



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

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

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, 2020, which collectively comprise the State of Nebraska's basic financial statements, and have issued our report thereon dated December 17, 2020.

As previously communicated to governance on December 16, 2020, we encountered significant difficulties completing the audit with the support provided by the Department of Administrative Services, causing a disclaimer of opinion on the report. Further details are noted in the letter below under the sections titled *Difficulties Encountered in Performing the Audit* and *Other Audit Findings or Issues*.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 12, 2020. 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, 2020.

Note 11 to the financial statements discusses litigation and the potential effect on the financial statements. The beginning net position was restated as the result of errors detected as described in Note 17 to the financial statements. The largest restatement increased net position by \$46,661,000 to reflect an adjustment for capital assets not reported during the previous year. Furthermore, Note 18 to the financial statements, describes the COVID-19 Government Assistance provided to the State during the fiscal year.

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 to the financial statements, 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 to the financial statements. 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 to develop 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 the following separately issued Management Letters dated December 17, 2020, and the last item dated December 16, 2020:

- The Department of Administrative Services Comment No. 1 (Errors in CAFR Preparation), Comment No. 2 (Unemployment Insurance Fund Issues), and Comment No. 3 (Agency Accrual Errors).
- The Letter issued to several State agencies regarding Capital Asset Accounting Issues.
- The Department of Labor Comment No. 1 (Unemployment Insurance Fund Issues).
- The Department of Health and Human Services Comment No. 1 (Material Adjustments to Accruals) and Comment No. 6 (Lack of Timely Response for Audit Requests).
- The Department of Labor Comment regarding Inadequate Controls, Improper Payments, and Possible Fraudulent Claims.

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 Unemployment Insurance Fund payables and receivables were understated by \$93,242,673, due to duplicate entries recorded in the accounting system.
- The Disproportionate Share Hospitals Federal Fund payable was understated by \$19,858,844, with a related adjustment to Expenditures, Due from Federal Government, and Federal Revenues due to erroneous accrual entries. In addition, an unrecorded long-term liability understated the Governmental Activities by \$26,732,713.
- Agency Fund Obligations under Securities Lending and Securities Lending Collateral were overstated by \$16,288,423, due to a prior year entry not reversed properly.
- The Unemployment Insurance Fund benefits payable and receivables were overstated by \$11,436,600 due to timing issues with entries in the accounting system.
- The Unemployment Insurance Fund benefits payable, due to vendors, and operating expenditures were overstated by \$7,739,509 due to erroneous accrual entries.

- The Health and Social Services Fund beginning balance was overstated and other revenues was understated by \$8,409,174 due to erroneous accrual entries.
- Related to the entry above, the Health and Social Services Fund Due from Other Funds and other revenues were then overstated by \$8,409,174 due to other erroneous accrual entries.
- The Patient and County Billings, Health and Social Services Fund receivable, was overstated by \$8,738,172 due to errors in the calculation.
- The Health and Social Services Due from Other Funds and Other Revenues were understated by \$5,000,000, due to erroneous accrual entries.

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 17, 2020.

Management's Consultation with Other Independent 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.

A disclaimer of opinion was issued on the CAFR for the fiscal year ended June 30, 2020. A disclaimer of opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. The State of Nebraska was unable to provide sufficient appropriate audit evidence for the balance and financial activity of capital assets and the receivables and payables of the Unemployment Insurance Fund. Management was unable to determine the proper balance for construction in progress and capital assets as well as the related activity due to numerous errors. The governmental and business-type activities capital assets had balances of \$9,200,010,000 and \$7,224,000, respectively for the fiscal year ended June 30, 2020. The capital asset balance comprised 51% of total assets of the governmental activities and 1% of total assets of business-type activities. Also, as of the date of our audit report, management was still in the process of determining the balance for receivables and related payables due to overpayments or fraudulent unemployment insurance claims. We were unable to satisfy ourselves through auditing procedures concerning the capital asset, payable, and receivable balances and the related activity. As a result of these matters, we were unable to determine whether further audit adjustments may have been necessary in respect to the recorded or unrecorded capital assets, receivables, payables, and the elements making up the statements of activities and cash flows.

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 the 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,



Kris Kucera, CPA, CFE
Audit Manager

Schedule of Uncorrected Financial Statement Misstatements
Fiscal Year Ended June 30, 2020

General Fund Opinion Unit:

Beginning Balance Unadjusted	\$ 1,874,084.49	Overstated
Total Liabilities Unadjusted	\$ 2,041,293.37	Understated
Total Expenditures Unadjusted	\$ 167,208.88	Understated
Ending Fund Balance Unadjusted	\$ 167,208.88	Understated

Other Funds:

Total Liabilities Unadjusted	\$ 859,163.00	Understated
Total Expenditures Unadjusted	\$ 859,163.00	Understated
Ending Fund Balance Unadjusted	\$ 859,163.00	Understated

Highway Fund:

Total Assets Unadjusted	\$ 554,073.92	Overstated
Total Revenues Unadjusted	\$ 554,073.92	Overstated

Federal Fund:

Total Assets Unadjusted	\$ 4,128,834.32	Understated
Total Liabilities Unadjusted	\$ 2,520,714.29	Understated
Total Revenues Unadjusted	\$ 1,943,810.68	Understated
Total Expenditures Unadjusted	\$ 1,608,120.03	Overstated
Transfer In Unadjusted	\$ 1,943,810.68	Overstated
Ending Fund Balance Unadjusted	\$ 1,608,120.03	Understated

HHS Fund:

Beginning Balance Unadjusted	\$ 1,874,084.49	Understated
Total Assets Unadjusted	\$ 1,074,639.67	Overstated
Total Liabilities Unadjusted	\$ 1,874,084.49	Overstated
Total Revenues Unadjusted	\$ 1,074,639.67	Overstated
Ending Fund Balance Unadjusted	\$ 1,074,639.67	Overstated

Unemployment Compensation Fund

Total Revenues Unadjusted	\$ 1,943,810.68	Overstated
Transfers Out Unadjusted	\$ 1,943,810.68	Overstated

Government Activities:

Total Assets Unadjusted	\$ 2,500,120.73	Understated
Total Liabilities Unadjusted	\$ 3,547,086.17	Understated
Total Revenues Unadjusted	\$ 315,097.09	Understated
Total Expenditures Unadjusted	\$ 581,748.15	Overstated
Transfers In	\$ 1,943,810.68	Overstated
Ending Net Position Unadjusted	\$ 492,891.52	Overstated

Business Type Activities:

Total Revenues Unadjusted	\$ 1,943,810.68	Overstated
Transfers Out Unadjusted	\$ 1,943,810.68	Overstated