NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 13, 2023

Thomas Golden, Executive Director
Nebraska Public Service Commission
1200 N Steet, Suite 300
Lincoln, Nebraska 68508

Dear Mr. Golden:

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 Public Service Commission (Commission) 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 Commission'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. 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.

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 material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Draft copies of this letter were furnished to the Commission 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, 2023.

<u>Incorrect Fiscal Year for Expenditures</u>

During testing of the State's accounts payable, the Auditor of Public Accounts (APA) tested a $6.6 million payment made by the Commission in September 2023 to determine whether that expenditure had been reported in the proper fiscal year. In an October 30, 2023, email message to the APA, Commission staff offered the following description of the process for recording transactions in the proper period:

> *Our understanding from talking with state accounting about how our grant payments work is that <u>they are not due and payable until we actually receive a request for reimbursement from the carrier</u>. Even though the carrier incurred the cost, they did not invoice us for reimbursement until after July 1, 2023. If we would have received that request prior to July 1, 2023 we would have coded it as a prior year obligation. Once approved for funding carriers have 18 to 24 months (with the option to request extension) so we can get current reimbursement requests for costs that the carrier incurred months before, if they are requesting reimbursement from us after their project is complete. If we need to have further conversations on this please let me know.*

(Emphasis added.) Raising some concerns with the APA, the above message precipitated discussions with the Nebraska Department of Administrative Services – State Accounting Division (State Accounting) regarding whether the transaction at issue was recorded in the proper fiscal year. Those discussions resulted in an agreement that guidance from the Governmental Accounting Standards Board (GASB) requires the recognition of a payable when reimbursement eligibility requirements are met, not when the costs have been submitted for reimbursement.

Because our concerns pertained to the Commission's procedures for recording expenses in the proper fiscal year, State Accounting asked the Commission whether certain other payments from July to September 2023 should also be considered prior period expenses. The following transactions were found to be recorded to the wrong fiscal year, as they should have been recorded as fiscal year 2023 expenses but were not.

Date	Company	Amount
7/26/2023	Arapahoe Telephone Company	$ 163,837
7/26/2023	Midstates Data Transport, LLC	$ 67,591
8/29/2023	Consolidated Telephone Company	$ 46,798
8/29/2023	Consolidated TELCO, Inc.	$ 46,793
8/29/2023	Consolidated TELCO, Inc.	$ 69,550
8/29/2023	Consolidated TELCO, Inc.	$ 50,899
10/27/2023	Consolidated Telephone Company	$ 57,591
	Total	**$ 503,059**

In late August 2023, the Commission informed State Accounting that the first two items in the table above were not properly reported as prior period expenses, and State Accounting adjusted the financial statements for those two transactions. However, the remaining transactions were not communicated. In response to a proposed adjustment by the APA, State Accounting recorded an adjustment to the General Fund to record these transactions correctly as fiscal year 2023 expenditures.

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

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

Commission's Response: As noted above, of the 7 transactions noted, the first two dated 7/26/2023 were previously reported by our office to the Department of Administrative Services Accounting Division (State Accounting) to be prior year transactions. In August 2023 we were notified those transactions were in fact accrued for the prior fiscal year. This information was forwarded to and verified by staff at the State Auditor's office. Therefore, those transactions should not be included as part of this audit finding.

Of the remaining 5 transactions dated 8/29/23 and 10/27/23, based on guidance we had received from State Accounting, we handled the transactions as current year obligations, since the grant reimbursement payment was not requested until after 7/1/2023.

These transactions were handled appropriately and reviewed for accuracy based on the guidance we received at the time the transactions were processed. Upon a great deal of further discussion and guidance from both the State Auditor's office and State Accounting, we would agree with the determination of how these transactions should be handled in the future.

The Commission has already reviewed our prior procedures and has updated our process to include the new guidance we received. All future transactions will be reported in the appropriate fiscal year based on that guidance. We will also review all future payment agreements to make sure they are recorded appropriately, while consulting with State Accounting on an as needed basis for unique transactions.

APA Response: The finding is a result of the Commission's failure to properly identify transactions in the State accounting system as prior year expenses and for the Commission's lack of knowledge surrounding this process. The APA disagrees with the Commission's assertion that "these transactions were handled appropriately" since the proper code was not used to designate the transactions as prior year activity.

* * * * *

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 Commission 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 Commission.

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

Kris Kucera, CPA, CFE
Assistant Deputy Auditor