



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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April 28, 2022

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

Dear Major General Bohac:

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 Military Department (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 management, are intended to improve internal control or result in other operating efficiencies.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider Comment Number 1 ("Accounting Errors") to be a significant deficiency.

This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

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. Accounting Errors

During the fiscal year ended June 30, 2021, the Department moved Federal funding sources related to its COVID-19 expenditures from the Federal Coronavirus Relief Fund (CRF) grant to its FEMA grant. However, the Department incorrectly recorded \$41,837,268 of related expenditures as a beginning fund balance adjustment. Of the total, \$36,792,507 had already been recorded as expenditures in fiscal year 2020, and \$5,044,761 was for current fiscal year expenditures. The Department of Administrative Services, State Accounting Division, (State Accounting) adjusted the financial statements as proposed by the Auditor of Public Accounts (APA). An additional \$14,886, spent from Cash funds, was also incorrectly recorded as a beginning fund balance adjustment; however, even though that amount was for fiscal year expenditures, an adjustment was not made.

Furthermore, the Department recorded \$2,107,312 of prior year expenditures related to the 2018/2019 ice and flooding disaster to a Federal fund during fiscal year 2021. The expenditures should have been recorded as a beginning balance adjustment, as these were paid during previous fiscal years from the General fund. State Accounting adjusted the financial statements as proposed by the APA.

Lastly, State Accounting provided State agencies with a chart of accounts for use in consistently and properly recording activity in the State's accounting system. State Accounting used a specific account titled "Subrecipient Payments" to track payments made to subrecipients for reporting in the Statewide Single Audit – Schedule of Expenditures of Federal Awards (SEFA). During the fiscal year, the Department recorded \$97,920,782 of expenditures inappropriately as subrecipient payments. The APA tested \$94,983,675 and determined that the expenditures were not related to subrecipients but were, in fact, operating expenditures of the State. As the Annual Comprehensive Financial Report (ACFR) financial statements reflect expenditures by function, not by account code classification, there was no effect on the ACFR; however, the activity was not recorded correctly in the accounting system, in accordance with the State Accounting chart of accounts.

Good internal control and sound business practices require procedures to ensure that, per the State Accounting chart of accounts, all transactions are recorded correctly in the proper fiscal year and use the appropriate account coding for financial statement presentation.

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

We recommend that Department establish procedures to ensure that the recording of transactions in the State's accounting system is reasonable and proper and in accordance with the State Accounting chart of accounts.

Department Response: The Agency acknowledges the finding regarding the correct recording of transactions in the accounting system, in accordance with the State Accounting chart of accounts, and agree that accurate reporting is required to mitigate any risk for material misstatement of the financial statements.

2. 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 contained the following:

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 closed on June 30, 2021.

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 noted during the prior audit, 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, 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 supported by only a general ledger report.

As of June 30, 2021, State Accounting had confirmed that UNMC spent or obligated \$2,930,037, and \$400,000 in unobligated funds had been identified that may be returned to the State upon reconciliation of the expenses incurred and receipt of substantiating documentation. No additional documentation had been received since the initial \$636,560 amount noted during the prior year. State Accounting stated that UNMC had provided documentation on February 11, 2022, which was after the APA inquired about supporting documentation. However, according to State Accounting, the documentation was still being reviewed, and no further support was provided to the APA.

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 the appropriateness of expenditures made using the Governor's Emergency Program – COVID-19 funds. We also recommend procedures be established to obtain this documentation in a timely manner.

Department Response: We have made substantial progress on obtaining documentation to support the appropriateness of expenditures and acknowledge that we could have been more timely in requesting those documents from UNMC. As of May 13, 2022, due to our reconciliation efforts with UNMC, we have significantly reduced the amount of undocumented expenses to \$142,683.47 and UNMC has returned \$213,057.35 in unexpended funds to the Governor's Emergency Program – COVID-19 fund. We continue to work with UNMC to reconcile any remaining documentation issues.

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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, CPA, CFE
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