



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

---

Charlie Janssen  
State Auditor

Charlie.Janssen@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
auditors.nebraska.gov

December 19, 2019

To: Governor's office representatives - Chief of Staff, Matt Miltenberger and to the Speaker of the Legislative Council – Jim Scheer

We have audited 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, as of and for the year ended June 30, 2019, which collectively comprise the State of Nebraska's basic financial statements, and have issued our report thereon dated December 19, 2019.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as the accompanying information related to the conduct of our audit. We have communicated such information in our letter to you dated April 25, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the State of Nebraska are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year ended June 30, 2019. The beginning net position was restated as the result of errors detected as described in Note 17 to the financial statements. The largest restatement decreased net position by \$22,265,000 to reflect an adjustment for a Department of Health and Human Services (DHHS) payable not reported during the previous year. Furthermore, as described in Note 18 to the financial statements, a special item was reported for \$22,008,000, for the discontinuation of the DHHS Medicaid Enrollment and Eligibility System.

We noted no transactions entered into by the State of Nebraska during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because

of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the State of Nebraska's financial statements were:

- Management's estimate of the allowance for doubtful accounts, as disclosed in Note 3, is based on historical revenues, historical loss levels, and an analysis of the collectability of individual accounts.
- The fair value of investments, in the absence of actively quoted market prices, is determined through price information from external sources, as disclosed in Note 2. If pricing information from external sources is not available or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flows and other income valuation approaches.
- Management also uses estimates when calculating self-insurance reserves, and the lives of property and equipment.

We evaluated the key factors and assumptions used in these estimates in determining that the estimates were reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### Difficulties Encountered in Performing the Audit

We encountered significant audit difficulties in relation to the numerous errors and delays noted in the financial statements as described in Comment No. 1 (CAFR Preparation) and Comment No. 2 (Capital Asset Issues) in our separately issued Management Letter dated December 19, 2019.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management:

- The beginning balance in the Permanent School Fund was understated by \$84,131,370 due to an error in the calculation to re-establish the beginning balance related to the long-term investments for State owed land. This also caused revenues to be overstated by \$83,983,013 and expenditures to be understated by \$148,357.
- The Department of Education's Federal Fund payable was understated by \$43,335,395 due to errors in the calculation.

- The Disproportionate Share Hospitals Federal Fund payable was understated by \$19,664,766, with a related beginning balance adjustment of \$22,181,464. In addition, an unrecorded long-term liability understated the Governmental Activities by \$26,138,914.
- Deposits of \$12,956,953 held in a Department of Health and Human Services Medicaid Holding Fund should have been recorded to the General Fund, Federal Fund, and the Health and Social Services Fund to offset related activity thereto, with amounts relating to prior years reported as beginning fund balance adjustments.
- The Patient and County Billings, Health and Social Services Fund receivable, was overstated by \$9,600,184 due to errors in the calculation.

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2019.

#### Management's Consultation with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the State of Nebraska's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the State of Nebraska's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Budgetary Comparison Schedule – General Fund, the Information about Infrastructure Assets Reported using the Modified Approach, the Information about Pension Plans, and Information About Other Postemployment Benefit Plans, which are Required Supplementary Information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Financial Statements and Budgetary Comparison Schedules included as supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United State of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## Group Audit Communication

The group engagement team should communicate the following matters with those charged with governance of the group:

1. Instances in which the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.  
*No instances were encountered.*
2. Any limitations on the group audit (for example, when the group engagement team's access to information may have been restricted)  
*We encountered no limitations while performing our audit.*
3. Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others in which a material

misstatement of the group financial statements has or may have resulted from fraud.  
*No fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others was identified.*

Restriction on Use

This information is intended solely for the information and use of the Governor, State Legislature, and management of the State of Nebraska 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.

\*\*\*\*\*

Sincerely,



Pat Reding, CPA, CFE  
Assistant Deputy Auditor

Schedule of Uncorrected Financial Statement Misstatements  
Fiscal Year Ended June 30, 2019

General Fund Opinion Unit:

|                                   |                   |             |
|-----------------------------------|-------------------|-------------|
| Beginning Fund Balance Unadjusted | \$ (5,848,103.76) | Overstated  |
| Total Assets Unadjusted           | \$ 663,082.40     | Understated |
| Total Liabilities Unadjusted      | \$ (1,874,084.49) | Understated |
| Total Revenues Unadjusted         | \$ (182,215.41)   | Understated |
| Total Expenditures Unadjusted     | \$ 7,241,321.26   | Understated |
| Ending Fund Balance Unadjusted    | \$ 7,059,105.85   | Overstated  |

Other Funds:

|                                |                   |             |
|--------------------------------|-------------------|-------------|
| Total Assets Unadjusted        | \$ (2,389,477.08) | Overstated  |
| Total Liabilities Unadjusted   | \$ 648,467.41     | Overstated  |
| Total Revenues Unadjusted      | \$ (110,309.63)   | Understated |
| Total Expenditures Unadjusted  | \$ 1,851,319.30   | Understated |
| Ending Fund Balance Unadjusted | \$ 1,741,009.67   | Overstated  |

Federal Fund:

|                                |                   |             |
|--------------------------------|-------------------|-------------|
| Total Assets Unadjusted        | \$ 2,792,311.75   | Understated |
| Total Liabilities Unadjusted   | \$ (3,273,178.74) | Understated |
| Total Revenues Unadjusted      | \$ 480,866.99     | Overstated  |
| Ending Fund Balance Unadjusted | \$ 480,866.99     | Overstated  |

HHS Fund:

|                                |                   |             |
|--------------------------------|-------------------|-------------|
| Total Liabilities Unadjusted   | \$ 1,874,084.49   | Overstated  |
| Total Expenditures Unadjusted  | \$ (1,874,084.49) | Overstated  |
| Ending Fund Balance Unadjusted | \$ (1,874,084.49) | Understated |

Government Activities:

|                                                 |                   |             |
|-------------------------------------------------|-------------------|-------------|
| Beginning Net Position Unadjusted               | \$ (5,504,814.56) | Understated |
| Total Assets Unadjusted                         | \$ 3,847,836.63   | Understated |
| Total Liabilities Unadjusted                    | \$ (2,167,711.33) | Understated |
| Total Deferred Outflows of Resources Unadjusted | \$ (1,162,000.00) | Overstated  |
| Total Deferred Inflows of Resources Unadjusted  | \$ 643,000.00     | Overstated  |
| Total Revenues Unadjusted                       | \$ 188,341.95     | Overstated  |
| Total Expenditures Unadjusted                   | \$ 4,155,347.31   | Understated |
| Ending Net Position Unadjusted                  | \$ 4,343,689.26   | Overstated  |

Schedule of Uncorrected Financial Statement Misstatements  
Fiscal Year Ended June 30, 2019

Business Type Activities:

|                                      |    |              |             |
|--------------------------------------|----|--------------|-------------|
| Beginning Net Position Unadjusted    | \$ | (405,000.00) | Understated |
| Total Assets Unadjusted              | \$ | (584,205.25) | Overstated  |
| Total Deferred Outflows of Resources | \$ | 1,162,000.00 | Understated |
| Total Liabilities                    | \$ | (457,000.00) | Understated |
| Total Deferred Inflows of Resources  | \$ | (643,000.00) | Understated |
| Total Expenditures Unadjusted        | \$ | 927,205.25   | Understated |
| Ending Net Position Unadjusted       | \$ | 927,205.25   | Overstated  |