



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Matt Blomstedt, Commissioner
Nebraska Department of Education
PO Box 94987
Lincoln, Nebraska 68509

Dear Commissioner Blomstedt:

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 (State), as of and for the year ended June 30, 2021, 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, and we have issued our report thereon dated April 28, 2022. In connection with our engagement to audit the financial statements, 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, 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 engagement to audit the financial statements as described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Education (Department) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Department's management, are 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. 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.

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. 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.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Department, pursuant to American Institute of Certified Public Accountants (AICPA) Auditing Standards, AU-C Section 265B.A17, in a separate early communication letter dated August 3, 2021.

Draft copies of this letter were furnished to the Department to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. Any formal responses received have been incorporated into this letter. Such responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on them. 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, 2021.

1. Special Education Allocation

Each year, the schools and Educational Service Units (ESUs) send the Department a listing of their excess costs from the prior school year. Amounts reported are special education costs in excess of what the schools and ESUs received through Federal and State grants. Reimbursements to the schools and ESUs are limited by the amount of General Fund appropriations determined by the Legislature each year. Each school and ESU receives a percentage of the appropriations based upon the excess costs reported. The reimbursement rate is calculated by taking the appropriation amount, divided by the total excess costs from all the schools and ESUs, minus adjustments and Medicaid in Public Schools (MIPS), multiplied by each school and ESU's excess costs less the school and ESU's MIPS amount. The total reimbursement for each school and ESU is then paid evenly over seven months starting in December.

During our testing of two schools' calculations, the Auditor of Public Accounts (APA) identified an error in the manual calculation of the final payment in June 2021. The payments made to schools and ESUs for the School Age Special Education program were allocated incorrectly, leading to overpayments up to \$85,841 and underpayments up to \$52,392 to multiple schools and ESUs. Normally, the Department calculated the payments through the Special Education Financial Reporting System, but the June payment was manually calculated due to system errors in the calculation. The manual calculation included only one month of each school and ESU's MIPS amount instead of the entire amount applicable. The error was not identified and corrected by the Department until brought to its attention by the APA.

A good internal control plan and sound business practices require procedures to ensure that payments made to the schools and ESUs are calculated correctly according to the Department's procedures.

Without such procedures, there is increased risk for not only improper payments being made to schools and ESUs but also noncompliance with State statute.

We recommend the Department implement procedures to ensure the calculation performed is correct so that each school and ESU receives the proper reimbursement.

Department Response: NDE agrees with the finding. NDE found the issue while working with the auditors. Corrective calculations have been made and applied to correct the issue between districts since the net difference was zero to the State. The SPEDFRS "Final" payment in 21-22 will be reviewed for accuracy. If any modifications are required, NDE will work with the programmer to assure proper data files are available.

2. Improper Payables

The Department of Administrative Services, State Accounting Division (State Accounting), prepares the State of Nebraska Annual Comprehensive Financial Report (ACFR) and requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form.

The Department did not calculate properly the payables reported to State Accounting for the fiscal year ended June 30, 2021, causing an overstatement of \$6,187,991. The APA proposed an adjustment for the overbooked liabilities, and State Accounting adjusted the financial statements accordingly.

A good internal control plan requires procedures to ensure that all financial information reported by the Department to State Accounting for the ACFR is accurate and complete.

Without such procedures, there is an increased risk of material misstatements occurring and remaining undetected.

We recommend the Department implement procedures to ensure the accuracy of the ACFR accruals.

Department Response: NDE agrees with the finding and submitted a revised report to the Department of Administrative Services, State Accounting Division. In future years the Central Accounting office will meet with the fiscal staff individual reporting the liability to ensure amounts reported are correct.

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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 suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.



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