



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 28, 2008

Dr. Douglas D. Christensen, Commissioner of Education
Nebraska Department of Education
301 Centennial Mall South; 6th Floor
Lincoln, NE 68509-4987

Dear Dr. Christensen:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2007, and have issued our report thereon dated December 28, 2007. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 13, 2008. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the federal Office of Management and Budget (OMB) Circular A-133 (the Single Audit) and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Education (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Agency's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of the prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Comment Number 1 (Incorrect Accrual Information) relating to the audit of the basic financial statements is considered a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

A separate evaluation of the State's significant Information Technology (IT) systems was completed. The findings and recommendations noted as part of the evaluation were reported to management in a separately issued confidential summary of findings and recommendations.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Where no response has been included, the Agency declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2007.

COMMENTS RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Incorrect Accrual Information

Good internal control requires procedures to ensure payables reported to Administrative Services State Accounting Division (State Accounting) for the Comprehensive Annual Financial Report (CAFR) are accurate and supported by adequate documentation.

During our review of the amounts reported by the Agency as payables to State Accounting for the CAFR, we noted the following:

- The Agency had not considered reporting a payable for the Grants Management System (GMS) to State Accounting until after discussion with the APA. The payable recorded for fiscal year 2007 was \$29,284,674. No payable was reported for the fiscal year 2006 CAFR.
- The estimation of the 2007 GMS payable amount was incorrect. The original amount submitted was overstated by \$3,463,792. The Agency used the incorrect budget amount to estimate the payable and also used the incorrect payment amounts for 5 of 6 programs included in the payable. The Agency also did not include the Migrant Grant in the calculated payable amount; the estimate for the payable related to the grant was \$1,678,433.
- The Agency did not report to State Accounting, payables for the IDEA Enrollment/Poverty Allocation of \$584,085 and the Early Childhood Project of \$591,069.

Without proper controls to ensure amounts reported to State Accounting are accurate there is an increased risk expenditures and related payables are misstated.

We recommend the Agency implement procedures to ensure payables reported to State Accounting are accurate and supported by adequate documentation.

Agency's Response: The Department will document all processes and procedures used to develop the accrual information for the CAFR. Prior to this audit the Department was not cognizant of a need for such information. The Department will also meet with DAS State Accounting to better understand their information needs for developing the CAFR. The meeting is tentatively scheduled for sometime in February 2008.

2. Grants Management System Batch Process

Good internal control requires procedures to ensure expenditures are recorded as an obligation for the correct fiscal year.

Two of twenty-five documents tested from fiscal year 2007 were not recorded as an obligation for the correct fiscal year. An additional 7 documents for December 2006 and January 2007 payments were also recorded incorrectly as prior year obligations.

Prior year and current year obligations were not determined for individual documents processed through the GMS. For each batch processed in GMS, the Agency must choose to code the batch as a prior year or current year obligation. The Agency reviewed the individual expenditures included in each batch and determined if the majority were prior year or current year obligations, then coded accordingly. The procedure to review individual expenditures was not documented.

During our review of batches processed through GMS from July 1, 2007, to August 15, 2007, we noted one batch totaling \$322,033 was incorrectly recorded as a current year obligation and should have been a prior year obligation.

Without proper controls to ensure expenditures are recorded as an obligation in the correct fiscal year there is an increased risk expenditures and related payables are misstated.

We recommend the Agency determine a reasonable method to ensure payments are recorded as an obligation for the correct year and maintain supporting documentation to justify the coding for each batch.

Agency's Response: The Department will modify the Department's NIS Interface System and change the automatic Document Type default of PV (current year) to blank. This will require staff to make a conscience selection, thus avoiding automatic PV processing. Staff has been made aware of the need to correctly process payment batches as P9 (previous year) or PV (current year).

The staff responsible for the pre-auditing batches have also been instructed to question any aid payment made on the months of July through September that are coded as a PV (current year).

COMMENT RELATED TO THE SINGLE AUDIT

Finding #07-13-02

Program: CFDA 84.010 - Title I Grants to Local Educational Agencies - Special Tests and Provisions

Grant Number & Year: #S010A0000270, FFY2007

Federal Grantor Agency: U.S. Department of Education

Criteria: Per Title 34 CFR 200.50 (a) (1) A State Educational Agency (SEA) must annually review the progress of each Local Educational Agency (LEA) that receives Title I funds to determine whether the LEA schools served under this part are making adequate yearly progress (AYP) and that the LEA is carrying out its responsibilities under this part with respect to school improvement. Title I, Section 1111(h)(2)(B) of the Elementary and Secondary Education Act (ESEA) requires that, in the case of a school, the State educational agency shall ensure that each local educational agency collects appropriate data and includes in the local educational agency's annual report information that shows how the school's students achievement on the statewide academic assessments and other indicators of adequate yearly progress. Good internal control requires procedures to ensure the accuracy of yearly progress data submitted by the schools.

Condition: The Agency did not have procedures in place for ensuring and monitoring the quality of assessment data reported at the school level.

Questioned Costs: None

Context: There were approximately 442 schools that received Title I funding during the 2005-06 school year and reported assessment data to the Agency. The Agency did not have procedures in place to ensure the AYP data submitted by the schools was accurate and properly reported.

Cause: Unknown

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend the Agency implement procedures to ensure compliance with Federal regulations.

Management Response:

Corrective Action Plan: Nebraska's plan to ensure quality for all data submitted to the NDE includes dissemination of information and focused training. The NDE has already provided training sessions across the State using the "Forum Guide to Building A Culture of Quality Data." More than 600 administrators and teachers have attended these meetings.

The NDE has also secured a 3 year, 3 million dollar grant from the U. S. Department of Education. This grant will provide four additional trainers to be located throughout the State. The NDE and its policy partners, the Educational Service Units, Nebraska Council of School Administrators, the Nebraska Association of School Boards, and the Nebraska State Education Association have formed a Partnership for Data Quality to provide a coordinated, consistent, and statewide professional development and training. This will include:

A Data Quality conference to be hosted by the Partnership annually. The 2007-08 conference is scheduled for April 28, 2008, in Kearney, Nebraska.

Training will be provided using the Forum Curriculum for Improving Education Data from the National Forum on Education Statistics as the curriculum. The Forum Curriculum includes training on necessary policies and procedures, security and privacy issues, roles and responsibilities of staff, validating and auditing data, and using data in communications. Persons completing this curriculum can apply for certification from NCES.

Data coordinators have been identified in each reporting agency through the initial data collections in October 2007. The training, at a minimum, will be provided to the data coordinators but will also be made available to administrators, agency staff, and school board members throughout the State. The goal is to have a data coordinator in each district that has received training by the end of the 2008-09 school year.

A hard copy of The Forum Curriculum for Improving Education Data was sent to each agency in December 2007 and is available on-line at: <http://nces.ed.gov/forum/> and on a data quality link on the NDE homepage. Information on the U. S. Department of Education's guidelines on data quality will also be sent to all districts and a link will be posted on the training website.

Part II of The Nebraska-led Peer Review of STARS (NLPRS) includes the monitoring of the administration of assessment in STARS. Each district's policies/procedures are reviewed to ensure consistent and comparable administration of assessments across a district.

Contact: Marilyn Peterson, Federal Programs Administrator

Anticipated Completion Date: April 28, 2008.

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to you.

This letter is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this letter is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.



Pat Reding
Assistant Deputy Auditor



Don Dunlap
Assistant Deputy Auditor