



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Jason Jackson, Director
Nebraska Department of Administrative Services
1526 K Street, Suite 190
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Dear Mr. Jackson:

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 certain internal control or compliance matters related to the activities of the Nebraska Department of Administrative Services (DAS) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of DAS’s 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 certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 consider Comment Number 1 (“Unemployment Insurance Fund Issues”) and Comment Number 2 (“ACFR Preparation Issues”) 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 3 (“Capital Asset Accounting Issues”) to be a significant deficiency.

These comments will also be reported in the State of Nebraska’s Statewide Single Audit Report Schedule of Findings and Questioned Costs.

In addition, we noted other matters involving internal control and its operation that we have reported to management of DAS, pursuant to American Institute of Certified Public Accountants (AICPA) Auditing Standards AU-C Section 265.A17, in a separate early communication letter dated November 4, 2022.

Draft copies of this letter were furnished to DAS to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this letter. The responses were not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, 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, 2022.

1. Unemployment Insurance Fund Issues

As noted in previous audits, DAS lacked adequate procedures to ensure that the Enterprise Fund – Unemployment Insurance (UI) financial statements were presented accurately in the Annual Comprehensive Financial Report (ACFR), for which DAS has overall responsibility.

The Nebraska Department of Labor (NDOL) performs the accounting of the UI funds, which were maintained outside of the State Treasurer in separate bank accounts. NDOL recorded journal entries to record the activity from NDOL’s separate Tax Management System (TMS) and Geographic Solutions Unemployment System (GUS) to the State’s accounting system, EnterpriseOne. DAS used EnterpriseOne to generate the financial statements. For fiscal year 2022, the financial statements required material adjustments due to incorrect journal entries and a lack of adequate procedures for reconciling the TMS and GUS systems to EnterpriseOne to ensure activity was reflected properly. This led to the APA’s issuance of a disclaimer of opinion for the Enterprise Fund – Unemployment Insurance as well as for the Business-Type Activities.

Prior audit reports have recommended that NDOL and DAS work together to establish procedures that would allow DAS and NDOL’s staff to review documentation, including the NDOL’s trial balance and its reconciliation of the separate TMS and GUS systems to the accounting system. It is apparent from the adjustments and errors noted within this comment, however, that sufficient procedures were not implemented despite the APA’s disclaimer of opinion on the prior fiscal year’s financial statements.

The table below summarizes over \$80 million in errors for the fiscal year ended June 30, 2022. The APA proposed the adjustments, all of which DAS posted. However, due to the significance of the errors identified – namely, the lack of support for balances recorded in EnterpriseOne and the lack of adequate controls to ensure that financial data was accurate and complete – there is a significant risk that additional material errors went undetected, requiring the APA to issue a disclaimer of opinion for the Enterprise Fund – Unemployment Insurance and related Business-Type Activities.

	Description	Dollar Error
1	DAS, with the help of the NDOL's Controller, determined that the ending balance in Due to Other Funds should have been \$269,794. However, the APA identified the following additional amounts held in the UI Trust account that also should have been recorded as Due to Other Funds as of June 30, 2022: <ul style="list-style-type: none"> • \$35,890,343 for the UI Modern Incentive Program • \$2,739,623 for the Reed Act • \$1,000,492 for the Emergency Unemployment Insurance Stabilization and Access Act (EUISAA) 	\$ 39,630,458
2	NDOL and DAS failed to record an \$11,450,484 payable for overpayments from Federal programs, which ultimately will be due back to the Federal government once received. NDOL and DAS also failed to record a similar entry in fiscal year 2021, resulting in an \$23,915,624 adjustment to the Beginning Fund Balance.	35,366,108
3	NDOL and DAS failed to record an accounts receivable for overpayments that were less than 90 days old as of June 30, 2022. NDOL reasoned that the claimant had 90 days to appeal the overpayment, so a receivable was not needed. However, it is unlikely that all claims less than 90 days old will be appealed and overturned; therefore, a receivable should have been recorded.	1,878,511
4	NDOL and DAS failed to record a payable for claims paid after June 30, 2022, for services rendered prior to the fiscal year end.	1,431,090
5	As part of its interfund transfer elimination entry, DAS reclassified \$1,148,777 from Transfers In to Charges for Services. However, the tax revenue was for fiscal year 2021 and resulted in the overstatement of tax revenue in fiscal year 2022. Therefore, a Beginning Fund Balance adjustment was necessary.	1,148,777
6	In fiscal year 2020, NDOL received \$443,000 from the Federal Government as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and recorded it as revenue at that time. However, NDOL did not participate in the program, and the amount should have been recorded as a Due to Government. Therefore, a Beginning Fund Balance adjustment was necessary.	443,000
7	NDOL and DAS incorrectly calculated the Claims Liability for fiscal year 2022, resulting in an understatement of \$385,201.	385,201
8	As part of its interfund loan elimination entry, DAS made a \$357,389 entry to reclassify revenue for penalties and interest to Due To Other Funds. However, NDOL had already recorded the entry as Due to Other Funds, so DAS's entry needed to be reversed.	357,389
TOTAL		\$ 80,640,534

The following issues were also identified during testing:

- NDOL and DAS failed to record a receivable for claims that had been flagged as potentially fraudulent. As of October 12, 2022, there were over 34,000 open investigations, but NDOL was unable to produce a total dollar amount for these claims and could not estimate how much should be established as overpayments. After the APA communicated this finding to NDOL, an entry to record a \$5,282,062 receivable was provided. However, NDOL's estimate ignored the 34,000 open investigations and the pandemic UI programs and pandemic years (fiscal years 2020 and 2021). Therefore, the APA concluded there was a high likelihood that the entry was materially understated.
- NDOL and DAS reported several accounts receivable and accounts payable balances, ranging from \$1,946 to \$7,936,683, that lacked adequate support or accurate details. Therefore, the APA was unable to determine if the balances were correct or if any adjustments were necessary.

Good internal controls and sound accounting practice require procedures to ensure that accounting entries are made accurately, allowing the financial statements to be reflected properly.

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

We continue to recommend DAS work together with NDOL to implement procedures to ensure the accurate reporting of the Enterprise Fund – Unemployment Insurance for the ACFR, as it is ultimately their responsibility to ensure the ACFR is presented properly. This includes establishing reconciliation procedures to ensure balances and activity are reported properly at fiscal year end.

DAS Response: DAS agrees with the issue but disagrees that it reflects DAS procedural defects. The principal cause for NDOL’s lack of reconciliation is limitations in its tax and benefit system reporting capability. DAS is working with NDOL to overcome its system reporting limitations in future reports.

2. ACFR Preparation Issues

DAS, State Accounting Division (State Accounting), prepares the ACFR. Similar to prior years, adequate controls were not in place to ensure that entries were accurate prior to being submitted to the Auditor of Public Accounts (APA) to audit. As a result, DAS materially misstated financial statement entries and footnote disclosures, requiring numerous adjustments and revisions.

The table below summarizes over \$500 million related to 50 adjustments that were required for the fiscal year ended June 30, 2022. We identified an additional \$2.3 billion in footnote errors, bringing the total errors to over \$2.8 billion. These errors would affect multiple line items, funds, and financial statements for the ACFR. The dollar errors noted below include totals for lines necessary for the adjustment.

Type of Error	Dollar Error
DAS Accrual Errors	\$ 198,158,291
Unemployment Insurance Fund Issues	120,270,992
Agency Accrual Errors	85,967,461
Missing DHHS Accruals	73,057,775
Agency Accounting Errors	37,383,276
Capital Asset Accounting Errors - See Comment Number 3	13,688,373
Timing Differences	7,973,887
Total Financial Statement Adjustments (See Supplementary Table #1 at end of letter)	\$ 536,500,055
Total Footnote Errors	\$ 2,324,808,393
Total Errors	\$ 2,861,308,448

The adjustments noted above required additional time and work by the APA. We also found numerous other errors that did not require adjustments because of their relative significance to the financial statements. Some of those errors are included below:

- DAS failed to determine whether transactions identified by agencies as prior year expenses were accurate. The Department of Health and Human Services (DHHS) incorrectly recorded \$1,225,349 of fiscal year 2022 expenditures as fiscal year 2021 expenses using a specific transaction type in the accounting system.
- DAS overstated a payable to the Federal government by \$1,051,004.
- DAS recorded duplicate investment expenses of \$663,355.
- DAS recorded duplicate accounting entries totaling \$401,008.

The APA identified the following errors in our review of the DAS-prepared footnotes:

Footnote		Description	Dollar Error
#13	Pension Plans	In the Pension Plans footnote related to the sensitivity of the net pension liability/(asset) to changes in the discount rate, the Net Pension Assets are shown as negative amounts. DAS incorrectly reported the School Plan's assets with a 1% increase as a positive \$466,667,000, when it was negative for a variance of \$933,334,000. DAS also used the incorrect amounts from the OSERS GASB 68 report, resulting in School Retirement Deferred Outflows of Resources and Deferred Inflows of Resources being overstated by \$256,829,000.	\$ 1,190,163,000
#12	Risk Management	The risk management footnote contains a table showing the current and prior fiscal year amounts for Current Year Claims and Changes in Estimates as well as Claim Payments. In its original footnote for fiscal year 2022, DAS understated the Current Year Claims and Changes in Estimates by \$438,322,000 and overstated the Claim Payments by \$438,334,000 because the original amounts were incorrectly shown as negative and positive, respectively. Therefore, the Ending Balance was also overstated by \$12,000. The footnote also includes an amount for excess property coverage, which was understated by \$700,000. (The amounts for fiscal year 2021 were similarly incorrect due to the wrong positive/negative sign, totaling \$915,404,000.)	\$ 877,356,000
#16	Tax Abatements	The Nebraska Department of Revenue (NDOR) provided inaccurate footnote information to DAS. When the APA requested support for this footnote information, NDOR identified certain errors in the original footnote provided to DAS for the State taxes abated and received/receivable from other governments.	210,599,392
#4	Capital Assets	Construction Commitments was overstated due to calculation errors relating to retainage, accrual transactions, amounts not agreeing to support non-capitalized costs and construction in progress. See more information in Comment #3 ("Capital Asset Accounting Errors") herein.	39,527,919
#3	Receivables	NDOR's Allowance for Doubtful Accounts required an adjustment because of the receipt of a significant amended withholding return. The receipt of the amended return reduced the balance used in the calculation of the allowance, causing the allowance to be \$4,387,714 lower than the original amount reported.	4,387,714
#6	Accounts Payable and Accrued Liabilities	DAS failed to allocate the accounts payable properly between Due to Government and Due to Vendors. The overall variance was almost \$1.4 million in all ACFR funds; however, DAS corrected only the Highway Fund allocation of payables for \$907,368.	907,368
#8	Leases	DAS understated Lease Principal and Interest to be received after 2052 by \$400,000, due to not including these payments in the original table. When this adjustment was made, DAS neglected to update the totals at the bottom of the table, resulting in the totals being understated by \$400,000 again.	800,000
#2	Deposits and Investments Portfolio	In the Fiduciary Fund Credit Risk of Debt Securities table, DAS incorrectly included an equity security in the Short Term Investments. Since it is not a debt security, the amount should not have been included in the table.	800,000
#7	Noncurrent Liabilities	DAS made errors in the compensated absences deletions, amounts due within one year for the Nonmajor Enterprise Funds and Governmental Activities, totaling \$267,000. These errors were not corrected by DAS.	267,000
Total			\$ 2,324,808,393

We also noted the following procedural and control issues regarding DAS's preparation of the ACFR:

- In its preparing the Budgetary Comparison Schedule for the General Fund, DAS incorrectly listed the balance of the Tax Refund Liability as (\$196,047,000) instead of the correct amount of (\$583,607,000), resulting in that line and the Other Net Accrued Receivables and Liabilities line being incorrect by \$387,560,000 in the Reconciliation of Budgetary Basis versus GAAP fund balance.
- The June 30, 2022, bank reconciliation performed by DAS contained an incorrect bank balance, causing a \$6,050,000 variance, \$198,026 in unresolved transactions identified as unapplied cash transactions, and \$4,763 in other reconciling items that were incorrect or had not been reviewed timely, with some items dating back to 2012.
- DAS failed to correct and reconcile the imprest payroll liability accounts for employee and employer Social Security portions, resulting in a \$943,682 variance between the two accounts.
- DAS overstated the "Cash received from customers" line on the Proprietary Fund Cash Flow Statement, Governmental Activities – Internal Service Funds column by \$151,000. DAS did adjust for the error in its calculation.
- DAS and DHHS have been notified at least twice previously to review \$102,776 in EnterpriseOne inventory accounts for DHHS that have not changed since at least fiscal year 2018. Some of the inventories appear to be for veterans homes, which are no longer under DHHS. No additional procedures were performed during fiscal year 2022.

Agency Accrual Errors

DAS required State agencies to report accounts receivable and accounts payable accrual items, which were not reported within EnterpriseOne, for inclusion in the ACFR. DAS continued to lack procedures to ensure the accuracy of the accrual information submitted.

For example, in one case, DAS explained that it simply reported the information submitted by the agencies without any review. In another instance, DAS stated that it lacked the time to review agency support.

Furthermore, in at least one instance, DAS failed to obtain adequate documentation from DHHS and requested the APA to propose an adjustment. As a result of DAS preparing and recording unverified journal entries, over \$85 million in adjustments were necessary to the financial statements, along with other errors of at least \$1 million not requiring formal adjustments.

Relying on the APA to determine the accuracy of information provided by State agencies is not an adequate control and causes delays in the issuance of the ACFR.

Similar issues have been reported since the 2007 audit.

Draft Report Presentation Issues

Throughout the audit, the APA received six different versions of the ACFR from DAS. Each new version of the report required significant time and work by the APA. Besides the errors listed above in the adjustments or footnote chart, we noted additional errors related to heading lines missing on the financials, noting changes as increased when they decreased, and adding clarification to charts.

Good internal controls and sound business practices require the implementation of procedures, including an adequate review and verification of financial information, to ensure the proper and timely preparation of the ACFR.

Without such procedures, there is an increased risk of the ACFR containing material misstatements, which might well remain undetected.

Despite similar findings being reported in the prior year ACFRs, the number of errors, as well as the significant dollar amount of those errors, both individually and aggregately, demonstrate that DAS still needs to improve its controls and processes to ensure the accurate and timely presentation of the ACFR.

We recommend DAS improve and implement additional procedures, such as **adequate review and verification** of financial information, including any information provided by different agencies and internally prepared information, to ensure the proper and timely preparation of the ACFR. We also recommend DAS utilize resources to work with State agency personnel to ensure accrual information is supported and has a sound accounting base.

DAS Response: DAS's goal is to have an unmodified opinion with reduced errors in every successive year. The financial statement adjustments for all agency errors were less than 1% of the Total Net Position, a reduction of more than \$3.8 billion, or 88%. The APA issued an unmodified opinion on the accuracy of the ACFR in all respects, with the exception the NDOL unemployment fund. DAS will work with the APA to fix the remaining issues identified.

3. **Capital Asset Accounting Errors**

For the past eight years, DAS has failed to perform adequate procedures to ensure that capital assets were recorded properly on the financial statements. This year, the capital asset ending balances contained errors of at least \$15 million, compared to \$234 million from the prior year.

DAS compiled the capital asset information from EnterpriseOne and requested State agencies to report accrual items, which were not contained in EnterpriseOne, for inclusion in the ACFR. The APA's review of the accrual items reported revealed numerous clerical errors, amounts that did not agree to EnterpriseOne or support, and additions, deletions, beginning balances, and depreciation not properly calculated. These errors required revisions to DAS's original amounts included in capital asset-related items on the financial statements and footnotes.

The table below details total Construction in Progress (CIP) adjustments required due to the errors found by the APA:

	Beginning Balance	Additions	Deletions	Ending Balance
Initially Reported by DAS	\$ 568,903,321	\$ 337,126,928	\$ 167,696,493	\$ 738,333,756
Final After Adjusted by APA	\$ 570,610,328	\$ 340,453,372	\$ 164,477,789	\$ 746,585,911
Misstatement	\$ 1,707,007	\$ 3,326,444	\$ (3,218,704)	\$ 8,252,155

DAS failed to report CIP accurately due to the following: 1) three beginning balance adjustments for \$1,707,007; 2) six additions errors, totaling \$3,326,444, for amounts that did not agree to support or for retainage not being included; and 3) two deletions, totaling \$3,218,704, that were not removed properly.

These errors were caused by not accounting for prior year transactions, not capitalizing expenses that should have been, not verifying asset balances reported by other State agencies, not using updated information, and duplicating line items.

The following table details the errors noted in other DAS calculations that were adjusted in the financial statements:

	Beginning Balance	Additions	Deletions	Ending Balance	Ending Balance
<i>Buildings</i>	<i>Capital Asset</i>				<i>Accumulated Depreciation</i>
Initial Calculation	\$ 9,855,653	\$ -	\$ -	\$ 9,855,653	\$ -
Final Calculation	\$ 9,855,653	\$ 3,084,915	\$ -	\$ 12,940,568	\$ 264,224
Total Errors	\$ -	\$ (3,084,915)	\$ -	\$ (3,084,915)	\$ (264,224)
<i>Equipment - Correctional Services</i>	<i>Capital Asset</i>				<i>Accumulated Depreciation</i>
Initial Calculation	\$ 6,790,048	\$ -	\$ -	\$ 6,790,048	\$ -
Final Calculation	\$ 6,790,048	\$ 113,442	\$ 162,235	\$ 6,741,255	\$ 129,178
Total Errors	\$ -	\$ (113,442)	\$ (162,235)	\$ 48,793	\$ (129,178)
<i>Equipment - General Services</i>	<i>Capital Asset</i>				<i>Accumulated Depreciation</i>
Initial Calculation	\$ 6,783,456	\$ 283,304	\$ 865,566	\$ 6,201,194	\$ 178,073
Final Calculation	\$ 6,783,456	\$ 432,574	\$ 865,566	\$ 6,350,464	\$ 169,804
Total Errors	\$ -	\$ (149,270)	\$ -	\$ (149,270)	\$ 8,269

	Beginning Balance	Additions	Deletions	Ending Balance	Ending Balance
<i>Equipment - Communications</i>	<i>Capital Asset</i>				<i>Accumulated Depreciation</i>
Initial Calculation	\$ 71,598,179	\$ 5,783,741	\$ 4,501,053	\$ 72,880,867	\$ 343,253
Final Calculation	\$ 73,624,546	\$ 7,254,133	\$ 4,501,053	\$ 76,377,626	\$ 265,002
Total Errors	\$ (2,026,367)	\$ (1,470,392)	\$ -	\$ (3,496,759)	\$ 78,251
<i>Equipment - Information Management Services</i>	<i>Capital Asset</i>				<i>Accumulated Depreciation</i>
Initial Calculation	\$ 20,891,132	\$ 1,099,250	\$ 3,015,806	\$ 18,974,576	\$ 2,691,614
Final Calculation	\$ 20,891,132	\$ 1,184,484	\$ 3,015,806	\$ 19,059,810	\$ 2,687,364
Total Errors	\$ -	\$ (85,234)	\$ -	\$ (85,234)	\$ 4,250

The following information explains the errors detailed in the table above:

- The errors related to “Buildings” and “Equipment – Correctional Services” were due to DAS failing to post the necessary journal entries needed to account for the activity that occurred during fiscal year 2022. DAS provided the necessary calculations for the correct entries to the APA on September 30, 2022, but not until October 26, 2022, after the APA inquired of DAS, were these posted to EnterpriseOne.
- The errors related to additions and accumulated depreciation for “Equipment – General Services,” “Equipment – Communications,” and “Equipment – Information Management Services” were caused by DAS failing to include assets acquired during fiscal year 2022, but not recorded in EnterpriseOne until after June 30, 2022, in its calculations. Due to this error, the depreciation expense of these assets was also not properly accounted for at June 30.
- The error related to the beginning balance for “Equipment – Communications” was due to assets recorded in EnterpriseOne after June 30, 2021, with an acquired date before June 30, 2021. These were not included in the beginning balance in DAS’s calculation.

Additionally, DAS made an adjustment for errors in its calculation of infrastructure assets. DAS failed to include changes made by the Nebraska Department of Transportation (NDOT), resulting in an overstatement of assets by \$1,947,404. Furthermore, depreciation for infrastructure assets was not calculated appropriately. DAS calculated the beginning depreciation for two assets correctly; however, it did not remove this adjustment from the year-to-date depreciation calculation, resulting in \$193,478 being accumulated twice.

Other issues were noted during testing of capital assets but were not adjusted, as follows:

- DAS failed to include as equipment \$1,374,361 in fiscal year 2022 assets that were not recorded until after the end of the fiscal year because it lacked a procedure to accumulate these assets in the financial schedule. Additionally, \$34,512 of depreciation expense associated with these assets was not included.
- For one DHHS project, the value of the asset was overstated by \$311,247 related to retainage because retainage in the prior year incorrectly included costs that are not capitalized per GASB 51. Additionally, accumulated depreciation and depreciation expense were overstated by \$41,272 and \$62,249, respectively.

The APA noted that the amount reported for Construction Commitments was overstated by \$39,527,919 due to the following errors:

- Retainage was not adjusted out of the amount remaining for 16 commitments, resulting in an overstatement of \$6,747,444.
- Accrual transactions were still included in the amount remaining for 12 commitments, resulting in an overstatement \$3,225,479.
- The total contract amount reported did not agree to support for three commitments, resulting in an understatement of \$285,359.
- The total amount completed did not agree to support for three commitments, resulting in an overstatement of \$452,264.
- Non-capitalizable expenses were incorrectly included for one commitment, resulting in an overstatement of \$32,290,691.
- Three construction-in-progress projects were not included as commitments, resulting in an understatement of \$2,902,600.
- During testing of 309 Task Force for Building Renewal projects, the APA noted the following:
 - DAS initially capitalized \$299,726 in costs for upgrades to the 501 building; however, it recorded \$1,793,287 in additional costs as operating expenses. DAS capitalized the additional costs in August 2022 after the APA's inquiry.
 - The replacement of the water system at the Beatrice State Development Center included \$200,336 in costs for a new meter building. These costs were recorded as an operating expenditure but should have been capitalized, as they meet the capitalization threshold set by DAS.
 - Furthermore, \$923,026 in costs related to a generator replacement were capitalized by DAS but should not have been.
- After requesting changes for the aforementioned revisions, the APA noted the following errors in the footnotes:
 - Construction Commitments referenced Correctional Services remaining commitments of \$8,072,000, but this was not updated for retainage and was overstated by \$4,127,000. After inquiry by the APA, this paragraph was subsequently removed.
 - The nonmajor Enterprise Funds accumulated depreciation for equipment had a restated beginning balance, but it was not indicated that the balance was "restated."

Good internal controls and sound accounting practice require procedures to ensure that capital asset activity is recorded accurately, transferred correctly into all journal entries and roll-forwards, and supported by adequate documentation. Those procedures should also include a review of items reported by the various agencies on the accrual response form for accuracy.

Without such procedures, there is an increased risk for the continued occurrence of the same type of misstatements that have been identified during the past eight audits.

We strongly recommend DAS improve procedures to resolve this audit finding by ensuring for itself that capital asset activity is accurate and complete, including procedures to ensure all Accrual Response Forms contain accurate information.

DAS Response: DAS agrees with the issue but disagrees with its significance. Net capital assets totaled \$10 billion. The total error rate was 0.15%, and a 92% reduction over the prior year. Errors were \$28 million under the APA's standard of materiality. DAS will work to correct the remaining issues in future reports.

APA Response: The capital asset accounting errors occurred in several State agencies and, in the auditor's judgement, are important enough to merit attention by those charged with governance.

4. ACFR and Prepared-By-Client (PBC) List Deadlines

Neb. Rev. Stat. § 81-1125.01 (Reissue 2014) requires the completion of the ACFR “at least twenty days before the commencement of each regular session of the Legislature[.]” For the fiscal year 2022 ACFR, the due date was December 15, 2022. However, as in the prior year, the ACFR was not issued by the statutory deadline.

In the Transmittal Letter dated December 1, 2022, DAS reported that they submitted what it characterized as a “completed draft” of the fiscal year 2022 ACFR. From that point forward, more than \$186 million in adjustments to the financial statements were identified and corrected, after significant additional work by the APA. In mid-December, DAS published a version of the ACFR on its website which was marked as “unaudited”. The additional work performed by the APA and then agreed to by DAS makes it clear that those financial statements were materially misstated.

The delay in the issuance of the ACFR was due to multiple items. First, the prior year ACFR was not released until four and a half months after the prior year deadline, which delayed the APA's start of the fiscal year 2022 audit. Additionally, the numerous adjustments addressed in Comment #1 (“Unemployment Insurance Fund Issues”) and Comment #2 (“ACFR Preparation Issues”) herein delayed the APA's work by requiring additional time and resources from APA staff.

Another issue that caused a delay in the issuance of the ACFR was related to the Prepared By Client (PBC) listing, which documents the audit items and documentation needed from DAS. In the past, the APA worked with DAS to agree on the dates that the items on the list would be provided. That was not the case this year.

The APA sent the PBC list to DAS on June 29, 2022. A response from DAS, received on August 3, 2022, contained new dates and included the provision that items on the list would be provided to the APA in batches, two times a month, at the direction of the DAS Director and the Governor. On August 15, 2022, the APA responded to DAS with additional notes and suggestions regarding the due dates. That communication explained also that some of the proposed dates were unreasonable, pointing out that pushing back the dates for many of the items caused us to question whether the ACFR could be completed on time. No response from DAS was received. On September 9, 2022, the APA sent follow-up correspondence to DAS about the due dates and our concerns with receiving documentation only twice a month. Nevertheless, DAS responded that no further changes would be made to the revised dates.

The original list contained 254 separate items needed for the audit; however, after DAS's revision, the list shrank to only 238 items. DAS pushed back the due date of 164 items on the list over five days from the APA's date. Of

these 164 items, 74 were pushed back between 10 and 14 days. Additionally, 41 items were pushed back between 15 and 30 days, and 10 items were pushed back over 30 days or one month. DAS also provided seven items on the list after their deadline, including two items 32 days late and one item 41 days late.

Sound business practice and good internal control require procedures to ensure compliance with the due dates for requested items in order to allow for both meeting statutory deadlines and verifying the accuracy of the information provided.

Without such procedures, there is an increased risk that DAS will continue to be unable to meet the statutory deadlines.

We recommend DAS collaborate with the APA on the due dates of the items requested to ensure the feasibility of those dates. Additionally, we recommend DAS implement procedures to ensure the accuracy of the items provided to the APA in order to reduce the need for significant adjustments thereto.

DAS Response: DAS expects that in future years the publication of an unaudited version of the report will be unnecessary and accepts the recommendation that Prepared-By-Client list deadlines be the result of collaboration between DAS and the APA.

* * * * *

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 DAS 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 DAS.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the DAS, 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

Supplementary Table #1

Adjustment #	Description	Amount
DAS Accrual Errors		
1	DAS incorrectly classified securities with maturity dates more than 90 days as short term.	\$ 88,582,965
2	DAS did not reclassify escheat transfers to the Permanent School Fund as a reduction in revenues in accordance with GASB 37.	32,960,707
3	DAS improperly reported the Component Unit Deferred Service Concession Arrangement Receipts as Deferred Lease Arrangement Receipts and vice versa on the financial statements.	30,330,000
4	DAS failed to record a corresponding Federal revenue entry for multiple Federal expenditure entries, until notified by the APA. Because Federal expenditures are reimbursed by the Federal government, each Federal expenditure should have a corresponding revenue.	10,979,879
5	Expenses for the Nebraska Broadband Bridge Act were incorrectly reported as the functional expense of Regulation of Business and Professions instead of General Government.	4,977,653
6	A prior year adjustment that was not made by DAS should have been posted in the current year as an adjustment to beginning fund balance.	4,601,376
7	The DAS calculation of the Omaha School Employees' Retirement System (OSERS) investment manager fees was inaccurate because some investment manager expenses were duplicated and others were not recorded.	3,812,874
8	DAS failed to reclassify surcharge revenue from Other Revenues to Surcharge Revenue.	3,782,206
9	DAS recorded an entry to eliminate the Nebraska Department of Environment and Energy (NDEE) Clean Water & Drinking Water State Revolving Fund loan activity. However, the amounts in the entry were incorrect because DAS included an incorrect account and failed to include two funds, which caused the entry to be overstated \$1,800,669 in ACFR Fund 13 and understated \$1,800,669 in ACFR Fund 8.	3,601,338
10	DAS failed to identify the need for a corresponding Federal revenue accrual for the amount of NDOT – Aeronautics Federal expenses that had not been reimbursed.	3,363,816
11	A formula error in a DAS-created spreadsheet resulted in understated accrued vacation, vested sick, and accrued comp in the compensated absences calculation.	3,336,609
12	DAS failed to reverse a prior year receivable and payable balance.	2,302,396
13	DAS recorded part of an accrual to the wrong fund.	1,619,724
14	DAS improperly recorded a negative receivable and its related revenue that was reported by the Department of Revenue on its accrual response form.	1,301,960
15	DAS recorded an accrual to a different object account in EnterpriseOne than the one used in fiscal year 2021 and reversed.	1,140,288
16	DAS improperly reported the remaining Master Lease amounts between short term and long term, resulting in short-term obligations being understated and long-term obligations being overstated.	700,000
17	DAS failed to account for transfers from the outside bank accounts to EnterpriseOne for two Veterans Home facilities, resulting in beginning fund balance being overstated.	500,000
18	DAS failed to adjust for prior-period expenditures in ACFR Fund 09, resulting in a beginning balance adjustment. DAS did not post this entry.	264,500
Sub-Total		\$ 198,158,291
Unemployment Insurance Fund Issues		
19-25	Errors Identified in Comment Number 1.	\$80,640,534
26	Also, as part of Item #1 in Comment Number 1, the \$39,630,458 held in the UI Fund needed to be reported as Due to the Federal Government in the Federal Fund, but it was not.	39,630,458
Sub-Total		\$ 120,270,992
Agency Accrual Errors		
27	The Board of Educational Lands and Funds (BELF) changed its land valuation methodology, resulting in the understatement of the prior year BELF land by \$29,838,440 and did not notify DAS. Tenant-owned land improvements were originally reduced from the land value.	\$29,838,440
28 & 29	DHHS calculated the DSH short-term and long-term payable incorrectly, as it did not account for a \$10 million refund of a duplicate payment.	17,267,475

Adjustment #	Description (Continued)	Amount
Agency Accrual Errors (Continued)		
30	The Nebraska Department of Transportation (NDOT) had two road projects that were included as both Accounts Receivable - Local and as Deposits with Locals (liability). During NDOT's accumulation of these two balances, it overstated the total balance by \$10,118,253 due to incorrect adjustments made to the reports from its system.	10,118,253
31	The Department of Health and Human Services (DHHS) incorrectly reported the intergovernmental payable and receivable due to a grant being entered incorrectly on the calculation spreadsheet.	8,215,151
32	The Nebraska Game and Parks Commission failed to accrue for an Environmental Trust payment to the Department of Natural Resources that occurred during fiscal year 2023 but was for fiscal year 2022.	6,600,000
33	The Department of Revenue failed to include receipts for tax periods prior to May 2022 in its sales, use and lodging tax receivable calculation.	6,048,600
34	DHHS understated the patient & county receivable in fiscal year 2021, as an allowance was calculated incorrectly, resulting in the need for a beginning balance adjustment.	5,337,013
35	The Department of Revenue identified a significant amended withholding return after the submission of its initial accruals. The amended return had a significant impact on the long-term and short-term delinquent accounts receivable calculations.	2,542,529
Sub-Total		\$ 85,967,461
Missing DHHS Accruals		
36	DHHS recorded a material journal entry on October 19, 2022, to move money between funds but failed to report this entry on its accrual response form or notify DAS of the entry. Typically, activity through September 30 is included in any accrual activity, but periods subsequent to that time should also be reviewed for material transactions.	27,443,421
37	DHHS failed to accrue accounts receivable for the medical loss ratio and health insurance providers fees contracts that were completed before June 30, 2022, but the money had not been received as of that date.	22,768,381
38	DHHS failed to accrue fiscal year 2022 revenue for medical education tuition reimbursement received in July 2022.	17,846,430
39	DHHS failed to record a beginning balance adjustment for monies received for the Ryan White Program in fiscal year 2022 that were for fiscal year 2021.	2,722,635
40	DHHS failed to record revenues in fiscal year 2022 for monies received for the Ryan White Program after the fiscal year end and failed to report a receivable for monies still due.	2,276,908
Sub-Total		\$ 73,057,775
Agency Accounting Errors		
41	DHHS incorrectly recorded its July to September 2022 cost allocation plan journal entries as prior period expenditures, causing these expenditures to be overstated. The expenditures were already accounted for in the intergovernmental receivable and payable calculation.	19,219,247
42	Similarly, DHHS incorrectly recorded its July to September 2021 cost allocation plan journal entries as prior period expenditures causing these expenditures to be overstated in the prior year. Those expenditures were already accounted for in the prior year intergovernmental receivable and payable calculation, so a beginning fund balance adjustment was necessary.	6,348,441
43	DHHS also incorrectly recorded its October 2021 to June 2022 cost allocation plan journal entries as prior period expenditures, causing these expenditures to be overstated. The expenditures were already accounted for in the intergovernmental receivable and payable calculation.	4,803,061
44	DAS posted the entry to record balance sheet and income statement activity related to the State Cash Balance using an old version of the GASB 68 report for the plan. NPERS had published the original report to its website on July 14, 2022. On July 26, 2022, NPERS received a revised report from the actuary, but failed to update the version of the report available on its website or notify DAS of the change, until notified by the APA.	4,140,000
45	The State Patrol failed to write off a Due To Other Fund balance that was approved by the legislature to be written off on August 6, 2020.	1,820,000

Adjustment #	Description (Continued)	Amount
Agency Accounting Errors (Continued)		
46	DHHS had not established policies and procedures to reconcile the balance in the Supplemental Security Income distributive fund and move the monies to the appropriate programs.	1,052,527
Sub-Total		\$ 37,383,276
Capital Asset Accounting Errors - See Comment Number 3		
47	DAS did not complete the CIP calculation correctly, as there were three beginning balance adjustments for \$1,707,007; six additions errors, totaling \$3,326,444 due to amounts not agreeing to support or retainage not being included; and two deletions, totaling \$3,218,704, that were not removed properly.	8,252,155
48	DAS failed to post the necessary journal entries needed to account for the activity that occurred during fiscal year 2022 for State-owned Buildings and Correctional Services Equipment.	3,640,552
49	DAS did not include assets recorded after July 1, 2022, that had acquisition dates during fiscal year 2022. The related depreciation was also not recorded.	1,795,666
Sub-Total		\$ 13,688,373
Timing Differences		
50	The amount of interagency payables and receivables recorded by DAS was significantly different than the amount calculated by the APA, mainly due to the timing of when each entity ran reports from EnterpriseOne.	7,973,887
Sub-Total		\$ 7,973,887
Grand Total		\$ 536,500,055