



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

January 30, 2023

To: Governor Jim Pillen and Speaker of the Legislature – John Arch
Lincoln, NE

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund (except the Enterprise Fund – Unemployment Insurance), and the aggregate remaining fund information; and we were engaged to audit the business-type activities and the Enterprise Fund – Unemployment Insurance, of the State of Nebraska, for the year ended June 30, 2022, which collectively comprise the State of Nebraska's basic financial statements, and have issued our report thereon dated January 30, 2023. However, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions on the financial statements of the business-type activities and the Enterprise Fund – Unemployment Insurance.

As previously communicated to governance on November 28, 2022, we encountered significant difficulties completing the audit timely and other issues causing a disclaimer of opinion on business-type activities and the Enterprise Fund – Unemployment Insurance. 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 24, 2022. 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, 2022, required by the Governmental Accounting Standards Board, as described in Note 1. Statement No. 87, Leases, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The beginning net position was restated as the result of errors detected and the implementation of Governmental Accounting Standards Board Statement No. 87 as described in Note 17 to the financial statements. All significant transactions have been

recognized in the financial statements in the proper period.

Note 11 to the financial statements discusses litigation and the potential effect on the financial statements. 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.

The financial statement disclosures are neutral, consistent, and clear.

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 January 30, 2023:

- The Department of Administrative Services Comment No. 1 (Unemployment Insurance Fund Issues), Comment No. 2 (ACFR Preparation Issues), and Comment No. 4 (ACFR and Prepared-By-Client (PBC) List Deadlines).
- 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 Financial Statement Adjustments) and Comment No. 2 (Other Errors in Financial Reporting).

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
DAS Accrual Errors	\$ 121,543,671
Unemployment Insurance Fund Issues	\$ 114,627,024
Agency Accrual Errors	\$ 45,293,706
Missing DHHS Accruals	\$ 68,058,231
Total Material Financial Statement Adjustments	\$ 349,522,632

The schedule below 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. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

Schedule of Uncorrected Financial Statement Misstatements

Fiscal Year Ended June 30, 2022

Health and Social Services Fund

Beginning Balance Unadjusted	\$ 264,500	Overstated
Total Expenditures Unadjusted	\$ 264,500	Overstated

Governmental Activities:

Beginning Balance Unadjusted	\$ 264,500	Overstated
Total Expenditures Unadjusted	\$ 264,500	Overstated

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 January 30, 2023.

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 for the business-type activities and the Enterprise Fund – Unemployment Insurance for the fiscal year ended June 30, 2022. 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. The Nebraska Department of Labor was unable to provide timely and accurate records of the Enterprise Fund - Unemployment Insurance including support of balances. 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 totaling over \$80,000,000 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, budgetary comparison schedules – other than the General Fund or the 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