NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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April 28, 2022

John Hilgert, Director
Nebraska Department of Veterans' Affairs
301 Centennial Mall South, 4th Floor
Lincoln, Nebraska 68509

Dear Mr. Hilgert:

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 Veterans Affairs (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 the Department's 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.

Errors in Financial Information

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 payables, receivables, and other financial information not contained within the State's accounting system at the end of the fiscal year. A good internal control plan requires agencies to have adequate procedures for the reporting of accurate and complete financial information to State Accounting.

The Department had trust funds for the various veterans' home residents throughout the State. The Department maintained small balances within the State's accounting system, EnterpriseOne (E1), including investment income earned on the cash balances; however, most of the activity was not recorded in E1 and instead tracked independently. Therefore, to include the activity in the ACFR, the Department reported the financial information, including bank balances, receipts, disbursements, etc., to State Accounting. During testing, we noted that the Department underreported disbursements by $1,112,686 and overreported receipts and beginning balances by $469,692 and $567,247, respectively. The errors were due to doubling amounts already recorded in E1 for interest income, recording bank receipts and disbursements incorrectly, and recording transfers from the banks to E1 improperly as receipts and disbursements.

Furthermore, during testing of capital asset additions recorded in E1, we noted that the acquisition date for the Central Nebraska Veteran's Home (CNVH) was recorded as October 1, 2018. However, according to both communication with the Department and a review of information found on CNVH's website (https://veterans.nebraska.gov/cnvh), the building was not open to the public until January 2019. The improper acquisition date caused accumulated depreciation to be overstated by $619,104.

A good internal control plan requires procedures to ensure that amounts reported to State Accounting and acquisition dates recorded in E1 for capital assets are accurate for inclusion in the ACFR.

Without such procedures, there is an increased risk of material misstatement of the financial statements.

> We recommend the Department implement procedures to ensure the accuracy of both amounts reported to State Accounting and capital asset information recorded in E1 for inclusion in the ACFR. Capital assets should be recorded in E1 in a timely manner with proper dates of acquisition so depreciation is accurately recorded for financial reporting.

Department Response: The reports utilized in reporting receipts and disbursements have been revised according to the Auditor's recommendations without compromising the reporting requirements of the United States Veterans' Affairs to ensure information is presented clearly and reported accurately.

The NDVA will coordinate closely with DAS in the future to ensure capital assets acquisition dates are reported accurately and timely.

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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.

Kris Kucera

Kris Kucera, CPA, CFE
Assistant Deputy Auditor