NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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James Douglas, Director
Nebraska Game and Parks Commission
2200 N. 33rd Street
Lincoln, Nebraska 68503

Dear Mr. Douglas:

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 Game and Parks Commission (Commission) 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 Commission'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. However, as discussed below, we identified a certain deficiency in 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 a 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 (Federal Activity Adjustment) to be a significant deficiency.

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

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Commission, pursuant to AICPA Auditing Standards AU-C Section 265.A17, in a separate early communication letter dated November 27, 2017.

Draft copies of this letter were furnished to the Commission 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. Federal Activity Adjustment

The Commission did not account for all of its Federal activity in Federal funds. The Commission recorded $9,625,547 in revenues and expenditures in its Cash funds, and $8,671 in revenues and expenditures in the General fund. The inaccurate activity was adjusted on the State's financial statements for the fiscal year ending June 30, 2017, to reflect accurately the Federal activity in accordance with the Department of Administrative Services (DAS) policies.

According to the DAS State Accounting Manual, Application of Principles – Section AM-003, the fund types used in the State accounting system include the following:

- *40000 - Federal Funds - accounts for all federal grants and contracts received by the State.*
- *20000 - Cash Funds - accounts for revenues generated by specific activities from sources outside of state government and the expenditures directly related to the generation of the revenues.*
- *10000 - General Fund - accounts for all financial resources not required to be accounted for in another fund. Revenue generally comes from state taxes.*

A good internal control plan requires the Commission to record Federal financial activity in a Federal fund type, as prescribed in the State Accounting Manual.

Additionally, sound accounting practices require procedures to ensure that activity on the financial statements is properly reflected.

Without such procedures, the financial statements can be misleading to those who rely upon them for an accurate reflection of the Commission's financial activity.

> We recommend the Commission work with the DAS Accounting Administrator to develop a plan for recording all Federal activity in the Federal funds, as prescribed by the State Accounting Manual.

Commission Response: State Accounting Division has approved our current accounting methodology as the most efficient manner in which to record and track these monies given the mechanics of the accounting system and the process of budgeting. We will continue to work with State Accounting on the interpretation and intent of the State Accounting Manual as there may be other agencies affected on a state-wide basis. As we move to a new Accounting System, we will consider more efficient practices should they surface.

2. <u>Fixed Asset Coding and Timely Entering</u>

During testing, we noted that the Commission did not capitalize costs, totaling $10,390,987, related to the following:

- $8,296,912 in costs for infrastructure projects was not included in construction in progress. Per discussion with the Commission, these costs were not capitalized due to the lack of a DAS policy for capitalizing infrastructure.
- $2,002,588 in costs for Commission buildings was not included in construction in progress.
- $91,487 was not included in the capitalized cost of a building.

Additionally, the Commission acquired two assets in May and October 2015, for a total of $17,298, that were not added to the State's accounting system until the fiscal year ended June 30, 2017.

A good internal control plan requires procedures for ensuring that all costs related to capital assets are properly reported for the Comprehensive Annual Financial Report (CAFR), and all assets are recorded timely in the State's accounting system.

Without such procedures, there is a greater risk that material misstatements may occur and go undetected.

> We recommend the Commission work with DAS to develop and implement procedures for ensuring that all costs related to capital assets are properly reported for the CAFR, and all assets are added to the State's accounting system in a timely manner.

Commission Response: The Commission worked with State Accounting to correctly reflect Construction in Progress for reporting in the Comprehensive Annual Financial Report (CAFR) in accordance with policies that were understood to be in place during the fiscal period. Additionally, procedures have been put into place to ensure that all costs related to capital assets are properly reported in the CAFR.

The two assets identified have been recorded in the State's accounting system. The Commission plays only a defined role in the capital asset process as it pertains to buildings and lands. The agency has attempted to work with the Building Division over several years in attempts to improve the timeliness of recording assets in the system. Only recently has the agency been authorized and given access to the appropriate modules that should dramatically improve this issue.

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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 Commission 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 Commission.

This communication is intended solely for the information and use of the Commission, the Governor and State Legislature, others within the Commission, 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

Philip J. Olsen, CPA, CISA
Audit Manager