



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 10, 2014

Major General Daryl L. Bohac
Adjutant General
Nebraska Military Department
2433 NE 24th Street
Lincoln, Nebraska 68524-8210

Dear Major General Bohac:

We have audited the basic financial statements of the State of Nebraska (State) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and have issued our report thereon dated December 30, 2013. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the basic financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Military (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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

Draft copies of this letter were furnished to the Agency to provide 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 letter. Where no response has been included, the Agency declined to respond.

The following are our comments and recommendations for the year ended June 30, 2013.

1. State Ownership of Building

A good internal control plan and sound accounting practice require that procedures and adequate documentation be maintained to support the Agency's ownership of a building.

During the attestation examination for calendar year ended December 31, 2012, the Auditor of Public Accounts (APA) noted a lack of supporting documentation to identify the Agency's ownership of the Nebraska Emergency Management Agency's (NEMA) wing of the Joint Forces Headquarters (JFHQ) building. The Agency constructed a new JFHQ building with State and Federal funds, costing approximately \$28 million. The portion built with Federal funds remains in the Federal government's ownership; however, the State portion, costing approximately \$3.58 million as of June 30, 2013, should be reflected as State owned, and supported as such. The Agency had insured the NEMA wing with the State of Nebraska.

Typically, when an Agency constructs or purchases a new building, the expense is recorded as a capital asset in the accounting system and recorded as such in the State's financial statements. However, the Agency was charging all costs for the building as operating expense and, as such, the building wing would not be recognized as an asset of the State. In response to the comment noted in the prior attestation examination report, NEMA and the Agency's Construction Facilities and Maintenance Office began working on a memorandum of agreement that would delineate ownership of the building and result in a license to the State for the state-owned portion. When this is completed, the Agency could then identify the wing as a capital asset.

Without proper documentation to support the Agency's ownership of the NEMA wing of the building, there is an increased risk that financial statements will be understated for assets not properly recorded.

We recommend the Agency continue to work with the Department of Administrative Services Accounting and Building Divisions, as well as the Federal government, to clarify and adequately support the NEMA wing as State property.

2. Incorrect Capital Grant Reporting

The Department of Administrative Services State Accounting Division (State Accounting) prepares the State Comprehensive Annual Financial Report (CAFR) and requires all State agencies to determine and report certain applicable information at the end of the fiscal year on an accrual response form. A good internal control plan requires agencies to have procedures for accurately reporting financial information to State Accounting.

The Agency inappropriately included on the most recent accrual response form a capital grant from the prior year, which did not exist for fiscal year ended June 30, 2013. The error totaled \$976,036, causing capital grants to be overstated and operating grants to be understated for program revenues on the financial statements.

State Accounting did make a correcting entry for the error, as recommended by the APA.

Without proper controls to ensure the accuracy of financial information reported to State Accounting, there is an increased risk of financial statement errors not being detected and corrected in a timely manner.

We recommend the Agency implement procedures to ensure financial information reported to State Accounting is accurate.

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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 the Agency.

This communication is intended solely for the information and use of management, the Governor and State Legislature, and others within the Agency and is not intended to be, and should not be, used by anyone other than these specified parties. However, this communication is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

Pat Reding, CPA, CFE
Assistant Deputy Auditor