NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Tony Fulton, Tax Commissioner
Nebraska Department of Revenue
301 Centennial Mall South
P.O. Box 94818
Lincoln, Nebraska 68509-4818

Dear Tax Commissioner Fulton:

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, 2017, 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 14, 2017. 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 Nebraska Department of Revenue (Department) 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 Department's management, are intended to improve internal control or result in other operating efficiencies.

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.

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. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

Draft copies of this letter were furnished to the Department 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. 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 they will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2017.

1. <u>Tax Payment Processing Error</u>

One sales tax payment received in July 2017 for the June 2017 tax period was incorrectly processed as received for the July 2017 tax period. Due to the error, the taxpayer assessed revenue receivable reported for accrual on the Comprehensive Annual Financial Report was understated by $6,338,428. The error was identified through analytical review procedures comparing the prior-year receivable amount to the current-year amount. After the error was identified, it was corrected by the Department.

Sound accounting practices and a good internal control plan require adequate procedures to be in place to ensure amounts with errors in the prior year are reviewed for errors in the current year, and the calculation of accounts receivable for the presentation in the financial statements is accurate.

When accrual amounts are incorrectly reported, there is an increased risk the financial statements will be materially misstated.

> We recommend the Department implement procedures to identify and review all significant variances between the current and prior-year sales tax payments received to ensure variances are reasonable and appropriate.

Department Response: The Department of Revenue (Department) agrees with your recommendation and will revise our procedures by moving our analytical review process forward in order to better identify this type of situation where a taxpayer indicates an incorrect tax period in the addendum record of their electronic fund transfer (EFT) payment. This earlier review should help eliminate the need to submit corrections to State Accounting. In addition, the taxpayer involved in this situation has been contacted and instructed to indicate the proper tax period for future EFT payments.

2. <u>Timely Payment</u>

The Department received a vendor invoice that was dated March 31, 2017, for a total amount due of $2,234. Payment by the Department was not made to the vendor until June 19, 2017, more than 45 calendar days after the invoice date, which is not in compliance with State statute.

Neb. Rev. Stat. § 81-2403(1) (Reissue 2014) states, in relevant part, the following:

> *[E]ach agency shall make payment in full for all goods delivered or services rendered on or before the forty-fifth calendar day after (a) the date of receipt by agency of the goods or services or (b) the date of receipt by the agency of the bill for the goods or services, whichever is later, unless other provisions for payment are agreed to in writing by the creditor and the agency.*

When the Department does not make payment within 45 days of the purchase date for goods and services, it is not in compliance with State statute.

> We recommend the Department implement procedures to ensure payments are made timely and in compliance with State statute.

Department Response: The Department agrees with your recommendation and has revised our procedures to ensure prompt payment in the future. Our OnBase accounts payable system allows Finance to track and monitor invoice processing. In this specific instance, the invoice was not received by Finance and scanned into OnBase until April 25, 2017. Department personnel have been notified that all invoices should be forwarded to Finance as soon as possible for processing. Also, OnBase workflow reflects that this invoice was routed to a Director, who approved it for payment on 5/16/2017. Finance will update its procedures to route these types of invoices to our Special Services area that is responsible for procurement, so that all required purchase orders are receipted in to ensure timely payment.

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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.

Philip J. Olsen

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