-	95
Due From Other Funds	-	-	-	15,000
Loans Receivable	-	-	-	3,736,320
Due to Vendors	-	-	(24)	(3,636)
Due to Fund	-	-	(15,000)	(15,026)
<b>TOTAL FUND BALANCES</b>	<b>\$ 48,627</b>	<b>\$ 1,166</b>	<b>\$ 36,418</b>	<b>\$ 17,534,939</b>

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NOTES TO THE SCHEDULE**

For the Calendar Year Ended December 31, 2012

**1. Criteria**

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) include:

*The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes[.]*

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivable and accounts payable in the general ledger. As such, certain revenues are recorded when earned, and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payable recorded in the general ledger, as of December 31, 2012, include only those payables posted in the general ledger before December 31, 2012, and not yet paid as of that date. The amount recorded as expenditures, as of December 31, 2012, **does not** include amounts for goods and services received before December 31, 2012, which had not been posted to the general ledger as of December 31, 2012.

Other liabilities are recorded in the account entitled Due to Fund for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Department are:

**10000 – General Fund** – accounts for activities funded by general tax dollars and related expenditures and transfers.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NOTES TO THE SCHEDULE**

(Continued)

1. **Criteria** (Continued)

**20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

**40000 – Federal Funds** – account for the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

The major revenue account classifications established by State Accounting and used by the Department are:

**Appropriations** – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

**Intergovernmental** – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

**Sales & Charges** – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

**Miscellaneous** – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure account classifications established by State Accounting and used by the Department are:

**Personal Services** – Salaries, wages, and related employee benefits provided for all persons employed by the Department.

**Operating** – Expenditures directly related to a program's primary service activities.

**Travel** – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

**Capital Outlay** – Expenditures that result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

**Government Aid** – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant accounting classifications and procedures established by State Accounting and used by the Department include:

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the Schedule. Cash accounts and deposits with vendors are also included in the fund balance and are reported as recorded in the general ledger.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to the fund balance. Other liabilities recorded in the general ledger for the Department’s funds at December 31, 2012, included amounts recorded in Due to Fund. The activity of this account is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

**Other Financing Sources** – Operating transfers, proceeds of fixed asset dispositions, and Deposits to/from Common Fund.

**2. Reporting Entity**

The Nebraska Department of Natural Resources is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The Schedule includes all funds of the Department included in the general ledger.

The Nebraska Department of Natural Resources is part of the primary government for the State of Nebraska.

**3. Totals**

The Totals “Memorandum Only” column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

**NOTES TO THE SCHEDULE**

(Continued)

**4. General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

**5. Capital Assets**

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

For the CAFR, the State requires the Department to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Substantially, all initial building costs, land, and land improvements are capitalized. Building improvements and renovations are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Buildings and Equipment are depreciated in the CAFR using the straight line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3 to 10 years

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NOTES TO THE SCHEDULE**  
(Continued)

**5. Capital Assets** (Concluded)

Capital asset activity of the Department recorded in the State Accounting System for the calendar year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated				
Land	\$ 1,202	\$ -	\$ -	\$ 1,202
Total capital assets not depreciated	<u>1,202</u>	<u>-</u>	<u>-</u>	<u>1,202</u>
Capital assets depreciated				
Buildings	\$ 59,680	\$ -	\$ -	59,680
Equipment	1,997,170	104,958	115,687	1,986,441
Total capital assets depreciated	<u>\$ 2,056,850</u>	<u>\$ 104,958</u>	<u>\$ 115,687</u>	<u>2,046,121</u>
Less accumulated depreciation* for:				
Buildings				49,507
Equipment				1,733,405
Total				<u>1,782,912</u>
Total capital assets, net of depreciation				<u>\$ 264,411</u>

*\*Note: The accumulated depreciation noted in the table above was calculated in the accounting system through June 30, 2012. Depreciation for July through December 2012 was not run in the accounting system until the beginning of calendar year 2013.*

**6. Loans Receivable**

Fund	Balance January 1, 2012	In	Out	Balance December 31, 2012
Water Contingency Fund - 22920	\$ 7,544,613	\$ -	\$ 3,808,293	<u>\$ 3,736,320</u>

The Department had loans receivable as of December 31, 2012, of \$3,736,320. The loans receivable were due from the Upper, Middle, and Lower Republican Natural Resource Districts and is due to funds paid to these natural resource districts so they could repurchase surface water rights. The remaining balances are due June 30, 2013.

**7. Transfers**

2011 Neb. Laws LB 378, § 11 and 2011 Neb. Laws LB 229, § 4 required the State Treasurer to transfer \$2,700,000 and \$600,000, respectively, from the General Fund to the Water Resources Cash Fund by June 30, 2012.

Neb. Rev. Stat. § 2-3226.09 (Reissue 2012) requires the State Treasurer transfer the balance of the Water Contingency Cash Fund to the Cash Reserve Fund each month. Total amount transferred to the Cash Reserve Fund during the calendar year was \$3,809,250.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**NOTES TO THE SCHEDULE**

(Continued)

**7. Transfers** (Concluded)

Neb. Rev. Stat. § 61-218 (8) (Cum. Supp. 2012) requires the Department account for grant money received into the Water Resources Cash Fund from the Nebraska Environmental Trust Fund. The statute further requires the Department to calculate the interest earned on the Environmental Trust grant funds and then transfer that interest amount back to the Environmental Trust Fund. The total amount transferred to the Nebraska Environmental Trust Fund during the calendar year was \$43,902.

**8. Contingencies**

The State is in non-binding arbitration with Kansas and Colorado relating to water usage in the Republican River Basin. It is alleged that Nebraska is consuming more water than is allowed under the Republican River Compact of 1942. The Special Master issued a preliminary report on January 9, 2013, that recommended judgment be entered against Nebraska and in favor of Kansas in the amount of \$5,000,000.

**9. Deposits to/from Common Funds**

Neb. Rev. Stat. § 2-2638(3) (Reissue 2012) establishes a fee of \$90 for each original or renewal application for commercial pesticide applicator licenses, which is to be deposited in Natural Resources Water Quality Fund 25540.

Neb. Rev. Stat. § 2-2641(4) (Reissue 2012) establishes a fee of \$25 for each original or renewal application for private pesticide applicator licenses which is to be deposited in the Natural Resources Water Quality Fund.

Neb. Rev. Stat. § 2-2634(1) (Reissue 2012) establishes a fee of \$200 to register non-specialty pesticides and \$135 to register specialty pesticides. The Department of Agriculture increased the fee to register specialty pesticides to \$160 as allowed by the aforementioned statute. The Department of Agriculture deposits \$110 for each non-specialty pesticide registration into the Natural Resources Water Quality Fund.

All of these funds are collected by the Department of Agriculture and then deposited into the Natural Resources Water Quality Fund to be used by the Department of Natural Resources. A total of \$920,075 was collected by the Department of Agriculture and deposited into the Natural Resources Water Quality Fund during the calendar year ended December 31, 2012.

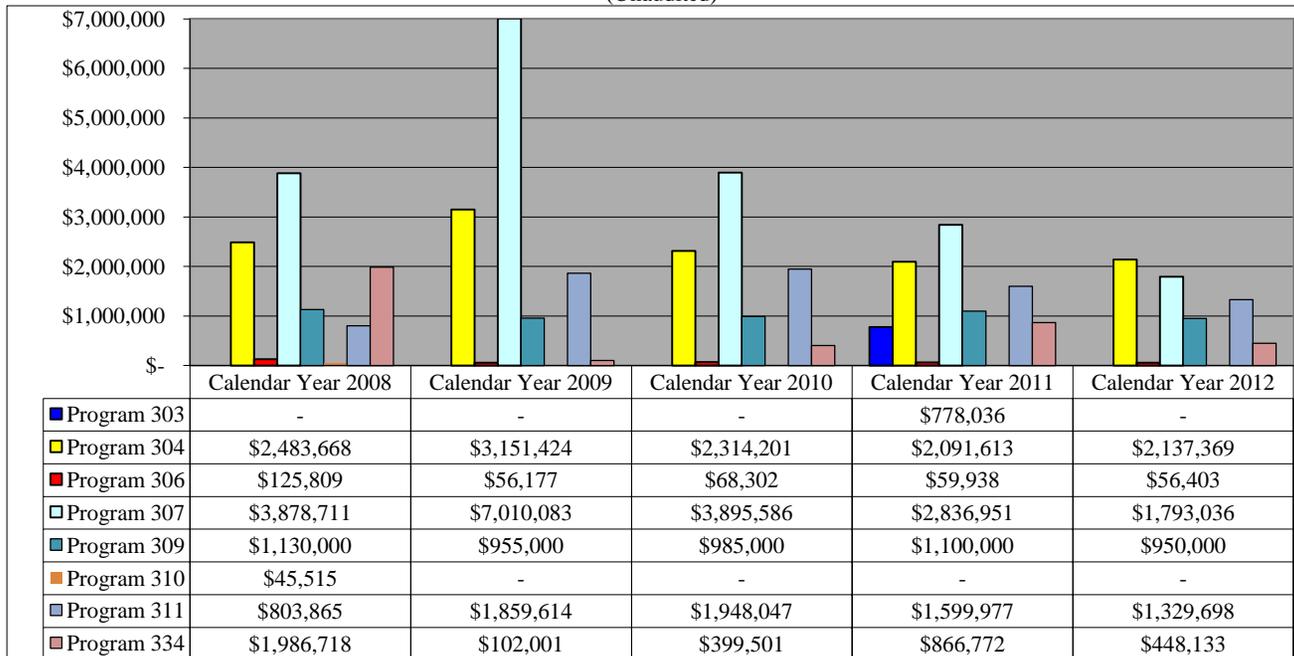
Neb. Rev. Stat. § 46-1224(3) (Cum. Supp. 2012) outlines the registration fee for water wells that is deposited into Well Drillers Fund 22001, which is administered by the Department of Health and Human Services. The amount charged is \$30 for wells that pump 50 gallons per minute or less and \$70 for wells that pump in excess of 50 gallons per minute. The total received by the Department and deposited into the Well Drillers Fund was \$30,380.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES

**SUPPLEMENTARY INFORMATION**

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES  
**DIRECT AID PAYMENTS TO NATURAL RESOURCES DISTRICTS**  
 Calendar Years 2008, 2009, 2010, 2011, and 2012  
 (Unaudited)



Program 303 - To provide financial assistance to local units of governments in the procurement of lands, easements, and rights-of-way that are needed for construction of approved flood control projects; to assist in accelerating the watershed planning process and to assist sponsors in all aspects of land rights acquisition and land management.

Program 304 - To promote efforts by landowners to better manage and conserve the State's natural resources; to provide financial assistance to private landowners to help offset the costs of implementing soil and water conservation practices.

Program 306 - To provide funds for decommissioning wells in order to prevent contaminants from entering the groundwater. The Natural Resources Districts implement qualified well decommissioning programs.

Program 307 - To provide funding assistance for the construction of water conservation and development projects in Nebraska. Funding can be provided for up to seventy five percent of the local project cost as a loan or grant, with an additional fifteen percent available as a loan only.

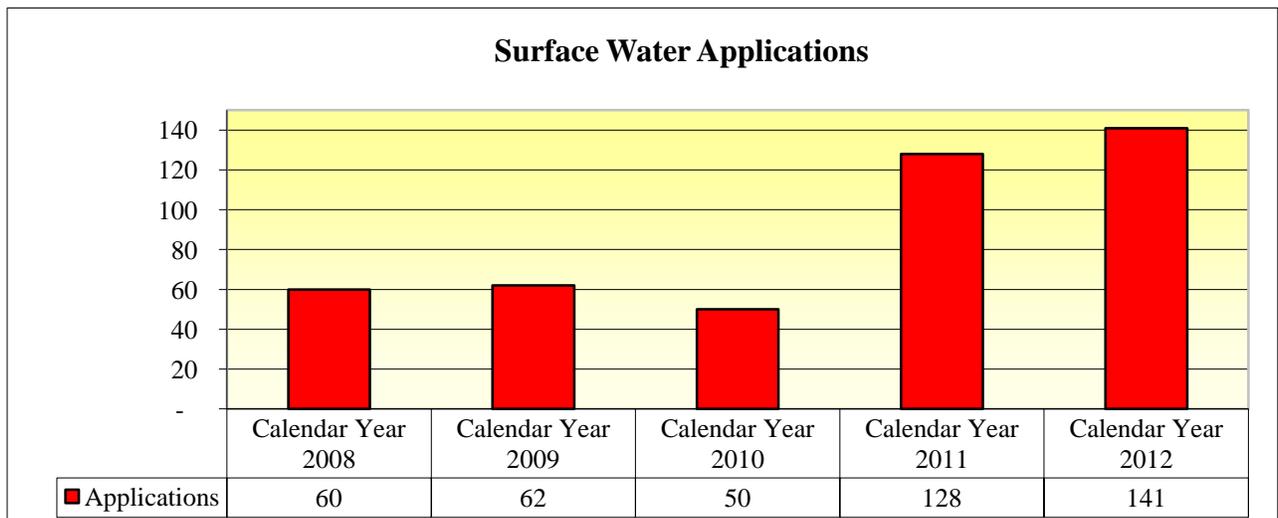
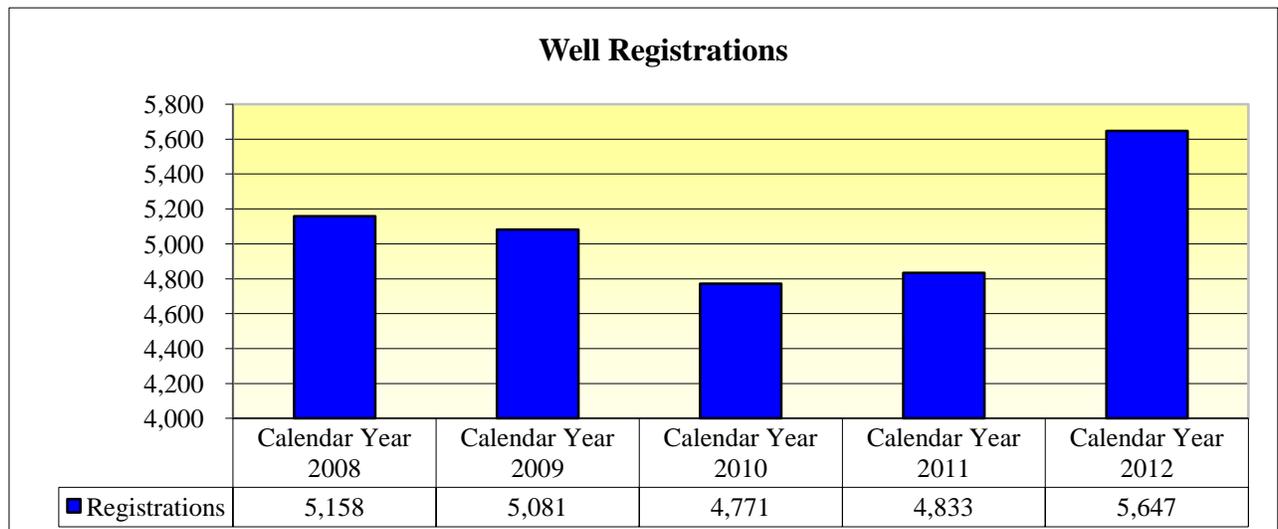
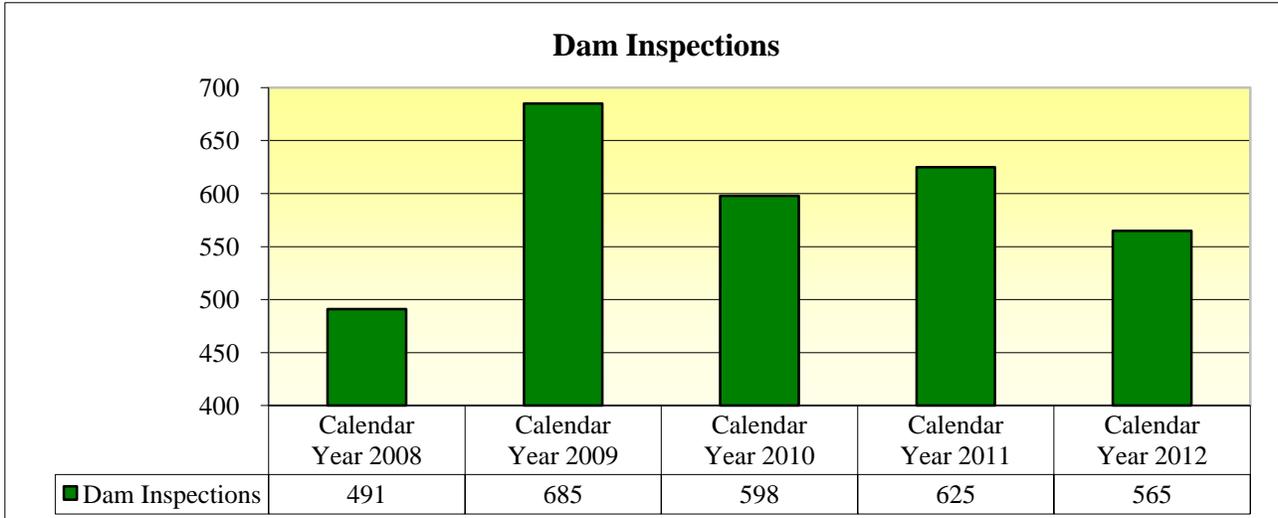
Program 309 - To help offset costs incurred by natural resource districts in their efforts to implement and manage water-quality measures.

Program 310 - To provide for the implementation and continued maintenance of water resources management programs contained in LB 962 of 2004.

Program 311 - To provide funding assistance to Natural Resources Districts for duties arising under the Nebraska Groundwater Management and Protection Act.

Program 334 - To administer and enforce regulations and policies affecting the use of Nebraska's water and soil resources; to provide resources and to work with committed stakeholders to find a sustainable balance among competing demands for water resources; to provide Nebraska's leaders and citizens with the information and analyses needed to make wise resource decisions.

NEBRASKA DEPARTMENT OF NATURAL RESOURCES  
 Calendar Years 2008, 2009, 2010, 2011, and 2012  
 (Unaudited)



Source: Department of Natural Resources