

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
ENVIRONMENTAL QUALITY**

JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

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Issued on May 28, 2013

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

BACKGROUND

The Department of Environmental Quality (Department) was created in 1971 by the Legislature's Nebraska Environmental Protection Act (Act). The 1971 Act established the Environmental Quality Council (Council). The Council consists of 17 members appointed by the Governor. The Council members represent a specific interest or industry affected by and/or concerned with pollution control. The Department Director is appointed by the Governor upon recommendation of the Council and with the Legislature's consent. The Director serves as Secretary of the Council.

The Department operates with State general funds, cash funds, and Federal funds. The Department is organized into six divisions: Water Quality Division, Air Division, Waste Management Division, Management Services Division, Field Services and Assistance, and Legal. The Department administers several aid programs, including the Litter Reduction and Recycling Program, the Waste Reduction and Recycling Incentive Grant Program, the Clean Water and Drinking Water State Revolving Loan Programs (which provide low-interest loans for waste water and drinking water facilities), and the Title 200 Petroleum Release Reimbursement Program.

The Department administers the rules, regulations, and standards adopted to protect and improve water, air, and land quality in the State. The Department also provides service to towns, industries, and citizens through requested conferences, meetings, and environmental assistance, as well as reviews of pollution control facility plans and specifications.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

EXIT CONFERENCE

An exit conference was held May 8, 2013, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Environmental Quality were:

NAME	TITLE
Thomas R. Lamberson	DEQ Deputy Director Administration
Martie Guthrie	DEQ Budget Officer III

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Environmental Quality (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. **Revenues:** We noted a lack of segregation of duties over the receipting process.
2. **Capital Assets:** We noted a lack of controls over capital assets as one individual was responsible for the entire capital asset process.

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 Environmental Quality.

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 indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

COMMENTS AND RECOMMENDATIONS

1. Revenues

Good internal control over receipts requires a plan of organization, procedures, and records where initial control is established over receipts and requires an adequate segregation of duties to ensure no one individual is in a position to both perpetuate and conceal errors or irregularities. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. This control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by an individual separate from the individuals opening the mail and the individual receipting the money and preparing the deposit. This reconciliation should be documented. A good internal control plan would also include program staff responsible for issuing permits, certifications, and fees verify monies received were for the correct amount and were deposited to the correct funds.

The Department receives money for various different programs. These monies include Air Construction Permit fees, Air Emission fees, Onsite Wastewater fees (including Professional Certification fees, Registration fees, Subdivision Review and Approval Application fees, and Operating Permit fees), Solid Waste Management fees (including Permit Application fees, Management Annual Operating fees, and Landfill Disposal fees), Livestock Waste Control Program fees (including Inspection fees, Permit Application fees, and Annual Permit fees), Hazardous Waste Treatment Disposal fees, reimbursement of monitoring costs for various programs, Clean and Drinking Water State Revolving Fund interest, fees, and loan principal repayments. The Department collected approximately \$62 million during the calendar year ended December 31, 2012.

The Department's receipting procedures included, in part, the following:

- One individual opened the mail, date stamped the invoice/applications, wrote the amount of the check and the check number on the invoice/application, photocopied the invoice/application, and sent a copy of the invoice/application along with the checks to an accounting staff member.
- The accounting staff member prepared the initial log of receipts (an adding machine tape of the check amounts), endorsed the checks, and entered the payments into the Department's computerized receipt system and posted the payment to the Department's manual accounts receivable records.
- The original invoice/application was sent to program staff, who were responsible to process the invoice/application and to ensure the amount of money received was correct and deposited.

While our review of the Department's receipt procedures indicated procedures were strengthened, we noted the following areas for improvement:

- A. Two individuals did not open the mail.

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Revenues (Continued)

- B. The individual opening the mail did not restrictively endorse the checks when received.
- C. An initial control log of all monies received was not created by the individual opening the mail.
- D. After the deposits had been posted by the State Treasurer, no one at the Department reconciled the deposits to the State's accounting system.
- E. While the program staff were responsible to process the invoice/application and to ensure the amount of money received was correct and deposited, this was not done for manual invoiced monies received and Solid Waste, Livestock Waste, and Mineral Exploration applications.
- F. For one of five Solid Waste Municipal Landfill Disposal fees tested, the amount remitted was incorrect due to a \$2 mathematical error made by the Landfill staff. This minor error was not discovered by the Department's staff because the Department's procedures did not include a recalculation of the fees due. The Department processed approximately \$2.8 million in landfill disposal fees during the calendar year ended December 31, 2012.

Without strong initial controls over monies collected, there is an increased risk of loss, misuse, or misappropriation of the State's assets. In addition, without adequate procedures reconciling monies received, there is an increased risk the amounts received are not correct.

This was a prior report finding.

We recommend the Department implement procedures which ensure an adequate segregation of duties over receipts. These procedures should include:

- Two individuals opening the mail and creating an initial control log of receipts;
- The immediate endorsement of checks received;
- The control log be initialed and dated by the two individuals opening the mail;
- A documented reconciliation of the initial control log to the amount deposited in the State's accounting system be performed by an individual separate from the individuals opening the mail and the individual receipting the monies;
- Written standardized procedures to document verification at the program level to ensure monies received are for the correct amount and have been properly deposited;

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Revenues (Concluded)

- Documented monitoring by someone separate from the program staff to ensure the verification procedures are being performed; and
- The recalculation of all fee amounts collected.

Department's Response: DEQ management recognizes the importance of good internal controls and segregation of duties within the agency. Over the last several years, management has worked at changing business processes that support good control over the receipting and depositing of agency revenues. Upon review by the auditors, immediate action was taken to 1) assign endorsement of checks to the person opening the mail, 2) reconcile monthly receipt original documentation to the State Treasurer's posted amounts in the State accounting system, and 3) incorporate the recalculation of user submitted fees by fiscal staff when the remittance amount was calculated and submitted by the user. In addition, the agency is in the process of evaluating the follow up procedures that programs will complete, to reconcile expected receipts to actual funds received. The utilization and reconciliation of the electronic imaging database and notation of checks received against actual deposits made may also aid in strengthening the agency's internal controls over revenues. This follow up process will strive to standardize steps, and provide for additional controls at the program and fiscal staff levels.

2. Capital Assets

During our review of capital asset internal control procedures, we noted the following:

- One individual was responsible for maintaining all capital asset records. This individual was responsible for adding items to the capital asset records, preparing Surplus Property Notification forms, initiating the disposal of assets, performing the annual physical inventory, and maintaining the capital asset records.
- There was no compensating control, such as an independent review of the capital asset records and reports.
- Twelve individuals, including those who do not perform regular duties related to capital assets, had access to the fixed asset records in the State accounting system.

Good internal control requires procedures be in place to ensure one individual is not in a position to both perpetuate and conceal errors or irregularities and that only individuals directly involved in the capital asset process have access to capital asset records. Good internal control also requires a plan of organization, procedures, and records designed to safeguard assets.

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Capital Assets (Concluded)

Without proper procedures in place to safeguard assets, there is an increased risk of loss or misuse of State assets. There was a similar finding in our prior report.

We recommend the Department implement procedures to ensure an adequate segregation of duties over capital assets exists or implement compensating controls. Compensating controls may include the review and approval by an independent individual of the annual inventory, the listing of capital assets, and the additions and retirements reports. We also recommend the Department review their procedures to ensure the number of employees with access to capital asset records is kept to a minimum.

Department's Response: The agency already had in place an independent review of fixed asset reports documented on a monthly basis. However the additions and retirements report was not included in those reports reviewed. That report has been added, and is now being reviewed and approved by the fiscal supervisor, as well as the annual inventory listing, once the annual inventory has taken place. A review was made of the agency staff who have security level access to the capital asset records. The number of individuals who have security level access to the capital asset records has been changed to only include those individuals, and their position back-ups that require access on an ongoing basis. The agency feels these changes will strengthen internal controls sufficiently to address this finding.



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NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Environmental Quality
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Department of Environmental Quality (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, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Environmental Quality for the calendar year ended December 31, 2012, based on the accounting system and procedures prescribed by the State of Nebraska Department 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 8, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2012

	General Fund 10000	Livestock Waste Management Fund 28330	Clean Air Title V Fund 28340	Air Quality Permit Cash Fund 28345	Remedial Action Plan Monitoring Fund 28350	Superfund Cost Share Cash Fund 28359	Solid Waste Landfill Closure Fund 28370	Integrated Solid Waste Management Fund 28380	Environmental Official Training Fund 28381
REVENUES:									
Appropriations	\$ 4,759,273	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes (Note 8)	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	38,885	-	-	-	-
Sales & Charges	-	452,876	2,692,315	52,500	141,237	-	-	1,699,238	-
Miscellaneous	35,044	7,823	51,738	1,996	1,090	218	-	12,305	1,542
TOTAL REVENUES	4,794,317	460,699	2,744,053	54,496	181,212	218	-	1,711,543	1,542
EXPENDITURES:									
Personal Services	2,293,598	301,739	1,778,644	18,153	97,358	-	-	1,201,601	-
Operating	828,539	646	721,231	12,391	38,355	-	-	456,663	92,848
Travel	199,555	-	25,887	(7,435)	1,151	-	-	33,050	-
Capital Outlay	18,090	-	-	2,669	-	-	-	-	-
Government Aid	1,419,491	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	4,759,273	302,385	2,525,762	25,778	136,864	-	-	1,691,314	92,848
Excess (Deficiency) of Revenues Over (Under) Expenditures	35,044	158,314	218,291	28,718	44,348	218	-	20,229	(91,306)
OTHER FINANCING SOURCES (USES):									
Sales of Assets	6,108	-	-	-	-	-	-	-	-
Adjustment to Fund Balance (Note 7)	-	-	-	-	-	-	-	-	-
Deposit to General Fund	(41,152)	-	-	-	-	-	-	-	-
Operating Transfers In (Note 6)	-	-	-	-	-	-	-	-	-
Operating Transfers Out (Note 6)	-	-	-	-	-	-	-	-	-
Loan Repayments	-	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(35,044)	-	-	-	-	-	-	-	-
Net Change in Fund Balances	-	158,314	218,291	28,718	44,348	218	-	20,229	(91,306)
FUND BALANCES, January 1, 2012	-	146,228	1,700,790	63,904	25,277	-	5	567,412	111,036
FUND BALANCES, December 31, 2012	\$ -	\$ 304,542	\$ 1,919,081	\$ 92,622	\$ 69,625	\$ 218	\$ 5	\$ 587,641	\$ 19,730
FUND BALANCES CONSIST OF:									
General Cash	\$ -	\$ 304,142	\$ 1,918,967	\$ 92,622	\$ 69,625	\$ 218	\$ 5	\$ 589,675	\$ 19,730
Cash with Fiscal Agent	-	-	-	-	-	-	-	-	-
NSF Items	-	-	-	-	-	-	-	-	-
Deposits with Vendors	-	-	440	-	-	-	-	640	-
Accounts Receivable Invoiced	-	400	-	-	-	-	-	-	-
Due From Other Funds	-	-	-	-	-	-	-	-	-
Due From Other Government	-	-	1	-	-	-	-	(2,024)	-
Loans Receivable	-	-	-	-	-	-	-	-	-
Bonds Payable	-	-	-	-	-	-	-	-	-
Due to Vendors	-	-	(327)	-	-	-	-	(650)	-
TOTAL FUND BALANCES	\$ -	\$ 304,542	\$ 1,919,081	\$ 92,622	\$ 69,625	\$ 218	\$ 5	\$ 587,641	\$ 19,730

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2012

	Waste Reduction & Recycling Incentive Fund 28390	Litter Reduction & Recycling Fund 28400	Environmental Control Cash Fund 28410	Environmental Trust Fund 28411	Community Assessment Fund 28412	Community Lake Enhance Restoration Fund 28413	Pipeline Supplemental Environmental Impact Statement Fund 28414	Chemigation Cost Fund 28420
REVENUES:								
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	2,448,709	2,189,002	-	-	-	-	-	-
Intergovernmental	-	-	-	102,990	-	-	-	-
Sales & Charges	1,287,271	-	119,691	-	-	-	-	36,070
Miscellaneous	190,755	201,008	2,282	1,085	49	200	3,808,579	1,645
TOTAL REVENUES	3,926,735	2,390,010	121,973	104,075	49	200	3,808,579	37,715
EXPENDITURES:								
Personal Services	186,059	114,955	74,450	-	-	-	286,800	4,000
Operating	86,320	149,641	47,995	103,519	-	-	3,457,502	43,948
Travel	3,553	719	10,869	-	-	-	18,476	(2,837)
Capital Outlay	-	-	-	-	-	-	-	-
Government Aid	3,032,232	1,532,329	-	-	-	-	-	-
TOTAL EXPENDITURES	3,308,164	1,797,644	133,314	103,519	-	-	3,762,778	45,111
Excess (Deficiency) of Revenues Over (Under) Expenditures	618,571	592,366	(11,341)	556	49	200	45,801	(7,396)
OTHER FINANCING SOURCES (USES):								
Sales of Assets	-	-	-	-	-	-	-	-
Adjustment to Fund Balance	(7,931)	-	-	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-
Loan Repayments	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(7,931)	-	-	-	-	-	-	-
Net Change in Fund Balances	610,640	592,366	(11,341)	556	49	200	45,801	(7,396)
FUND BALANCES, January 1, 2012	4,033,674	1,921,580	51,431	38,153	2,003	8,109	-	70,507
FUND BALANCES, December 31, 2012	\$ 4,644,314	\$ 2,513,946	\$ 40,090	\$ 38,709	\$ 2,052	\$ 8,309	\$ 45,801	\$ 63,111
FUND BALANCES CONSIST OF:								
General Cash	\$ 4,643,429	\$ 2,513,400	\$ 40,411	\$ 38,709	\$ 2,052	\$ 8,309	\$ 46,513	\$ 63,559
Cash with Fiscal Agent	-	-	-	-	-	-	-	-
NSF Items	-	-	-	-	-	-	-	-
Deposits with Vendors	885	546	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-	-	-	-
Due From Other Government	-	-	-	-	-	-	-	-
Loans Receivable	-	-	-	-	-	-	-	-
Bonds Payable	-	-	-	-	-	-	-	-
Due to Vendors	-	-	(321)	-	-	-	(712)	(448)
TOTAL FUND BALANCES	\$ 4,644,314	\$ 2,513,946	\$ 40,090	\$ 38,709	\$ 2,052	\$ 8,309	\$ 45,801	\$ 63,111

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2012

	Petroleum & Hazardous Substance Storage Handling Fund 28430	Wastewater Treatment Operator Certification Fund 28450	Private Onsite Wastewater Treatment Permit Fund 28451	Private Onsite Wastewater Treatment Cert. Fund 28459	Wastewater Loan Administration Fund 28460	Petroleum Release Cash Fund 28490	Drinking Water Loan Administration Fund 28630	Water Pollution Fund 48410
REVENUES:								
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	11,633,062	-	-
Intergovernmental	-	-	-	-	-	-	-	21,128,407
Sales & Charges	-	101,775	65,440	298,627	1,116,546	3,019	927,587	25,000
Miscellaneous	4	(589)	436	19,505	39,440	(11,408)	41,355	13,549
TOTAL REVENUES	4	101,186	65,876	318,132	1,155,986	11,624,673	968,942	21,166,956
EXPENDITURES:								
Personal Services	-	58,418	25,299	223,926	489,036	985,000	163,364	2,160,964
Operating	-	31,195	9,075	92,967	222,991	5,730,291	225,825	6,156,360
Travel	-	867	(450)	4,262	5,378	12,612	3,358	35,593
Capital Outlay	-	-	-	-	-	455,656	-	19,241
Government Aid	-	-	-	-	845,540	6,495,225	-	12,734,888
TOTAL EXPENDITURES	-	90,480	33,924	321,155	1,562,945	13,678,784	392,547	21,107,046
Excess (Deficiency) of Revenues Over (Under) Expenditures	4	10,706	31,952	(3,023)	(406,959)	(2,054,111)	576,395	59,910
OTHER FINANCING SOURCES (USES):								
Sales of Assets	-	-	-	-	-	-	-	-
Adjustment to Fund Balance	-	-	-	-	-	-	-	1,350
Deposit to General Fund	-	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-
Loan Repayments	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-	-	1,350
Net Change in Fund Balances	4	10,706	31,952	(3,023)	(406,959)	(2,054,111)	576,395	61,260
FUND BALANCES, January 1, 2012	174	16,106	2,040	358,691	2,168,391	4,311,825	1,551,936	548,251
FUND BALANCES, December 31, 2012	\$ 178	\$ 26,812	\$ 33,992	\$ 355,668	\$ 1,761,432	\$ 2,257,714	\$ 2,128,331	\$ 609,511
FUND BALANCES CONSIST OF:								
General Cash	\$ 178	\$ 26,589	\$ 33,992	\$ 356,238	\$ 1,774,688	\$ 2,670,969	\$ 2,128,515	\$ 1,939,435
Cash with Fiscal Agent	-	-	-	-	-	-	-	-
NSF Items	-	-	-	-	-	-	-	-
Deposits with Vendors	-	222	-	-	-	200	-	3,070
Accounts Receivable Invoiced	-	-	-	-	-	-	-	-
Due From Other Government	-	-	-	-	-	-	-	-
Loans Receivable	-	-	-	-	-	-	-	-
Bonds Payable	-	-	-	-	-	-	-	-
Due to Vendors	-	1	-	(570)	(13,256)	(413,455)	(184)	(1,332,994)
TOTAL FUND BALANCES	\$ 178	\$ 26,812	\$ 33,992	\$ 355,668	\$ 1,761,432	\$ 2,257,714	\$ 2,128,331	\$ 609,511

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2012

	Solid Waste Fund 48420	Air Pollution Fund 48430	Indirect Cost Fund 48440	Department of Defense Sites Fund 48450	Hazardous Waste Sites Fund 68450	Leaking Underground Storage Tanks Fund 68460	Wastewater Facility Construction Loan Fund 68470	Drinking Water Facility Construction Fund 68480	Totals (Memorandum Only)
REVENUES:									
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,759,273
Taxes	-	-	-	-	-	-	-	-	16,270,773
Intergovernmental	1,566,018	1,985,967	3,539,648	122,108	-	-	-	-	28,484,023
Sales & Charges	-	-	12,659	-	-	-	-	-	9,031,851
Miscellaneous	9,493	1,972	4,803	2,806	1,125	10	5,671,020	3,214,279	13,325,159
TOTAL REVENUES	1,575,511	1,987,939	3,557,110	124,914	1,125	10	5,671,020	3,214,279	71,871,079
EXPENDITURES:									
Personal Services	888,378	525,733	1,927,333	80,095	-	-	-	-	13,884,903
Operating	674,707	609,766	1,719,310	31,451	(61,414)	-	7,124	-	21,489,246
Travel	15,016	3,350	61,743	994	-	-	-	-	425,711
Capital Outlay	-	27,266	3,050	-	-	-	-	-	525,972
Government Aid	-	824,955	-	-	-	-	19,953,591	5,919,404	52,757,655
TOTAL EXPENDITURES	1,578,101	1,991,070	3,711,436	112,540	(61,414)	-	19,960,715	5,919,404	89,083,487
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,590)	(3,131)	(154,326)	12,374	62,539	10	(14,289,695)	(2,705,125)	(17,212,408)
OTHER FINANCING SOURCES (USES):									
Sales of Assets	-	-	-	-	-	-	-	-	6,108
Adjustment to Fund Balance	-	-	-	-	-	-	(784,629)	(8,636,517)	(9,427,727)
Deposit to General Fund	-	-	-	-	-	-	-	-	(41,152)
Operating Transfers In	-	-	-	-	-	-	-	883,780	883,780
Operating Transfers Out	-	-	-	-	-	-	(2,944,167)	(3,156,729)	(6,100,896)
Loan Repayments	-	-	-	-	-	-	25,219,805	19,381,063	44,600,868
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-	21,491,009	8,471,597	29,920,981
Net Change in Fund Balances	(2,590)	(3,131)	(154,326)	12,374	62,539	10	7,201,314	5,766,472	12,708,573
FUND BALANCES, January 1, 2012	173,296	45,154	228,057	99,142	1,793	381	228,739,234	122,608,571	369,593,151
FUND BALANCES, December 31, 2012	\$ 170,706	\$ 42,023	\$ 73,731	\$ 111,516	\$ 64,332	\$ 391	\$ 235,940,548	\$ 128,375,043	\$ 382,301,724
FUND BALANCES CONSIST OF:									
General Cash	\$ 175,892	\$ 41,311	\$ 71,652	\$ 111,516	\$ 64,332	\$ 391	\$ 89,792,476	\$ 39,489,869	\$ 149,029,409
Cash with Fiscal Agent	-	-	-	-	-	-	10,208	-	10,208
NSF Items	-	-	4,504	-	-	-	-	-	4,504
Deposits with Vendors	451	712	974	-	-	-	-	-	8,140
Accounts Receivable Invoiced	-	-	-	-	-	-	-	96	496
Due From Other Government	-	-	-	-	-	-	-	-	(2,023)
Loans Receivable	-	-	-	-	-	-	147,587,505	89,256,526	236,844,031
Bonds Payable	-	-	-	-	-	-	(1,440,000)	-	(1,440,000)
Due to Vendors	(5,637)	-	(3,399)	-	-	-	(9,641)	(371,448)	(2,153,041)
TOTAL FUND BALANCES	\$ 170,706	\$ 42,023	\$ 73,731	\$ 111,516	\$ 64,332	\$ 391	\$ 235,940,548	\$ 128,375,043	\$ 382,301,724

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2012

1. Criteria

The accounting policies of the Nebraska Department of Environmental Quality (Department) are on the basis of accounting, as prescribed by the State of Nebraska Department of Administrative Services.

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 accounts entitled Bonds Payable and Due to Vendors 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 ENVIRONMENTAL QUALITY

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.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

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.

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Department consist of petroleum release remedial action fees, waste reduction and recycling fees, and litter reduction and recycling fees.

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 and loan interest.

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.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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.

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 Bonds Payable. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

Other Financing Sources (Uses) – Operating transfers to the Bond Trustee, proceeds of fixed asset dispositions, deposits to the General Fund, and loan repayments.

2. Reporting Entity

The Nebraska Department of Environmental Quality 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 Environmental Quality is part of the primary government for the State of Nebraska.

NOTES TO THE SCHEDULE

(Continued)

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.

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. 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.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of two to ten years.

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

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:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 4,499,608	\$ 525,449	\$ 148,822	\$ 4,876,235
Less accumulated depreciation* for Equipment				<u>3,405,311</u>
Total capital assets, net of depreciation				<u>\$ 1,470,924</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. Transfers

Transfers include:

Transfers In:	<u>Amount</u>
Drinking Water Facility Loan Fund 68480 transfer in of proceeds from bonds issued.	\$ 883,780
Transfers Out:	
Wastewater Facility Construction Loan Fund 68470 transfer out to pay off bonds.	\$ 2,944,167
Drinking Water Facility Loan Fund 68480 transfer out of loan interest earnings to the Bond Trustee to be used to pay off bonds.	\$ 3,156,729

7. Adjustments to Fund Balance

Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a revenue or expenditure account. The \$784,629 in the Wastewater Facility Construction Loan Fund 68470 and the \$8,636,517 in the Drinking Water Facility Loan Fund 68480 represent the net change in Loans Receivable balances between January 1, 2012, and December 31, 2012.

8. Taxes

The Nebraska Department of Revenue collected various fees, which are required to be deposited into the Department's funds. The fees collected by the Department of Revenue included: petroleum release remedial action fees imposed on the sale and distribution of petroleum, waste reduction and recycling fees imposed on the sale of tangible personal property and new tires, and

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE
(Continued)

8. Taxes (Concluded)

litter reduction and recycling fees imposed on manufacturers, wholesalers, and retailers on products that commonly contribute to litter. The amount deposited in these funds was available for disbursement by the Department for various environmental programs. The total collected by the Department of Revenue, net of their collection fee, and deposited into the Department's funds was as follows:

<u>Fund</u>	<u>Amount</u>
Petroleum Release Cash Fund 28490	\$ 11,207,687
Waste Reduction/Recycling Incentive Fund 28390	\$ 2,448,709
Litter Reduction and Recycling Fund 28400	\$ 2,189,002

The State Fire Marshal also collected a fee on all owners of registered and operating stationary petroleum tanks. These fees were deposited into the Petroleum Release Cash Fund 28490 and were available for disbursement by the Department. The total collected by the State Fire Marshal was \$425,375.

9. Bond Issuance, Cash with Fiscal Agent, and Bonds Payable

The Wastewater (Clean Water) and Drinking Water Facility Programs are funded with Federal money and the matching requirement is partially funded by the Department through the issuance of bonds.

The Clean Water Program issued \$1,440,000 in bonds during the calendar year, which are recorded on EnterpriseOne. The Department paid \$1,454,208 to the Bond Trustee, to be used to pay off the bonds and interest due. Cash with Fiscal Agent of \$10,208 is being held by the Trustee as of December 31, 2012, to cover bond issuance expenses when the bond is paid off. The bonds will be paid off before June 30, 2013.

The Drinking Water Program issued bonds in previous years and received \$883,780 in bond issuance proceeds from the Bond Trustee during the calendar year. These bond proceeds were all loaned out during the calendar year. The Drinking Water bonds payable are not recorded on EnterpriseOne and; therefore, are not included on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The Drinking Water Program had \$8,905,000 in bonds payable at December 31, 2012. The Bond Trustee also held cash of \$11,250,540 as of December 31, 2012, which is not recorded on EnterpriseOne.

On January 1, 2013, the Department redeemed two Drinking Water bond series, reducing the bonds payable by \$2,345,000, leaving a new balance of \$6,560,000.

10. Loans Disbursed, Loan Repayments, and Loans Receivable

The Department operates the Clean Water and Drinking Water State Revolving Fund Programs as direct loan programs, whereby loans are made to communities. Loan funds are disbursed to the local entities as they expend funds for the purpose of the loan. Interest is calculated from the

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

(Continued)

10. Loans Disbursed, Loan Repayments, and Loans Receivable (Concluded)

date that funds are advanced, and after the final disbursement has been made. The interest rates on loans range from 1% to 4% and the terms are between 5 and 30 years. Loans disbursed are recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as Government Aid while Loan Repayments are recorded as Other Financing Sources. The following is a summary of loans receivable activity for the calendar year ended December 31, 2012.

	Clean Water	Drinking Water
Balance January 1, 2012	\$ 148,380,565	\$ 97,864,107
Loans Disbursed	24,426,745	10,773,482
Loans Repaid	(25,219,805)	(19,381,063)
Balance December 31, 2012	<u>\$ 147,587,505</u>	<u>\$ 89,256,526</u>

11. Government Aid

Government Aid in the Clean Water and Drinking Water State Revolving Fund Programs included, loans disbursed to local entities and loan forgiveness paid to local entities. Loans disbursed increased the local entities' loan payable balances, while loan forgiveness is granted to entities and is not required to be repaid by the entities. Government Aid, separated by loans disbursed and loan forgiveness, was as follows:

	<u>Fund 28460</u>	<u>Fund 48410</u>	<u>Fund 68470</u>	<u>Fund 68480</u>	<u>Total</u>
Clean Water:					
Loans Disbursed	\$ 22,941	\$ 4,450,213	\$ 19,953,591	\$ -	\$ 24,426,745
Loan Forgiveness	-	1,656,306	-	-	1,656,306
Grants	822,599	-	-	-	822,599
Drinking Water:					
Loans Disbursed	-	4,969,248	-	5,804,234	10,773,482
Loan Forgiveness	-	1,614,218	-	115,170	1,729,388
Grants	-	44,903	-	-	44,903
Total	<u>\$ 845,540</u>	<u>\$ 12,734,888</u>	<u>\$ 19,953,591</u>	<u>\$ 5,919,404</u>	<u>\$ 39,453,423</u>

12. Funds

The Schedule of Revenues, Expenditures, and Changes in Fund Balances reports separately all funds with differing purposes. Certain funds with the same purpose are reported under a parent fund. Those funds reported under a parent fund in the Schedule are the following:

Parent Fund	Child Fund	Child Fund Name
28460	28460	Wastewater Loan Administration
28460	28461	Wastewater Loan Administration (Bond Match)

NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

NOTES TO THE SCHEDULE

(Continued)

12. Funds (Concluded)

Parent Fund	Child Fund	Child Fund Name
28460	28462	Small Town Grants
48410	48410	Water Pollution
48410	48411	Chapman Contracting Corp
48410	48412	CWSRF 4% Administration
48410	48413	CWSRF Loans (Capitalization Grant Loans)
48410	48414	Long Pine RCWP
48410	48416	DWSRF Loans (Capitalization Grant Loans)
48410	48418	DWSRF Set-A-Sides
68450	68450	Hazardous Waste Sites
68450	68451	Hazardous Waste Sites
68470	68470	Wastewater Facility Construction Loan
68470	68471	CWSRF Interest Earnings (Loan Repayments)
68470	68472	CWSRF Repaid Principal (from Loans)
68470	68473	CWSRF Bond Proceeds
68480	68480	Drinking Water Facility Loan
68480	68481	DWSRF Interest Earnings (Loan Repayments)
68480	68482	DWSRF Repaid Principal
68480	68483	DWSRF Bond Proceeds
68480	68484	DWSRF Bond Recycled Principal (From Loans)
68480	68485	DW Administration Fund State Match
68480	68486	DW Unpledged Loan From Repaid Funds

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. The Department’s supplementary information can be found in the Department’s annual reports to the Legislature located on the Department’s website <http://www.deq.state.ne.us/>. The following table of contents is from the Department’s “Annual Report to the Legislature 2012.” This annual report includes information on the Department’s assistance paid, complaints received, inspections made, applications received, permits issued, and cleanup site progress.

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