NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 18, 2024

Major General Craig Strong, Adjutant General
Nebraska Military Department
2433 NW 24th Street
Lincoln, Nebraska 68524

Dear Major General Strong:

We have audited, 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, 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, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2024. In planning and performing our audit of the financial statements, we considered the State's system of 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 audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Military Department (Department) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Department's management, are 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Draft copies of this management letter were furnished to the Department 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 management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The responses were not subjected to the other auditing procedures applied in the audit of 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, 2024.

1. Capital Asset Errors

The Department is responsible for recording information regarding capital assets into the State's accounting system, as well as reporting construction in progress (CIP) and other capital asset-related information to the Department of Administrative Services – State Accounting Division (State Accounting) for proper financial statement and footnote presentation.

The APA found errors in the capital asset information reported by the Department. Specifically, we noted the following:

Description of Error	Amount
The Department recorded payments for three construction projects incorrectly to operating expenditure accounts rather than the correct CIP or capital asset accounts. CIP is generally used to record construction activity for substantially incomplete projects, including buildings, infrastructure, computer software, etc. The Department reported two of the assets as CIP on its accrual response form submitted to State Accounting. Those assets had current and prior year expenses of $561,167. The other asset for $457,612 was not reported to State Accounting because it had been added already as a building asset in fiscal year 2023.	$ 1,018,779
The Department had 14 assets without a cost in the accounting system. Nine of these assets were active with costs greater than the capitalization threshold set by State Accounting and, thus, should have been included in the financial statements. Due to their omission, beginning asset cost was understated by $222,957, beginning depreciation was understated by $7,456, asset additions were understated by $64,279, and depreciation additions were understated by $30,770.	$ 325,462

A proper system of internal controls requires procedures to ensure costs are added to capital assets and recorded to the correct account code. When capital asset records and transactions are recorded improperly, there is an increased risk for not only material misstatement of the financial statements and related disclosures but also noncompliance with State Accounting policy.

A similar finding was noted in the prior-year management letter.

> We recommend the Department review its procedures for ensuring costs for are recorded correctly in the State's accounting system.

Department Response: The Military Department acknowledges the findings that payments for three construction projects were recorded incorrectly toward the operating expenditure account instead of the CIP capital asset account. In addition, the agency reported incorrectly CIP on the accrual response form. The agency also acknowledges assets costs not being properly accounted for in the accounting system. The agency has sought guidance and clarification on several agency-specific questions regarding capital assets but has been unsuccessful attaining the necessary information to account for state assets appropriately.

The Agency will continue to seek guidance and clarification on what expenditures are considered capital assets, and the process to successfully record them in E1. We will work to establish the framework for an internal standard operating procedure and workflow process within the NMD-CFMO, SSSD and DAS. As well as establish necessary auditing requirements and internal controls to maintain future compliance.

2. Payroll Reconciliation

The Department failed again to document its reconciliation of the amounts recorded on the payroll register to the amounts on the general ledger to ensure that payroll expenses were recorded properly. The Department's fiscal year 2024 payroll expenses totaled $15,054,522.

A proper system of internal control and sound business procedures require a documented reconciliation of the Department's payroll records to its general ledger to ensure payroll expenses were proper and to mitigate the risk of errors. Without such procedures, there is an increased risk of errors occurring and going uncorrected.

A similar finding was noted in the prior-year management letter.

> We recommend the Department implement a process to document its comparison of the amounts and items on the payroll register to the general ledger to ensure the accuracy of the payroll amounts.

Department Response: The Military Department acknowledges the finding that the department failed to document its reconciliation of the amounts recorded on the payroll register to the amounts on the general ledger to ensure that payroll expenses were recorded properly. Although these processes were completed, they were not documented.

The Agency will compare the detailed information on the payroll register to the entries in the general ledger, our goal will be to ensure that amounts are accurately recorded, and general ledger aligns with the payroll register. Our HRO and SSSD teams will collaborate monthly to ensure accurate data is being used.

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It should be noted that this letter is critical in nature, as it contains only our comments and recommendations and does not include our observations on any strengths of the Department.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* 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 State's internal control over financial reporting or compliance.

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

Kris Kucera, CPA, CFE
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