



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 30, 2023

Glen White, Interim Tax Commissioner  
Nebraska Department of Revenue  
301 Centennial Mall South  
PO Box 94818  
Lincoln, Nebraska 68509

Dear Commissioner White:

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 of the State of Nebraska (State), and we were engaged to audit the business-type activities and the Enterprise Fund – Unemployment Insurance, as of and for the year ended June 30, 2022, 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 January 30, 2023. 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 matter that is 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 or significant deficiencies 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. The formal response received has been incorporated into this letter. The response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, 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, 2022.

**Accrual Reporting**

The Nebraska Department of Administrative Services (DAS), 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 Department made a few errors in the amounts reported to DAS for the ACFR, as shown in the table below.

Financial Statement Effect	Description	Amount
Taxes Receivable (Sales and Use)	For its calculation of both general fund sales tax and motor vehicle sales taxes receivables, the Department reviewed the tax collections reported in its systems during July and August 2022 to determine the amount of taxes remitted for tax periods May and June 2022. Upon request from the APA, the Department also reviewed whether there were any earlier tax periods included in the July and August 2022 collections. The Department determined an additional \$6,048,600 was collected for tax periods prior to May 2022 that should also be included in the receivables amount. The amount was broken down to general fund receivables of \$4,973,196 and motor vehicle sales tax receivables of \$1,075,404. The APA proposed an adjustment, which was posted by DAS, to correct the underreported receivable amount.	\$6,048,600
Short-Term and Long-Term Accounts Receivable	The Department is responsible for calculating Short- and Long-Term Accounts Receivables for inclusion in the ACFR. This calculation generally includes the total tax balances due on June 30 for Sales and Use Taxes, Withholding Taxes, Individual Income Taxes, and Corporate Income Taxes. These amounts are multiplied by a collection percentage and then added to a protested audit collections amount. The total calculated collections is broken down between short term (expected collection within the next 2 months) and long term (expected collection longer than 2 months). The Department determined that a taxpayer filed a significant amended withholding return in September 2022 for \$6,930,243, which significantly impacted the receivable calculation because the withholding amount for 2021 was no longer due. The APA proposed an adjustment, which was made by DAS, to decrease the short-term tax balance due for individual and withholding taxes by \$423,755 and to decrease the long-term tax balance due by \$2,118,774. (These amounts included with the Allowance for Doubtful Accounts from below equal the \$6,930,243 that was collected.)	(\$423,755)
		(\$2,118,774)
Allowance for Doubtful Accounts	The Allowance for Doubtful Accounts uses the tax balances due on June 30 but is reduced by the estimated amount of collections. Therefore, due to the receipt of the \$6,930,243 amended withholding return that reduced the balance due as noted above, an adjustment was also needed for the Allowance for Doubtful Accounts amount shown in Footnote 3 of the financial statements. That revised calculation for the Allowance for Doubtful Accounts was \$4,387,714 less than the original calculation, so the APA proposed an adjustment to the footnote, which DAS posted.	(\$4,387,714)

A good internal control plan requires procedures to ensure the accurate and complete reporting of financial information to DAS, including adjustments for significant subsequent activity. Without such procedures, there is an increased risk of material misstatements remaining undetected.

We recommend the Department review its current procedures for calculating accruals for the ACFR to ensure its calculations are reported accurately to DAS.

*Department Response: Historically, DOR has checked for delinquent payments remitted in July and August that are associated with the last two tax months (May and June) of the fiscal year. DOR will expand its review for delinquent payments remitted for tax periods prior to the May tax month.*

*Accrual reporting is challenging when taxpayers have the potential to file amended returns after the end of the fiscal year that can significantly alter previously reported tax liability. DOR will continue to monitor, and confer with State Accounting on, amended returns filed after the end of the fiscal year that could significantly impact accrual reporting. As noted, corrected accrual information was reported to State Accounting for inclusion in the ACFR for the fiscal year ended June 30, 2022.*

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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  
Assistant Deputy Auditor