



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen  
State Auditor

Charlie.Janssen@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.nebraska.gov](http://www.auditors.nebraska.gov)

March 7, 2017

Environmental Quality Council  
Nebraska Department of Environmental Quality  
1200 "N" Street, Suite 400  
P.O. Box 98922  
Lincoln, Nebraska 68509

We have audited the financial statements of the business-type activities of the Nebraska Department of Environmental Quality – Drinking Water State Revolving Fund Program and the Clean Water State Revolving Fund Program (Programs) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in a separate letter to you dated January 10, 2017. Professional standards also require that we communicate to you the following information related to our audits.

### Our Responsibility under Professional Standards

We are responsible for forming and expressing opinions about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, no absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audits to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audits do not relieve management of their responsibilities.

In addition, in planning and performing our audits of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing opinions on the effectiveness of the Programs' internal control. Accordingly, we do not express an opinion on the effectiveness of the Programs' internal control.

We are also responsible for expressing opinions on compliance for the Programs' based on our audits of the types of compliance requirements described in the Uniform Guidance that could have a direct and material effect on the Programs. Professional auditing standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Programs occurred.

Finally, we also have a responsibility to communicate significant matters related to the financial statement audits that are, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Nebraska Department of Environmental Quality are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2016. We noted no transactions entered into by the Nebraska Department of Environmental Quality for the Programs during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. The financial statement disclosures are neutral, consistent, and clear.

### Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Two of the corrected misstatements that we brought to the attention of management as the result of audit procedures were material to the Drinking Water State Revolving Fund. One misstatement involved not adjusting for loan payoffs in calculating the split of current versus non-current loans receivable on the Balance Sheet, which resulted in current loans receivable being understated by \$5,575,224 and non-current loans receivable being overstated by \$5,575,224. The other misstatement involved including fiscal year ended June 30, 2015 bond activity on the fiscal year ended June 30, 2016 Statement of Cash Flows, which resulted in improper inclusion on the Statement of Cash Flows of \$1,035,855 in cash received from bond issuance and \$1,035,855 in cash paid for repayment of the bonds.

Two of the corrected misstatements that we brought to the attention of management as the result of audit procedures were material to the Clean Water State Revolving Fund. One misstatement involved not adjusting for loan payoffs in calculating the split of current versus non-current loans receivable on the Balance Sheet, which resulted in current loans receivable being understated by \$1,984,992 and non-current loans receivable being overstated by \$1,984,992. The Other misstatement involved exclusion of an accrual entry for loan forgiveness payments to four communities, which resulted in Due to Grant Recipients on the Balance Sheet and expenditures on the Statement of Revenues, Expenses, and Changes in Net Position being understated by \$116,973.

### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 7, 2017.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Nebraska Department of Environmental Quality Programs' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of Environmental Quality Council and management of the Nebraska Department of Environmental Quality and is not intended to be, and should not be, used by anyone other than these specified parties. This letter is a matter of public record, and its distribution is not limited.

Sincerely,

A handwritten signature in blue ink that reads "Philip J. Olsen". The signature is fluid and cursive, with a long horizontal stroke at the end.

Philip J. Olsen

Audit Manager