



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

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April 28, 2022

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

We were engaged to audit 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, 2021, which collectively comprise the State of Nebraska's basic financial statements, and have issued our report thereon dated April 28, 2022. However, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions.

As previously communicated to governance on December 1, 2021, 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 May 14, 2021. 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. The State implemented one new standard for the fiscal year ended June 30, 2021, required by the Governmental Accounting Standards Board. Statement No. 84, Fiduciary Activities, provides criteria for determining and identifying fiduciary activities of the State.

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 \$1,246,249,000 to reflect reclassifying the Omaha School Employee Retirement Fund to

Investment Trust Funds as a result of implementing GASB 84 – Fiduciary Activity. 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.

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.

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 April 28, 2022:

- The Department of Administrative Services Comment No. 1 (ACFR Preparation Issues), Comment No. 2 (Unemployment Insurance Fund Issues), Comment No. 3 (GASB 84 Implementation Failure), and Comment No. 4 (Capital Asset Accounting Errors).
- The Department of Labor Comment No. 1 (Accounting Issues) and Comment No. 2 (Unemployment Insurance Benefit Payments).
- The Department of Health and Human Services Comment No. 1 (Multiple Adjustments to Accruals).

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:

Type of Error	Dollar Error
Allocation Errors	\$ 938,209,482
GASB 84 Implementation Adjustments	\$ 896,254,645
Incorrect Coding	\$ 763,989,914
Unemployment Insurance Fund Issues	\$ 367,847,169
Improper Eliminations	\$ 312,043,696
Duplicated Coronavirus Relief Funds Activity	\$ 248,755,293
Capital Asset Accounting Errors	\$ 186,691,264
DAS Accrual Errors	\$ 177,044,550
Beginning Balance Adjustments	\$ 41,292,398
Errors on Agency Accruals	\$ 34,712,414
Reversing Entry Errors	\$ 12,280,577
Total Material Financial Statement Adjustments	\$ 3,979,121,402

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 April 28, 2022.

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 ACFR for the fiscal year ended June 30, 2021. 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 that controls were in place to ensure the financial statements were free from material misstatements. During testing, we proposed over 110 adjustments to the financial statements for a total of over \$4,300,000,000. Even though the Department of Administrative Services made the majority of these proposed adjustments, the significant dollar amount and number of errors to several financial statement line items and funds, provide support that controls were not in place or were not effective for the proper presentation of the financial statements of which substantive procedures alone would not provide sufficient audit evidence. Therefore, we conclude that the possible effects on the financial statements of undetected misstatements, could be both material and pervasive. Additionally, the Nebraska Department of Labor was unable to provide timely and accurate records of the Unemployment Insurance Fund. Monies for the Fund are maintained outside of the Nebraska State Treasurer in separate bank accounts. Journal entries are prepared to record the activity in the State accounting system, EnterpriseOne. Our testing noted numerous errors and required multiple proposed adjustments to the financial statements. The Department agreed with the adjustments proposed by our office; however, due to the inability of the Department to provide accurate and complete accounting records we were unable to determine whether any further adjustments may have been necessary for the financial statements.

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 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 section, other budgetary comparison schedules or statistical section, 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
Assistant Deputy Auditor

Schedule of Uncorrected Financial Statement Misstatements
Fiscal Year Ended June 30, 2021

Other Funds:

Beginning Balance Unadjusted	\$ 1,851,768	Understated
Total Assets Unadjusted	\$ 85,312	Overstated
Total Liabilities Unadjusted	\$ 2,685,144	Overstated
Total Revenues Unadjusted	\$ 6,602,082	Understated
Total Expenditures Unadjusted	\$ 5,372,912	Understated
Transfers In Unadjusted	\$ 10,806	Understated
Transfers Out Unadjusted	\$ 491,912	Understated
Ending Fund Balance Unadjusted	\$ 748,064	Overstated

Highway Fund:

Beginning Balance Unadjusted	\$ 2,208,978	Understated
Total Assets Unadjusted	\$ 2,347,393	Understated
Total Liabilities Unadjusted	\$ 54,302	Understated
Total Revenues Unadjusted	\$ 84,113	Understated
Ending Fund Balance Unadjusted	\$ 84,113	Understated

Federal Fund:

Beginning Balance Unadjusted	\$ 950,269	Overstated
Total Liabilities Unadjusted	\$ 5,551,645	Understated
Total Expenditures Unadjusted	\$ 4,601,376	Understated
Ending Fund Balance Unadjusted	\$ 4,601,376	Overstated

HHS Fund:

Beginning Balance Unadjusted	\$ 950,268	Understated
Total Assets Unadjusted	\$ 950,268	Understated

Unemployment Compensation Fund

Total Assets Unadjusted	\$ 353,910	Overstated
Total Liabilities Unadjusted	\$ 1,361,246	Overstated
Total Revenues Unadjusted	\$ 353,910	Overstated
Transfers In Unadjusted	\$ 2,181,307	Understated
Transfers Out Unadjusted	\$ 820,061	Understated
Ending Fund Balance Unadjusted	\$ 1,007,336	Overstated

Internal Service Funds

Beginning Balance Unadjusted	\$ 702,597	Overstated
Deferred Outflows of Resources Unadjusted	\$ 382,480	Understated
Total Liabilities Unadjusted	\$ 1,046,406	Understated
Deferred Inflows of Resources Unadjusted	\$ 90,027	Understated
Total Expenditures Unadjusted	\$ 51,356	Understated
Ending Fund Balance Unadjusted	\$ 51,356	Understated

Governmental Activities:

Beginning Balance Unadjusted	\$ 15,044,496	Understated
Total Assets Unadjusted	\$ 3,212,350	Understated
Total Liabilities Unadjusted	\$ 2,920,804	Understated
Total Revenues Unadjusted	\$ 6,686,195	Understated
Total Expenditures Unadjusted	\$ 20,958,039	Understated
Total Transfers In Unadjusted	\$ 10,806	Understated
Total Transfers Out Unadjusted	\$ 491,912	Understated
Ending Net Position Unadjusted	\$ 14,752,950	Understated

Business Type Activities:

Total Assets Unadjusted	\$ 353,910	Overstated
Total Liabilities Unadjusted	\$ 1,361,246	Overstated
Total Revenues Unadjusted	\$ 353,910	Overstated
Total Transfers In Unadjusted	\$ 2,181,307	Understated
Total Transfers Out Unadjusted	\$ 820,061	Understated
Ending Net Position Unadjusted	\$ 1,007,336	Understated