



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Dr. Roger Breed, Commissioner of Education
Nebraska Department of Education
301 Centennial Mall South, 6th Floor
Lincoln, NE 68509-4987

Dear Dr. Breed:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2010, and have issued our report thereon dated December 28, 2010. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska Department of Education (the Agency) or another operational matter that is presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Agency's management, is intended to improve internal control or result in other operating efficiencies.

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

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comment and recommendation included in this letter. The formal response received has been incorporated into this letter. The response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2010.

1. State Aid to Schools

A good internal control plan requires procedures to ensure an independent review of manually submitted information and corrections made to data entered into a system is performed. Records

Retention Schedule 39-104-322 requires miscellaneous supporting documentation for the State Aid Program to be disposed of when no longer of reference value, provided an audit has been completed.

The Agency did not have procedures in place for an independent review to be performed of manually submitted information or corrected data after being entered into the State Aid System. Additionally, during testing of State Aid for 5 of 11 school districts, data forms submitted were not on file with the Agency. The 5 forms were used to report data for the Elementary Site Allowance formula need component used in the 2009-2010 State Aid Calculation as required by Neb. Rev. Stat. § 79-1007.15 (Reissue 2008, as amended by Laws 2009, First Spec. Sess., LB 5, § 6). After discussion with the Agency, it was determined all Elementary Site Allowance forms mailed into the Agency could not be located. Elementary Site Allowance need was calculated for 24 school districts for a total of \$7,040,043.

Without procedures in place for an independent review to be performed of manually submitted information and corrections of data entered into the State Aid system, there is an increased risk the State Aid calculated for school districts is inaccurate and non compliant with State Statutes. Also by not having adequate supporting records, the Agency is not in compliance with applicable retention schedules.

We recommend the Agency implement a documented, independent review of all State Aid data that is manually submitted to the Agency and of any corrections made to the data to ensure State Aid is calculated correctly and in accordance with State Statute. We also recommend the Agency have procedures in place to ensure all State Aid records comply with applicable retention schedules.

Management Response: *The Nebraska Department of Education agrees that some supporting documents for parts of the State Aid Program were misplaced and unavailable during the audit. We attribute this to the turnover in the State Aid Directors in fiscal year 2010. There were three individuals in this role during the year and a very small number of supporting documents were lost. We have reviewed procedures and can now assert that we have procedures in place to ensure documentation is retained according to the state and department retention schedule.*

The Nebraska Department of Education disagrees; however, with the finding that “NDE did not have procedures in place for an independent review to be performed of manually submitted information and corrections of data entered into the State Aid system.” We have adequate, multiple, procedures in place whereby both NDE and school district personnel review all data entered into the State Aid system prior to the certification of state aid. The management letter cites the lack of elementary site forms as the reason for this finding. As rebuttal, had NDE not followed the procedures in place and reviewed the applications (manually submitted information and corrections), then we would not have known which school districts were due the elementary site allowance. If school districts did not receive an elementary site allowance, and should have, those school districts would have notified NDE. We did not receive such notification.

Again, due to turnover in the position, established procedures and retention schedules were in a very small number of cases not followed during 2010. NDE assures the Auditor that this issue has been addressed and will not reoccur.

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

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

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

Signed Original on File

Pat Reding, CPA, CFE
Assistant Deputy Auditor