



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 13, 2023

Kerry Belitz, Director
Nebraska Department of Economic Development
245 Fallbrook Blvd, Suite 002
Lincoln, Nebraska 68521

Dear Mr. Belitz:

We have audited 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, 2023, 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 December 13, 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 Department of Economic Development (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.

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 following comment (Incorrect Fiscal Year for Expenditures) to be significant deficiency.

The 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 they will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2023.

Incorrect Fiscal Year for Expenditures

During testing of the State’s accounts payable, the Auditor of Public Accounts (APA) reviewed expenditure transactions recorded by the Department between July 1, 2023, and September 30, 2023, to determine whether the transactions were reported in the proper fiscal year.

We noted several transactions involving expenditures of Federal funds that were recorded improperly in the State’s accounting system, as shown in the table below:

Description of Error	Amount
Eighteen transactions were recorded as fiscal year 2024 expenses but should have been recorded as fiscal year 2023 expenses.	\$ 4,015,153
One transaction was recorded as a fiscal year 2023 expense but should have been recorded as a fiscal year 2024 expense.	\$ (2,500,000)
Net Fiscal Year 2023 Expenditure Adjustment	\$ 1,515,153

The APA proposed an adjustment to the financial statements, which the Department of Administrative Services – State Accounting Division (State Accounting) DAS recorded, to account properly for these fiscal year 2023 Federal expenditures.

The APA also found coding errors for other financial statement funds that required no adjustment to the financial statements; however, their existence demonstrates further the need for the Department to improve coding procedures in the accounting system. The additional errors noted included the following:

Description of Error	Amount
Two transactions in the Economic Development Fund were recorded as fiscal year 2023 expenditures but should not have been. Due to the relatively small amount, the financial statements were not adjusted.	\$ 600,469
One payment in the State General Fund was recorded as a fiscal year 2023 expenditure but should not have been. Due to the relatively small amount, the financial statements were not adjusted.	\$ 350,000
One transaction in the Economic Development Fund was not recorded as a fiscal year 2023 expenditure but should have been. Due to the relatively small amount, the financial statements were not adjusted.	\$ 161,182

A proper system of internal control requires procedures to ensure the recognition of accounting transactions in the proper fiscal year. Without such procedures, there is an increased risk for a material misstatement of the State’s financial statements.

We recommend the Department implement procedures to ensure payments are recorded in the proper fiscal year.

Department Response: The Department acknowledges that some transactions were entered into the incorrect fiscal year. When the audit was completed, the department made the correction and has updated procedures so that all P9 transactions are recorded properly going forward.

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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.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State of Nebraska's internal control over financial reporting or on compliance. This letter is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Nebraska's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purposes.



Kris Kucera, CPA, CFE
Assistant Deputy Auditor