



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 17, 2020

Major General Daryl Bohac
Adjutant General
Nebraska Military Department
2433 NW 24th Street
Lincoln, Nebraska 68524

Dear Major General Bohac:

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, 2020, in accordance with auditing standards generally accepted in the United States of America and the 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 17, 2020. 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 Military Department (Department) or other operational matters that are presented below for your consideration. The comment and recommendation below, which has been discussed with the appropriate members of the Department management, is 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 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. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2020.

Inadequate Payment Support

According to the Memorandum of Understanding (MOU) between the Department and the Board of Regents of the University of Nebraska, on behalf of the University of Nebraska Medical Center (UNMC), the Governor Directed \$3,345,900 from the Governor’s Emergency Program – COVID-19 to UNMC for the explicit purpose of funding the purchase of equipment and personnel costs related to COVID-19 activities.

The MOU stated:

With the Governor’s signature, the passage of LB 1198 – AM 2976 makes available an emergency fund appropriation to support corona virus (CoVID-19) efforts across the State of Nebraska. At the direction of the Governor, the Nebraska Military Department (NMD) will transfer \$3,345,900 from Program 191 – Governor’s Emergency Program – CoVID-19 to the University of Nebraska Medical Center (UNMC) for the explicit purpose of funding equipment and personnel costs related to CoVID-19.

Per this MOU, moreover, UNMC agreed to provide, and the Department was to retain, copies of all invoices, purchase orders, and other documentation to support the funds expended. Additionally, any remaining funds were to be returned when the COVID-19 disaster period closes (which did not occur prior to the end of fiscal year 2020).

The MOU describes UNMC’s responsibilities, which included, but were not limited to, the following:

- *Will provide copies of all invoices, purchase orders, and other substantiating documentation to the Nebraska Military Department.*
- *Will provide the following information for associated personnel costs*
 - o *Name, Job Title and Function*
 - o *Type of Employee (i.e. full-time, part-time, temporary, etc.)*
 - o *Percent FTE against COVID-19*
 - o *Pay rate(s) and fringe benefit rate(s)*
 - o *Description of work performed*

As of June 30, 2020, UNMC had spent \$960,114 of the \$3,345,900, but the Department had obtained supporting documentation for only \$636,560 of those expenditures. Furthermore, the documentation for \$61,973 of that amount was inadequate to substantiate that the expenses were related to COVID-19 activities. Included in the \$960,114 was \$45,527 in personnel costs, which was only supported by a general ledger report. The Department stated that the response efforts detailed in the MOU were still ongoing and had not been finalized.

Failure to provide and maintain documentation for expenses incurred under the MOU between the Department and UNMC not only violates an express provision of that agreement but also increases the risk of funds not being used in accordance therewith.

We recommend the Department work with UNMC to obtain documentation sufficient to substantiate that expenditures made using the Governor’s Emergency Program – COVID-19 funds were appropriate.

Department Response: The Agency acknowledges the findings with regard to timeliness and accuracy of documentation regarding funds provided to the University of Nebraska Medical Center (UNMC) for the express purpose of supporting COVID-19 efforts by UNMC. We are committed to working with UNMC to obtain the documentation.

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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 management, 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.

A handwritten signature in blue ink that reads "Kris Kucera". The signature is written in a cursive style with a large initial "K".

Kris Kucera, CPA, CFE
Audit Manager