



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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April 28, 2022

Tony Fulton, Tax Commissioner
Nebraska Department of Revenue
301 Centennial Mall South
PO Box 94818
Lincoln, Nebraska 68509

Dear Tax Commissioner Fulton:

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 a certain internal control or compliance matter related to the activities of the Nebraska Department of Revenue (Department) or other operational matters that are presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of 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. 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.

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 was not subjected to the auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on it. 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, 2021.

Accrual Reporting

The Nebraska 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 accurate amounts for financial reporting, including various accounts receivable balances as well as an allowance for doubtful accounts.

The delinquent tax receivable amount for individual income tax was understated by \$3,276,543. Additionally, the allowance for doubtful accounts for the delinquent tax receivable for sales and use tax, withholding tax, individual income tax, and corporate income tax amount was understated by \$75,266,317. These items were due to errors in the Department's calculation procedures.

A good internal control plan requires agencies to have procedures for the reporting of accurate and complete financial information to State Accounting.

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

We recommend the Department review and update the current procedures for properly calculating accruals for the ACFR to ensure that accurate amounts are being reported to State Accounting.

Department Response: DOR agrees with the APA's recommendation that ACFR procedures and processes be reviewed and updated to ensure that significant changes in financial activity occurring within the reporting period does not increase the risk of material misstatements in accrual information reported to State Accounting. It should be noted that corrected accrual information was reported to State Accounting for inclusion in the ACFR for the fiscal year ended June 30, 2021.

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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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