



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 30, 2023

Major General Daryl Bohac, Adjutant General  
Nebraska Military Department  
2433 NW 24<sup>th</sup> St.  
Lincoln, Nebraska 68524

Dear Major General Bohac:

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 Military Department (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 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 the comment below (Errors in Financial Information) 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 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.

**Errors in Financial Information**

From December 29, 2020, to March 31, 2021, the State incurred \$26,846,802 in expenses related to the Nomi Health Inc. amended contract. The Federal share of these expenditures was \$17,584,302, for which reimbursement was received in November 2021. In its journal entry to reimburse the fund in which the expenditures occurred, the Department used an incorrect object account, recording the journal entry as a current year expense, rather than using a prior year miscellaneous adjustment account. This resulted in the overstatement of fiscal year 2022 expenditures by \$17 million. When the Auditor of Public Accounts (APA) pointed out this error, the Department corrected the entry before the June 30 fiscal year end.

Additionally, when paying a \$5,337,833 invoice to Nebraska Methodist Hospital in May 2022, the Department recorded the entire payment as a prior-period expenditure by identifying it as a certain document type in the accounting system. However, per review of the invoice, the work performed was from March 2020 through September 2021. Therefore, a portion of the invoice was for fiscal year 2022 activity. The APA determined that \$644,192 was recorded incorrectly as a prior-year expenditure and should have been recorded instead as an expenditure for fiscal year 2022.

A similar finding was noted in the prior audit. The Summary Schedule of Prior Audit Findings prepared by the Department lists the status of this finding as complete, meaning that the finding has been corrected. That statement is not true, however. Title 2 CFR § 200.511(a) (January 1, 2022) requires the auditee to prepare a Summary Schedule of Prior Audit Findings. Per subsection (b)(2) of that same regulation, “When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding’s recurrence and planned corrective action, and any partial corrective action taken.”

Good internal control requires procedures to ensure that all transactions are recorded correctly and in the proper fiscal year. When recording mistakes are made, moreover, those same procedures should ensure that the mandatory Summary Schedule of Prior Audit Findings reflects accurately the status of any finding addressed therein.

Without such procedures, there is an increased risk for both material misstatement of the financial statements and failure to correct prior errors.

We recommend the Department review its procedures to ensure transactions are recorded correctly and in the correct fiscal year, and the mandatory Summary Schedule of Prior Audit Findings reflects accurately the status of any finding addressed therein.

*Department Response: We acknowledge this finding and appreciate the opportunity to correct the entry error when it was identified by APA staff.*

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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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