



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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John Albin, Commissioner
Department of Labor
550 South 16th Street
Lincoln, Nebraska 68509

Dear Mr. Albin:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State) as of and for the year ended June 30, 2016, 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, we have issued our report thereon dated December 15, 2016. 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 that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 Department of Labor (Department) or other operational matters that are presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Department'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 comment 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. However, as discussed below, we identified a certain deficiency in the Department's internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number 1 (Errors in Financial Information) to be a significant deficiency.

This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

Draft copies of this letter were furnished to the Department to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such 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 it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2016.

1. Errors in Financial Information

The Auditor of Public Accounts (APA) noted several instances of financial information being incomplete or inaccurately recorded in the accounting system used to generate the State's financial statements. Consequently, audit adjustments were necessary to ensure the financial statements were materially correct.

The Department entered Unemployment Compensation (UC) activity into the State's accounting system from the Tax Management System (TMS) and the Benefit Payment System (BPS). TMS was used to record employer contributions, and BPS was used to record benefit payments to recipients. During testing of the financial activity entered into the accounting system, the APA noted the following issues:

- The Department reimburses other States for unemployment benefits paid on the Department's behalf. At June 30, 2016, the Department did not record a payable for the amount due to other States. As a result, unemployment claims, accounts payable, and accrued liabilities were initially understated by \$1,400,632, until the APA-proposed adjustment was made by the Department of Administrative Services (DAS) to correct the error.
- Accounts payable were overstated by \$2,013,342 due to an improper entry in the accounting system for a transfer of State Unemployment Insurance Tax (SUIT) funds at the end of the year. The APA's proposed adjustment to accounts payable was made by DAS to correct the error.

- The Department recorded \$130,363 as a payable due to another fund as of June 30, 2016; however, a receivable was not booked in the corresponding fund to which the monies were due. DAS passed on the APA's proposed adjustment.
- There was a balance of \$254,655 at June 30, 2016, in TMS accounts that NDOL used to account for amounts that were unlikely to be collected. There was no allowance for doubtful accounts or bad debt expense recorded for these accounts. DAS passed on the APA's proposed adjustment.
- The Department did not evaluate contributions receivable at June 30, 2016, totaling \$573,530, to calculate an allowance for doubtful accounts and bad debt expense.
- The billed interest receivable balance at January 31, 2016, totaling \$145,737, was booked; however, the Department did not consider the daily entries, totaling (\$6,279), which had already been recorded from July 1, 2015, through January 31, 2016. Additionally, the beginning July 1, 2015, account balance of \$152,016 related to prior periods and should have been an adjustment to beginning fund balance rather than reflected as fiscal year 2016 activity. DAS passed on the APA's proposed adjustment.
- The accounts receivable account titled *Billed Interest Doubtful* had a January 31, 2016, balance of \$676,446. When recording this amount, the Department did not consider the daily entries, totaling \$17,778, which had already been recorded in the accounting system from July 1, 2015, through January 31, 2016. The ending balance at June 30, 2015, of \$49,519 was also not considered, causing a total overstatement of \$67,297 to accounts receivable and revenue. There was \$609,149 related to prior periods that should have been recorded as an adjustment to the beginning fund balance rather than reflected as fiscal year 2016 activity. Additionally, a corresponding entry should have been made to allowance for doubtful accounts and bad debt expense, since amounts recorded as accounts receivable in the *Billed Interest Doubtful* account are considered highly unlikely to be collected. DAS passed on the APA's proposed adjustment.

A similar finding was noted during the previous audit.

A good internal control plan and sound business practices require adequate policies and procedures to ensure information used to compile financial statements is complete and accurate.

When adequate procedures are not in place to ensure the completeness and accuracy of financial information used to compile the financial statements, there is a greater risk that material misstatements may occur and remain undetected.

We recommend the Department implement procedures to ensure that all financial information is complete and accurate.

Department Response: Other State Wage Claims – Significant strides were made to correct the errors in revenue from previous years and while the receivable for claims from other states was booked, the payable due to other states was not. This was an oversight and the Department of Administrative Services (DAS) corrected the entry when we realized it was not made.

Transfer of SUIT entry and Payable due to Other Fund – The department has a unique accounting structure requiring the use of two different ‘companies’ in Enterprise One. When entries are done at year-end there are issues in which ones should or shouldn’t be booked in order to properly affect the CAFR funds. We are working with DAS to figure out the proper entries and who should make them.

Allowance for Doubtful Accounts and Bad Debt – While the department does not write off accounts, we understand the reasoning that the auditors want an entry made for those that would be doubtful if we were to write any off.

Prior Year adjustment – In an effort to correct the balance in the Billed Interest Account between short term and long term we did not know there was a way to make an adjustment to a prior year that had been closed so we booked the entire amount in the current year. We now know that DAS can make adjustments to the equity section should the need arise again.

Corrective Action Plan: The Controller and key accounting staff will be scheduling a meeting with the auditors and DAS personnel to discuss the entries that continue to be an issue between the 8-digit and 10-digit environments in Enterprise One. We want to document a clear understanding between all parties involved so that this does not continue to show up in the CAFR review. Additionally, we will review the receivables and have the necessary adjustments in place for doubtful accounts by the end of this fiscal year.

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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 Department 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 Department.

This communication is intended solely for the information and use of the Department, the Governor and State Legislature, others within the Department, 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 communication is a matter of public record, and its distribution is not limited.



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