NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 18, 2024

Lee Will, Director
Nebraska Department of Administrative Services
1526 K Street, Suite 190
Lincoln, Nebraska 68509

Dear Mr. Will:

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 as described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Administrative Services (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.

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 (Significant Annual Comprehensive Financial Report (ACFR) Preparation Issues) and Comment Number 2 (Repeat Accounting Weaknesses for the Unemployment Insurance Fund) 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 Errors), Comment Number 4 (EnterpriseOne Timesheets), and Comment Number 5 (Changes to Vendor and Banking Information) to be significant deficiencies.

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

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. <u>Significant Annual Comprehensive Financial Report (ACFR) Preparation Issues</u>

The Department of Administrative Services – State Accounting Division (State Accounting) is responsible for the preparation and accuracy of the ACFR. For the fiscal year 2024 audit, as well as reported in prior years, the APA has identified a significant amount of inaccurate entries – both by State Accounting and other agencies – leading to the conclusion that State Accounting lacks adequate controls to ensure the State's financial statements are materially correct. One of the main failures is the lack of control to ensure its own and other agency entries are accurate prior to their submission to the Auditor of Public Accounts (APA) for audit.

As a result, State Accounting materially misstated financial statement entries and footnote disclosures, requiring significant adjustments, revisions, and additional time to complete the audit procedures. The table below summarizes **over $3.2 billion** in required adjustments to the financial statements and over **$388 million** in related footnote adjustments.

Type of Error	Dollar Error
State Accounting Errors	$ 2,659,974,518
Agency Errors	501,595,980
Unemployment Insurance Fund Issues – See Comment Number 2	10,822,516
Capital Asset Accounting Errors – See Comment Number 3	27,760,630
Total Financial Statement Adjustments	**$ 3,200,153,644**
Total Footnote Errors	**$ 388,654,185**
Total Errors	**$ 3,588,807,829**

The dollar amount of these errors has grown significantly from the prior two years. A table near the end of this comment provides a three-year history of these errors. Without the efforts and significant time of the APA to identify and request the correction of these errors, the State's financial statements would be materially misstated.

<u>Total Financial Statement Adjustments</u>
Please refer to **<u>Supplementary Table #1, at the end of this letter</u>**, for details regarding 51 financial statement adjustments, totaling $3,200,153,644, that were identified by the APA and recorded by State Accounting to ensure the financial statements were materially correct.

<u>Supplementary Table #1</u> also identifies whether the adjustments were also reported in the prior audit. In total, 17 of the 51 adjustments, totaling $71,693,111, were related to issues reported in the prior audit and were not adequately addressed and corrected.

<u>Total Footnote Errors</u>
The following tables explain the errors found in State Accounting's preparation of the required footnote disclosures to the financial statements. The most significant issues were related to footnote #2, "Deposits and Investment Portfolio."

On April 1, 2024, the State transitioned its investment custodian to a new global custodian. This transition had a significant impact on the ACFR because the investment custodian was responsible for providing a significant amount of investment-related disclosures. The APA identified over $337 million in issues with the information provided by the new custodian, including the following:

Description	Dollar Errors
The custodian was responsible for providing a file to support its accumulation of the required disclosures related to derivative instruments. The file contained a formula error that resulted in the notional values of the fiduciary funds to be understated by $241,060,819 and the endowment funds to be overstated by $82,211,154. The APA identified this error through a simple recalculation of the formulas.	$ 323,271,973
The custodian was also responsible for the calculation to determine the change in fair value of these derivative instruments. In the original file provided by the new custodian, the change in fair value included unrealized gains and losses, realized gains, investment income, and investment expenses. In comparison to the prior year, only the unrealized gains and losses were reported by the prior custodian. Upon the APA's inquiry into the inconsistency, the file was changed to include only the unrealized gains and losses without explanation or documentation from State Accounting on whether this method complied with the accounting standard. The file also failed to include assets held by the previous custodian. Due to these errors, the change in fair value of derivative instruments in the fiduciary funds was understated by $8,549,838 and overstated by $1,993,555 in the endowment funds.	$ 10,543,393
The custodian is also responsible for providing a file that includes the State's security holdings as of June 30, 2024. In our review of this file, we found five securities, totaling $3,860,952, that were incorrectly classified as asset-backed securities rather than mortgage securities. The APA's discovery was made in a simple comparison to the prior year file. This misclassification affected several tables included in the footnote and required adjustments.	$ 3,860,952
Total Error for Footnote #2 Deposits and Investments Portfolio	**$ 337,676,318**

The APA also identified the following issues related to State Accounting's preparation of other footnotes:

Footnote	Description	Dollar Errors
#7 Noncurrent Liabilities	The amount originally reported by State Accounting as decreases in claims payable for governmental funds did not agree to supporting documentation. The original calculation for the decreases included accrual activity but should have only included actual expenditures paid during the year. As a result, the decreases for claims payable were overstated, which also impacted the amount reported as additions for the year as well in the same amount.	$ 21,744,109
#17 Restatements	Financial statement restatements are necessary when prior year financial statements contain significant inaccuracies due to errors or the misapplication of accounting principles. The restatement footnote provided by State Accounting contained errors in the amounts related to beginning balances for net position and fund net position. This included: • Errors for transactions recorded in the incorrect reporting period, funds, or accounts, totaling $9,084,538. • State Accounting's failure to include all items in its calculations, totaling $1,506,000.	$ 10,590,538
#4 Capital Assets	There were errors included in the construction commitments portion of the Capital Asset footnote because State agencies incorrectly reported construction-in-progress projects, and State Accounting failed to identify the errors. Construction commitments are contractual obligations related to a project that has not yet been paid. This included: • Federally funded construction commitments being overstated by $1,478,786. • State funded construction commitments being understated by $5,717,674.	$ 7,196,460

Footnote	Description	Dollar Errors
#13 Pension Plans	State Accounting incorrectly calculated pension expense for deferred outflows and inflows for the School Plan, resulting in the total deferred outflows reported in the footnote being overstated by $1,811,000 and the total deferred inflows reported in the footnote being overstated by $2,924,000.	$ 4,735,000
#3 Receivables	State Accounting incorrectly adjusted the Allowance for Doubtful Accounts in several funds. These errors required adjustments to the footnote disclosures, as follows: • Health and Human Services Fund allowance for doubtful accounts was overstated by $3,574,011 due to a financial statement correction. • The allowance for doubtful accounts in the Other Special Revenue Fund was overstated by $776,672 because it incorrectly included the allowance for doubtful accounts from another State fund. • The allowance for doubtful accounts in the Unemployment Compensation Fund failed to include an adjusting entry, resulting in the allowance being understated by $79,077.	$ 4,429,760
#14 Other Postemployment Benefits	State Accounting did not include the required employer contributions paid subsequent to the actuarial measurement date for the deferred outflows of resources in the original footnote disclosure.	$ 2,282,000
	Total Other Footnote Errors	**$ 50,977,867**
	Toal Footnote Errors	**$ 388,654,185**

Additional Errors not Requiring Formal Adjustments

The APA also found several other errors related to State Accounting's processes for calculating accruals and footnote information for the ACFR that did not require formal adjustments. Although formal adjustments may not have been made, the errors are included below to show the extent of the control weaknesses in State Accounting's processes.

Description	Dollar Amount
The APA determined that certain municipal (local) tax activity recorded by the Nebraska Department of Revenue (NDOR) should be reclassified and reported in a custodial fund. A custodial fund generally reports fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria, including when the government controls the assets, and whether the assets are derived from the government's own-source revenues. In these cases, the State authorized a local government to levy a tax. The local government's tax is remitted to the State but will be distributed to the municipality for its use. State Accounting worked with NDOR to reclassify the local tax activity as follows: • Total Local Sales and Use Tax Reclassification: $816,163,494 • Total Local Motor Vehicle Sales Tax Reclassification: $66,444,108 • Total Local Lodging Tax Reclassification: $35,616,687 • Total Other Local Taxes (Consumer's Use, ATV and Motorboat Sales Tax): $5,569,698 Additionally, a $12,538,420 reclassification entry was necessary for Nameplate Capacity taxes so that the activity is properly recorded as a State tax receipt and disbursement to counties. Prior to the reclassification, the tax activity was recorded in liability accounts.	$ 936,332,407

Description	Dollar Amount
In its preparation of the Statements of Cash Flows, State Accounting failed to accumulate accurately the data for inclusion in the statements. Upon the APA's review, several revisions were necessary for items that were not originally included, amounts that did not agree between financial statements, and amounts that were incorrectly classified. This included: • In the Unemployment Compensation Fund, adjustments were required to correct various lines including Operating Income (Loss), Cash Received from Customers, Cash Paid to Suppliers, Increase (Decrease) in Accounts Payable and Accrued Liabilities, and Increase (Decrease) in Claims Payable. Total adjustments for these items were $27,750,000. • In the Internal Service Funds, adjustments were required to correct various lines, including Operating Income (Loss), Cash Paid to Suppliers, Cash Paid for Insurance Claims, Increase (Decrease) in Accounts Payable and Accrued Liabilities, and Increase (Decrease) in Claims Payable. Total adjustments for these items for all internal service funds combined was $23,279,000. • In the Non-Major Enterprise Funds, adjustments were required to various lines, including Operating Income (Loss), Cash Paid to Suppliers and Increase (Decrease) in Accounts Payable and Accrued Liabilities. Total adjustments for these items for all non-major enterprise funds combined was $72,000.	$ 51,101,000
State Accounting neglected to include the Permanent School Fund activity in the governmental activities portion of the interfund elimination entry. This resulted in the Due To Permanent School fund balance being understated by $2,658,000 and the Due From General Fund balance being overstated by the same amount. Upon inquiry by the APA, State Accounting revised the entry to account properly for this activity.	$ 2,658,000
A contract change for the State Law Enforcement Bargaining Council (SLBEC) increased the payout to 600 hours of sick leave. State Accounting did not adjust the compensated absences accrual to account for this change, causing an understatement in accrued compensated absences.	$ 1,721,755
State Accounting records various government-wide journal entries for transactions that are not recorded in the accounting system. During our review of these entries, State Accounting incorrectly included $869,000 in motor vehicle sales and use taxes as petroleum taxes.	$ 869,000
In reviewing a reversal of a prior year transaction, State Accounting incorrectly recorded the reversal as a Due From Other Governments instead of the proper Due From Federal Government.	$ 459,254
In reviewing funds for proper classification of the fund and function, one Superfund Cash Fund was originally classified under the Regulation of Business and Professions function but should have been to the Conservation of Natural Resources function. State Accounting corrected the classification after it was brought to their attention. The total amount of fiscal year 2024 expenditures, which are reported by function on the financial statements, was $377,879.	$ 377,879
The allocation of interest and dividends receivables to the trust funds was inaccurate because State Accounting did not calculate the value at the individual custodial fund level.	$ 34,949

State Agency Errors not Requiring Formal Adjustments

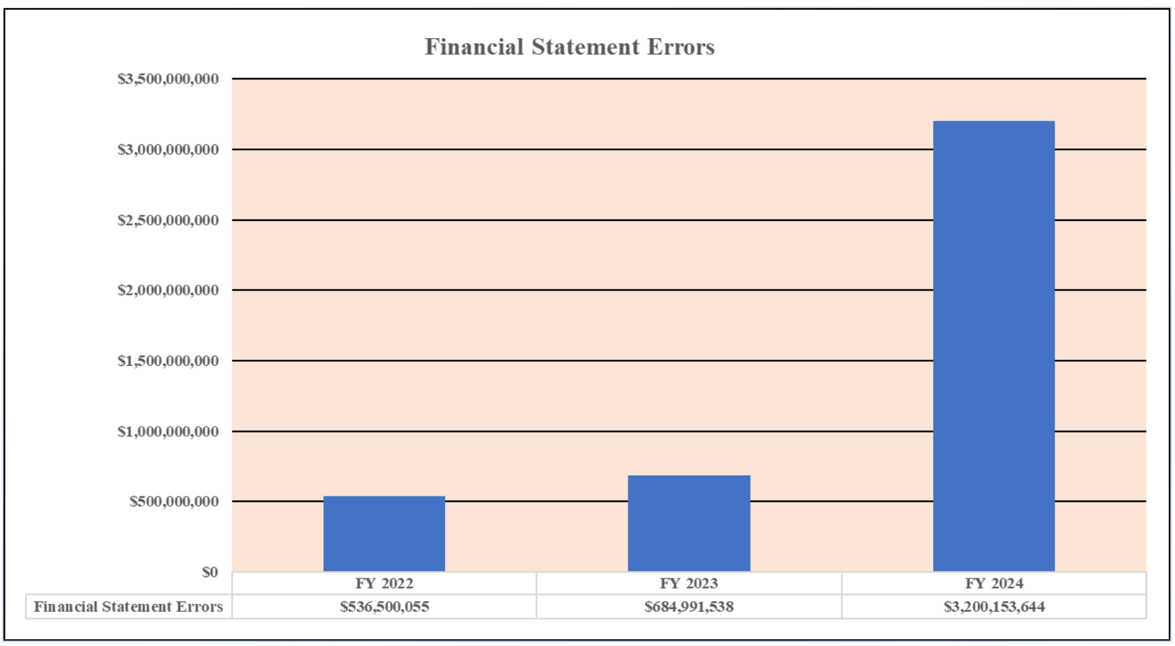
The APA identified several errors in the amounts recorded by agencies in the State's accounting system. These items were communicated to the responsible agencies, and corrections were made prior to the APA proposing formal adjustments. Significant examples of these errors included the following:

Description	Dollar Amount
• A journal entry for Medicaid provider refunds was prepared incorrectly by DHHS. In its reconciliation and calculation of the journal entry, DHHS failed to identify certain amounts as a prior period transaction, resulting in necessary corrections of $12,102,287. • Investment activity for the Deferred Compensation Plan was not recorded properly, requiring adjustments for investment income, investment expenses, and gains or losses on the sales of investments. The adjustments totaled $7,336,282. • Workers' compensation insurance taxes collected of $4,221,417 were recorded to charges for services instead of to the proper tax account. • A $4,000,000 transaction to record the payment for the purchase of property rights for a Department of Transportation project was recorded incorrectly as an operating expense instead of a capital outlay expense. • A transaction to record the return of the Federal share of a prior year overpayment of $4,467,005 was not properly recorded as a prior period adjustment. • Deposits for the receipts of Disproportionate Share Hospital (DSH) funds were recorded as negative expenditures instead of as revenues, resulting in the reclassification of $2,122,115 in deposits. The significance of these errors underscores the need for improved monitoring of entries made by State agencies.	$ 34,249,107

A proper system of internal controls requires procedures to ensure the accurate reporting of financial information in the accounting system and as reported to State Accounting at the end of the year. The State's control procedures should not include a reliance on the APA's team to identify material errors; rather, State Accounting's procedures should include a more detailed review of the agencies' transactions recorded in the accounting system and on the accrual response forms to identify such errors prior to submission to the APA.

As shown throughout this comment, a lack of such procedures increases the risk of material financial statement errors going undetected. The lack of procedures increases significantly the audit time required to ensure that the financial statements are materially correct.

Similar findings have been reported in the prior year ACFRs. The number of errors, as well as the dollar amount of those errors, both individually and aggregately, demonstrate that State Accounting still needs to develop controls and processes to ensure the accurate and timely presentation of the ACFR. The following chart shows the progression of financial statement errors over the last 3 audits.



We recommend State Accounting review its procedures to ensure the accurate and timely preparation of the State's financial statements, which should include the following procedures:

- The proper resolution of all prior year financial statement errors;
- A much more detailed review of entries and transactions processed or provided by other State agencies for accuracy prior to submission to the APA for audit; and
- The implementation of proper training and better accounting resources for State agencies, enabling them to record accurate financial information.

Department Response: State Accounting has established internal controls to review agency documentation, which is reflected in the significant reduction of repeat errors over the previous audit. Three of the largest adjustments were one-time errors which encompassed over 78% of the adjustments reported. Procedures have already been implemented to ensure the errors are not repeated in the future and State Accounting continues to work with agencies on training and implementing procedures to improve accuracy in reporting year over year.

Regarding the investment custodial change, State Accounting worked diligently from April through November 2024 with the bank and the Nebraska Investment Council to ensure information was complete and accurate. The extensive time spent by DAS led to successfully recording financial statement transactions and accurately presenting more than $108 billion in the Deposits and Investments Portfolio footnote. The error noted within, represents only 0.31% of the dollars reported in this one footnote alone. The massive undertaking was deemed a huge success due to the collaborative effort between State Accounting and the Nebraska Investment Council.

Lastly, within the Additional Errors not Requiring Formal Adjustments of $936 million, State Accounting was not aware of the custodial activity until brought to our attention. State Accounting worked with NDOR to successfully record $1 billion in entries. Procedures have been implemented to ensure the activity is properly reflected in the future and training will be held with State agencies to instruct them on custodial reporting requirements.

APA Response: Regardless of whether the errors are one-time errors or repeat errors, it is a significant concern that the APA found and proposed corrections for $3.2 billion. Had the APA not identified these errors, the financial statements would have been materially misstated. State Accounting needs to strengthen its controls to identify errors prior to the information being provided to the APA.

The APA understands the time and effort involved in the change in custodial banks. Although, the errors related to footnote #2 are a small percentage of the overall assets managed by the custodial bank, $337 million in footnote errors is also a material amount.

State Accounting also claims to not have known about the custodial activity at the Department of Revenue that resulted in errors of $936 million. This is not new activity to the State and State Accounting made reclassification entries in the prior year related to this type of activity and should have been aware of it.

2. Repeat Accounting Weaknesses for the Unemployment Insurance Fund

Modified opinions for the Unemployment Insurance (UI) Fund were issued for the FY2020, FY2021, and FY2022 audits. Though an unmodified opinion for the UI Fund was issued in FY2023, material errors still occurred that required adjustments. Despite the modified opinions or material findings in the last four audits, the Department again lacked procedures for ensuring that the UI Fund financial statements were presented accurately for the ACFR. After each of the last four audits, the APA recommended that State Accounting work closely with the Nebraska Department of Labor (NDOL) to establish procedures sufficient for calculating and reporting the UI Fund activity for the ACFR. However, based on our discussions with State Accounting and NDOL, improved oversight is still needed by State Accounting to assist NDOL in preparing the UI Fund financial statements.

We also recommended that NDOL establish procedures to ensure its staff performed a proper review of documentation, including the trial balance, and to reconcile NDOL's separate tax and benefit system, NEworks, to the State's accounting system to identify issues between the systems. Though improvements were noted, it is apparent from the adjustments and errors detailed below that NDOL and State Accounting failed to comply with our prior recommendations to ensure that the UI Fund financial statements are presented accurately.

The UI funds were maintained in separate, outside bank accounts, differing from most State funds, which are maintained by the State Treasurer. NDOL prepared manual journal entries to record financial activity from NEworks to the State's accounting system, which is used to generate the financial statements. However, the financial statements required material adjustments due to incorrect journal entries made by NDOL and the lack of an adequate reconciliation of the financial activity recorded in NEworks to that recorded in the State accounting system to ensure account balances and other financial activity were properly presented. The significant number of financial reporting errors required a substantial amount of additional time and work by the APA. Had NDOL and State Accounting addressed the prior year findings, the additional time and work would have been significantly less.

The table below summarizes over $10 million in errors made by NDOL for the fiscal year ended June 30, 2024. The APA proposed, and State Accounting posted, adjustments to correct the financial statements.

Account	Description	Amount
Tax Contributions Receivable	Two errors affected the tax contribution receivable. The first was NDOL's incorrect entry in fiscal year 2024 to record a prior year adjustment that was already recorded in the prior year. The second error was related to NDOL's failure to record properly all receivable activity as of the fiscal year end.	$ 4,208,985
Overpayment & Penalty Receivable	Eight errors affected the overpayment and penalty receivable accounts and their related allowances for doubtful accounts. These errors included NDOL's incorrect recording of a prior year adjustment in the current year, errors in NDOL's calculation of the related allowances for doubtful accounts, errors in NDOL's monthly adjustment of its receivable, the duplication of write-off entries, mistakes in recording entries in the accounting system, and an unsupported ending balance in the account as of June 30, 2024.	$ 3,465,917
Due To Funds	Penalties and interest on employer contributions are due to the Employer Security Special Contingent Fund per State statute. There were four errors affecting the amounts to this Fund. NDOL reported the incorrect ending balance to State Accounting, which subsequently recorded the incorrect balance in the accounting system. NDOL also failed to record necessary entries and included an ending balance that was not fully supported by documentation.	$ 1,188,695
Due From Funds	Two errors affected the due from funds accounts in the Other Special Revenue Fund and the General Fund. NDOL failed to report properly to State Accounting a due from the UI Fund to the General fund. Because of this error, State Accounting incorrectly eliminated the due to fund balance, which had to be reversed. Additionally, after accounting for the due to fund errors noted in the Due to Funds account in the UI Fund above, the corresponding due from fund balance did not agree to the new due to fund balance, requiring adjustment.	$ 928,635
CWC Errors	Combined Wage Claims (CWC) are unemployment claims for claimants with wages in multiple states. When payments are made, the state that made the claim is entitled to reimbursement from the other states. There were seven errors affecting the CWC receivable and payable accounts. These errors included the failure to include all necessary activity in the accounts as of year-end, the duplication of amounts recorded in the account, and improperly recording year-end activity to the payable account rather than the receivable account, or vice versa.	$ 590,751

Account	Description	Amount
Miscellaneous Adjustment	NDOL incorrectly recorded a prior year adjustment in the current year.	$ 242,619
Benefits Payable	Seven errors affected the benefits payable account. These errors included recording unnecessary adjustments to the account for adjustments that had already been recorded, mistakes in recording entries to the accounting system, an NEworks system error that resulted in not all activity for the year being properly recorded in the accounting system, and the lack of agreement between amounts recorded in the accounting system to supporting documentation from NDOL's system.	$ 196,914
	Total Unemployment Insurance Fund Adjustments	**$ 10,822,516**

Note: In total, 31 separate adjustments were necessary to correct the financial statements for fiscal year 2024.

The APA identified other accounting issues and financial statement errors that did not require adjustments to the financial statements due to their relative insignificance; nevertheless, these were errors and are detailed in the table below:

Error	Description	Dollar Error
1	NDOL claimed to have discretion in the use of a Federal fund balance of $916,802; however, documentation to support that assertion was not provided, nor was an explanation describing how the balance was accumulated.	$ 916,802
2	NDOL uses a suspense account to serve as the holding account for unreconciled amounts between the bank and NEworks. During fiscal year 2024, NDOL failed to perform an analysis of the $219,251 balance in the holding account on June 30, 2024, to determine the proper disposition of those amounts.	$ 219,251
3	NDOL recorded a fiscal year 2023 adjustment to correct the balance in the claims payable account again in fiscal year 2024, resulting in fiscal year 2024 expenditures being overstated by $168,328.	$ 168,328
4	NDOL's allowance for doubtful accounts related to employers' accounts receivable (employer UI taxes owed), including penalties and interest receivable, included $149,660 that should not have been included based on the Department's own criteria for inclusion as an allowance.	$ 149,660
5	Employer account activity from one day in fiscal year 2024 was not recorded in the accounting system. This resulted in an overstatement of $95,160 to tax contributions receivable and an understatement of $197 to tax contributions payable.	$ 95,357
6	NDOL recorded a fiscal year 2023 adjustment to correct the reimbursable receivable allowance for doubtful accounts again in fiscal year 2024, resulting in fiscal year 2024 revenue being understated by $83,986. The reimbursable receivable is related to those employers who do not pay UI taxes, but who reimburse the Department for claims paid.	$ 83,986
7	In its preparation of the ACFR, State Accounting annually reviews entries identified as prior period transactions and recorded within three months after the fiscal year end. Due to differences between the timing of NDOL's entries into the accounting system and the timing of State Accounting's annual review, multiple prior period transactions, totaling $219,254, were not reviewed for inclusion in the current fiscal year. Additionally, NDOL incorrectly recorded $186,248 in entries for fiscal year 2024 as prior period transactions, which then prompted State Accounting to make a beginning balance adjustment. The net result of these two errors resulted in $33,006 of activity being recorded in the incorrect fiscal year. As the net amount was insignificant, we did not propose an adjustment.	$ 33,006
8	The reimbursable receivable account was overstated by $26,287 due to NDOL's failure to record April 2024 employer payments recorded in NEworks to the accounting system.	$ 26,287
9	NDOL failed to consider $11,722 in negative charges to reimbursable employers that occurred in fiscal year 2025 for periods prior to July 1, 2024. This resulted in the balance in reimbursable receivable being overstated by $11,722.	$ 11,722
10	Due to the use of old versions of the reports supporting the claims payable at June 30, 2024, NDOL's entry was understated by $10,691.	$ 10,691

Error	Description	Dollar Error
11	NDOL lacked support for $7,906 of the $2,072,625 benefits payable account balance at June 30, 2024. The amounts are likely related to benefit payments that failed to deposit in the claimants' bank account and were returned to NDOL's bank. NDOL lacked support for the amounts of returned payments.	$ 7,906
12	In March 2024, NDOL received an extra $2,810 CWC payment from the state of Idaho that was not recorded as a receivable. At that time, the payment was recorded as a reduction to the CWC receivable, which incorrectly reduces the receivable.	$ 2,810
13	In January 2024, NDOL recorded two different entries to one employer account balance, which resulted in a negative tax contribution receivable for that employer. Both entries reduced the tax contributions receivable balance by $2,809, leaving an incorrect negative balance due of $2,809 in NEworks.	$ 2,809
14	The balance in child support payable as of June 30, 2024, was understated by $187.	$ 187
15	From April to June 2023, NDOL collected $449,465 in penalties and interest, but $449,602 was remitted to the Employment Security Special Contingent Fund, a $137 difference.	$ 137
16	NDOL's calculation of the overpayment receivable expected to be established within 90 days after June 30, 2024, was not reasonable. First, the calculation included the average overpayments established between July and September for the last nine years, which assumes that all overpayments established during that time were from the previous fiscal year. However, some of those overpayments could be for payments made during the current fiscal year. Second, the calculation neglected to include overpayments established from October to June for payments made in the previous fiscal year.	$ -
17	NDOL failed to reduce the balance in due from the Federal government for $334 received in February 2024. This error was eliminated by an entry made by State Accounting, resulting in no required adjustment. However, as the State Accounting entry will reverse in fiscal year 2025, NDOL will need to record an entry to reduce properly the balance in due from the Federal government going forward.	$ -
18	While reviewing the employer balances as of June 30, 2024, the APA noted multiple billed interest receivable balances in the accounting system that could not be traced to NEworks. Per NDOL, the error was caused by the method to record adjustments by the vendor to employer balances in NEworks.	$ -
	Total Unadjusted Errors	**$ 1,728,939**

A proper system of internal control requires procedures to ensure accurate information is included in the State's accounting system for proper presentation of the State's financial statements.

Without such procedures, there is an increased risk of not only material misstatements occurring and remaining undetected but also improper payments being made.

> We continue to recommend State Accounting work closely with NDOL to establish procedures to ensure accounting records are recorded properly in the accounting system, including reconciliation procedures to ensure accounting records reflect accurately the activity and appropriate balances of NEworks. The reconciliation should include ensuring that the balances in the State's accounting system agree to NEworks or other sources, with any variances being reconciled and corrected on a timely basis. Without the resolution of these repeated findings, the APA's ability to audit the UI financial statements might be compromised.

Department Response: State Accounting and the Nebraska Department of Labor (NDOL) have worked closely with one another on the implementation of corrective action over the last several years. This collaboration led to a reduction in adjustment amounts of 56% over the previous year. State Accounting is dedicated to investing additional resources in its continuing partnership with NDOL to further reduce errors and eliminate future adjustments.

APA Response: Although, State Accounting claims to have been working closely with NDOL, there have been material financial statement errors for multiple years. A simple review of the accounting entries made by NDOL and a comparison of the accounting systems would have revealed the issues NDOL continued to have during fiscal year 2024.

3. Capital Asset Accounting Errors

State Accounting compiled the capital asset information from the State's accounting system and requested State agencies to report additional accrual items, not already included in the accounting system, for inclusion in the ACFR. The APA found several projects that were either not reported or reported inaccurately in the accounting system or to State Accounting. These errors required revisions to State Accounting's original capital asset-related items on the financial statements and their footnotes.

Most of the errors were a result of internal control issues at the State agencies; however, State Accounting is responsible for accurate financial statement presentation and failed to ensure construction-in-progress (CIP) and other capital assets were recorded properly in the financial statements. The table below details the financial statement adjustments required due to those errors and State Accounting's failure to ensure proper accounting:

Adjustment	Description	Dollar Error
Construction-in-Progress	State Accounting records information regarding CIP based on information from the State's accounting system and from information reported by the various State agencies. State Accounting's calculations for CIP contained errors due to incorrect project completion dates and for projects and related costs that were not properly included. As a result of these errors, a beginning balance adjustment of $944,548 was required for CIP along with $5,819,787 in total adjustments for CIP additions and/or deletions which were understated.	$ 6,764,335
Equipment	This asset account included errors in amounts reported for equipment assets related to the failure to record costs correctly in the State's accounting system, acquisition date errors, or equipment status errors, and the failure by State Accounting to properly carry forward values and balances from the prior year. These issues required adjustments to beginning balances, equipment additions, and depreciation totaling $6,357,942.	$ 6,357,942
Infrastructure	State Accounting also had errors in the amounts reported for infrastructure assets. When CIP projects are substantially complete, costs are moved from the CIP accounts to the appropriate capital asset accounts. Due to errors in reporting substantial completion dates for infrastructure projects and incorrect identification of the related project costs, State Accounting incorrectly accumulated and reported infrastructure assets, including infrastructure additions. Additionally, due to these errors, depreciation and accumulated depreciation related to infrastructure were also understated for the year. The total adjustments needed for these errors was $3,780,240.	$ 3,780,240
Buildings	This asset account included errors related to the timely and accurate recording of the purchases of land and buildings for a new prison site, as well as for incorrectly recorded CIP payments and acquisition dates related to construction of the Reception and Treatment Center (RTC). These issues required adjustments to the financial statements, totaling $4,218,871, for buildings and related depreciation.	$ 4,218,871
Land	For the new prison site, the APA's calculated value of the land and buildings was $17,206,246. That amount, less the correct building value of $781,129, should have resulted in a land value of $16,425,117. However, the accounting system reported the value of the land as $12,534,346, an understatement of $3,890,771.	$ 3,890,771

Adjustment	Description	Dollar Error
Retainage Payable	State Accounting made errors in its accumulation and reporting of retainage payable projects. In the prior year, State Accounting accrued $2,452,617 as the short-term payables for retainage on 15 infrastructure projects. However, these costs were not paid during the current fiscal year; therefore, a beginning balance adjustment was necessary to reclassify these as long-term payables. Additionally, State Accounting improperly excluded $295,854 of retainage related to 17 infrastructure maintenance projects resulting in an understatement of expenditures and accounts payable.	$ 2,748,471
	Total Capital Asset Accounting Errors	**$ 27,760,630**

The APA proposed, and State Accounting posted, entries to correct the above errors.

In addition to those errors, the following table details other accounting issues and financial statement errors that did not require adjustments to the financial statements due to their relative insignificance or because there was little to no financial statement effect:

Error	Description	Dollar Error
1	A number of errors were identified in State Accounting's accumulation of CIP and capital assets recorded in the State's accounting system, including incorrect asset costs, acquisition dates, or equipment statuses. In addition, State Accounting lacked a policy to determine when an asset's depreciation should be recalculated when errors are identified. These errors resulted in various overstatements or understatements of beginning asset balances, additions, deletions, current depreciation, and accumulated depreciation. The $2,397,485 in errors by asset type are as follows: • CIP: $1,272,194 in errors. • Equipment: $1,058,623 in errors. • Infrastructure: $61,250 in errors. • Buildings: $5,418 in errors.	$ 2,397,485
2	State Accounting incorrectly recorded $1,121,287 in expenditures for upgrades to the Craft State Office Building HVAC system during fiscal year 2024 to a repair and maintenance operating expense account, instead of to a construction-in-progress expense account. No adjustment was necessary because the upgrades were properly reported on the accrual response form as a CIP project.	$ 1,121,287
3	State Accounting improperly included two CIP projects under the Culture & Recreation function of government instead of the correct Conservation of Natural Resources function, which resulted in errors in the amounts reported as beginning balances, additions, and deletions for those functions totaling $936,440.	$ 936,440

A proper system of internal controls and sound accounting practices require procedures to ensure that capital asset activity is recorded accurately, transferred correctly into all journal entries, properly carried into the next fiscal year, and supported by adequate documentation. Such procedures should also include working with other agencies to ensure proper accounting methods are followed and 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 financial statement misstatements.

> We recommend State Accounting continue to work with and provide training to the various agencies to implement or improve procedures necessary to resolve this audit finding. We further recommend State Accounting implement procedures to ensure capital asset activity is accurate and complete, including procedures to ensure all Accrual Response Forms contain accurate information.

Department Response: State Accounting has worked extensively with State agencies to help ensure capital assets are recorded timely and accurately in the State's accounting system. This is an ongoing process of improvement for which we hold annual trainings to assist agencies. State Accounting has implemented procedures over the last several years to review agencies reporting, not only at year end, but continuously throughout the year, to alleviate issues. We do not consider these efforts a "failure" as noted, instead a continual process of improvement to reduce future adjustments. The adjustments noted comprise only 0.2% of the State's reported capital assets.

APA Response: While the Department focuses on the percentage of errors overall, there were still $27 million in capital asset accounting errors.

4. <u>EnterpriseOne Timesheets</u>

Twenty State agencies utilized the State's accounting system to record their employees' work time entry and leave reporting. For these agencies, we noted the following:

- Supervisors and human resource staff within the State agencies were able to change the employees' submitted timesheets without the employees' knowledge or documentation of the changes made.

- The State's accounting system did not accurately track who approved timesheets in the system. For State agencies that utilized timesheet entry in the State's accounting system, the supervisor assigned to an employee approved the timesheet. However, supervisors were allowed to set up delegates in the system to approve timesheets in the supervisor's absence. The system did not record who actually approved the timesheet; if a delegate approved an employee timesheet, the system would record the assigned supervisor as the approver. When delegates were set up for their supervisor, the delegate was then able to alter and approve his or her own timesheet. Furthermore, there was no audit trail for delegates in the State's accounting system. When a supervisor removed a delegate from the system, there was no record of the delegates in the system in an audit trail. Supervisors were also able to delete delegates without any record of the assignment.

- Employees were able to record their time worked to other agency funding sources. When completing a timesheet, the employee had a field available to him or her to record time to any State agency. The coding was not restricted to only the employing agency.

Section 124-86, Payroll – Agency Records, of Nebraska Records Retention and Disposition Schedule 124, General Records (February 2020), as issued by the Nebraska State Records Administrator, requires any "supporting records received or generated by an agency used to review, correct or adjust and certify agency payroll records" to be retained for five years. Per that same section, the supporting records may include timesheets and reports.

A proper system of internal control requires procedures to ensure that the approval of timesheets is documented for subsequent review, and funding sources are restricted to an employee's agency.

Without such procedures, there is an increased risk for fraudulent or inaccurate payment of regular hours worked or accumulation of leave. Additionally, failure to retain important payroll documentation risks noncompliance with Nebraska Records Retention and Disposition Schedule 124. When the funding source is not restricted, moreover, there is an increased risk that an employee may record payroll expenditures to an incorrect funding source or another agency's general ledger in error.

It was noted also that Department overtime-exempt employees were not required to maintain a timesheet or other form of documentation to show that at least 40 hours were worked each week. Exempt employees were required to record only leave used in the system.

Neb. Rev. Stat. § 84-1001(1) (Reissue 2024) states the following:

> *All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur.*

Sound business practices, as well as a proper system of internal controls, require hours actually worked by State employees to be adequately documented and such documentation to be maintained as evidence of compliance with § 84-1001(1). A proper system of internal control also requires procedures to ensure vacation and sick leave amounts are properly recorded and accrued.

A similar comment has been reported since the fiscal year 2013 ACFR audit.

> We recommend the Department implement procedures for maintaining adequate supporting documentation of time worked for all employees, such as timesheets or certifications, in compliance with State statute and Nebraska Records Retention and Disposition Schedule 124. Furthermore, we recommend the Department make the necessary changes to the State's accounting system, or save supporting documentation to a data warehouse, to allow for the retention of documentation of approvals, and changes to timesheets to ensure compliance with Nebraska Records Retention and Disposition Schedule 124. Lastly, we recommend the Department restrict funding access to an employee's agency only.

Department Response: Timesheet images are maintained in EnterpriseOne until the payroll is processed; however, the electronic data is maintained in EnterpriseOne indefinitely. Agencies choosing to delegate time approval are trained to maintain documentation when a delegate approves time. Under federal law, exempt employees do not need to track their hours. DAS is weighing the risks identified with the cost of implementing a new time tracking and payroll system.

APA Response: As noted in the comment, state law requires the heads of departments, their deputies, assistants, and employees to render no less that forty hours of labor each week. A proper system of internal control requires procedures to adequately document compliance with this statute. Furthermore, Neb. Rev. Stat. § 81-1328 (Reissue 2024) outlines vacation hours earned by State employees. State employees who work less than full-time earn vacation hours in proportion to the percent of hours worked. Without a timesheet to support employee hours worked, there is an increased risk an employee will earn excess vacation leave, which is paid out upon termination.

5. Changes to Vendor and Banking Information

During our review of the process for changing vendor and banking information in the State's accounting system, we found a lack of controls to ensure that additions and/or changes to vendor addresses and banking information were proper and accurate. To change vendor addresses and banking information in the system, an authorized agent at the agency level must submit a W-9/ACH form to the Department. This submission can be made by any one person at the agency. There is no required secondary approval of changes at the agency level to ensure additions and changes are proper.

In addition, the Department failed to perform any other procedures to identify potential fraudulent bank accounts in the system. A review could include a query to identify duplicate bank accounts or addresses for both a vendor and employee of the State.

Due to this lack of procedures, the Nebraska Department of Transportation (NDOT) made a $250,000 payment to an illegitimate vendor in April 2024. NDOT received a fraudulent request to change a vendor's banking information and forwarded the fraudulent request to the Department to change the bank account to the fraudulent payee.

On June 6, 2024, the Department and the State Treasurer released a letter notifying State agencies of additional requirements when changing vendor and banking information. Those additional steps include:

- Agencies are required to follow up with a known vendor contact to verify that the change is valid. This is required to be signed off on by an agency representative.

- State Treasurer staff will have the ability to review the changed information in order to provide better answers to bank inquiries regarding outgoing ACH payments.

A proper system of internal controls requires procedures to ensure that critical vendor and banking information within the State's accounting system is proper, and changes to the information are verified as accurate.

Without such procedures, there is an increased risk of loss, misuse, or theft of State funds due to fraudulent activity.

A similar comment has been reported since the fiscal year 2015 ACFR audit.

> We recommend the Department establish procedures for ensuring vendor addresses and banking information in the State's accounting system are appropriate and accurate. These procedures would include a secondary review and approval of all vendor and banking information at the agency level when modifying W-9/ACH forms, ensuring that at least two knowledgeable individuals are involved in the changes. We also recommend the Department establish procedures, such as a periodic review for duplicate bank accounts and vendor addresses, to identify potential fraudulent bank accounts in the system.

Department Response: As a mitigating control that DAS already has in place, changes to a vendor or payee's banking information requires prior banking information be provided for verification. DAS has revised its W-9 form to include agency review with a secondary approval sign-off. The $250,000 noted was recovered in full.

6. <u>Other Internal Control Issues</u>

The Department is responsible for providing centralized support services to state agencies, boards, and commissions. To accomplish this, the Department's various divisions utilize internal control processes and procedures to ensure financial activity is properly recorded and reported. However, during our review we noted certain other deficiencies in internal control procedures that should be addressed to improve the efficiency and effectiveness of these controls in ensuring financial data is properly accounted for, recorded, and reported. This included the following:

Description	Dollar Amount
State Accounting lacked procedures for consistently reviewing and reconciling the imprest payroll liability accounts to ensure their accuracy. State Accounting recorded entries to correct some liability account balances for errors noted in prior audits; however, a number of liability accounts with outstanding balances remain. For six of these accounts reviewed by the APA, the net balance of these liability accounts was $250,801, with balances ranging from $99,331 to ($409,025).	$ 250,801
In the prior year, the APA reported that the Office of the Chief Information Officer (OCIO) rates billed to agencies lacked adequate documentation to support that the rates were reasonable and proper. Three receipt transactions tested for fiscal year 2024, totaling $399,441, included charges related to the unsupported rates. Total receipts tested with unsupported rates were $196,048.	$ 196,048

The APA also identified issues with State agencies inaccurately recording income tax withholding information in the State's accounting system as compared to the applicable Federal IRS Form W-4 and the State's Form W-4N completed by employees. Upon discovery of this issue during payroll testing, the APA expanded its testing to include all State employees, where we found more issues, as identified below:

- There were 253 employees at 22 agencies that had amounts entered into the State “W4 Deductions” field in the State’s accounting system, even though there is no applicable field on the State Form W-4N. The agencies appear to have included these amounts erroneously. However, 16 of the 22 agencies, comprising 221 of the 253 employees, use the Department’s Shared Services for human resource and payroll processes. Although, the amount in the State “W4 Deductions” field did not affect the employees’ pay calculations, it is possible that these amounts should have been entered as a State allowance, which would then affect the employees’ net pay calculations.

- There were also 31 employees at 13 agencies that had inappropriate amounts entered into the Federal “W4 Deductions” field in the State’s accounting system. The agencies appear to have mistakenly included deduction amounts in the field that requires dollar amounts on the Form W-4. We found that 4 of the 13 agencies, comprising 14 of the 31 employees, use the Department’s Shared Services for human resource and payroll processes. If these amounts should have been entered into the exemption field instead, the employees’ net pay calculation would be affected.

Therefore, neither the agencies nor Shared Services are reviewing the forms for reasonableness or educating the employees on the proper completion of the forms.

A proper system of internal controls and sound accounting practice require procedures to ensure: 1) accounts are reconciled properly, and reconciling items are followed up on and resolved in a timely manner; 2) rates used for billing are adequately supported to ensure charges are reasonable and proper; and 3) tax information utilized for payroll is recorded correctly in the accounting system and is supported to ensure employees’ net pay is calculated properly.

Without such procedures, there is an increased risk of not only errors or financial misstatements occurring but also noncompliance with Federal and State regulations.

> We recommend the Department review its procedures for reconciling payroll accounts and establish procedures to ensure appropriate follow-up and resolution of outstanding balances and other reconciling items is completed in a timely manner. We also recommend the Department implement procedures to ensure adequate documentation is maintained to support that rates charged to agencies are equitable and reflect the actual costs incurred for those services. Finally, we recommend the Department work with and provide training to State agencies, so tax withholding information will be recorded accurately in the accounting system.

Department Response: The imprest payroll fund is reconciled in total; the issue at hand is at the account level due to the way in which past activity was recorded upon receipt versus payment. State Accounting has worked extensively over the past year to reconcile the imprest payroll fund leading to a significant reduction in account balance differences. OCIO rates for the next biennium will be reviewed. W-4 instructions were updated in April 2024 to help prevent future errors.

7. <u>State Accounting System – Special Handle a Voucher</u>

The Special Handle a Voucher function (Function) is a separate menu option in the State’s accounting system and allows users to change the payee on a payment without a secondary review of the change. When agencies enter payment transactions, a supplier number, tied to a payee number, is entered. The Function allowed State employees to modify the payee number after the payment had been created without requiring an approval for that change. The Function was used by the following:

- The Department to provide support to agencies, so payments could continue in a timely manner if the agency lacked adequate personnel to process a transaction;

- The Department to process replacement warrants; and

- State agencies to correct vouchers without having to void and recreate another voucher.

We noted the following issues with the Function in the State's accounting system:

- Access to the Function is not restricted to only high-level users. Access was available, instead, to most users who had access to the Accounts Payable (AP) module. Essentially, anyone who had access to AP in the State's accounting system, with the exception of inquiry-only access, was able to use the Function. Due to the type of activity that can be performed with this access, we believe access should be restricted to only a limited number of high-level users. Our review noted that 893 users had access to the Function as of May 31, 2024.

- Users with the ability to add vendors and change vendor information in the State's accounting system also had access to the Function. The Address Book (AB) module included one role that allowed users to add vendors and make changes to vendor information. All 11 users with access to this role also had access to the Function, creating an environment in which a user could set up fictitious vendors in the system or improperly change vendor information and then change payee information on vouchers to direct payment to the fictitious/modified vendor.

The Department stated that it uses the payee control-approval process within the State's accounting system, a required step in payment processing, to review and approve vendor changes made through the Function. Prior to payments being processed, transactions that have been modified using Special Handle a Voucher are sent to a queue, and then the Department must approve those transactions before a payment can be made. The Department will approve payments when the altered payee name or tax identification number is the same as the supplier; however, if the name or tax identification number do not agree, the Department will inquire with the State agency as to why the modification was made. This correspondence should be maintained by the Department. While the Department has a process in place, we noted the following issues related to the payee control-approval process:

- All nine Department users with access to the payee control-approval process also had access to the Function. Thus, these users could change a payee on a voucher and then approve it, without involvement of a second person, resulting in a lack of segregation of duties.

- Two Department users with access to the payee control-approval process also had access to the Function and could add vendors or change vendor information in the State's accounting system.

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-303 (November 2022), "Identification and authorization," states, in relevant part, the following:

> *(4) To reduce the risk of accidental or deliberate system misuse, separation of duties must be implemented where practical. Whenever separation of duties is impractical, other compensatory controls such as monitoring of activities, increased auditing and management supervision must be implemented. At a minimum, the audit of security must remain independent and segregated from the security function.*

Additionally, a proper system of internal controls requires procedures to ensure an adequate segregation of duties, so no one individual is able to perpetrate and/or to conceal errors, irregularities, or fraud.

Without such procedures, there is an increased risk for errors or fraud to occur and remain undetected.

A similar comment has been reported since the fiscal year 2015 ACFR audit.

We recommend the Department implement procedures to ensure an adequate segregation of duties. Such procedures include: 1) restricting Function access to only certain high-level users; 2) removing access to the Function for users with the ability to add vendors and make changes to vendor information in the State's accounting system; 3) maintaining documentation to support review/approval of vendor changes through the payee control approval process; and 4) preventing users with access to the payee control approval process from accessing the Function and/or adding/changing vendor information in the State's accounting system.

Department Response: Use of this process to more efficiently correct voucher issues is granted to a large user base. If the vendor/payee is changed on a voucher, a system forced process requires a DAS teammate to complete a review, and documentation from the agency is retained. This control reduces the risk for the occurrence of errors or fraud to an acceptable level. As noted in the finding, only two users had access to the payee control-approval process, Special Handle a Voucher, and vendor address book records. These users have management responsibilities over accounts payable and address book teams.

* * * * *

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, CPA, CFE
Assistant Deputy Auditor

Supplementary Table #1

Item #	Description	Amount	Category	Prior Audit Finding?
1	State Accounting improperly classified the fund balance in the General Fund as unassigned rather than restricted, committed, or assigned.	$ 1,960,661,000	State Accounting Errors	No
2	State Accounting incorrectly recorded Federal revenues to the Health & Social Services function instead of the proper functions.	$ 283,041,183	State Accounting Errors	No
3	State Accounting improperly included payments in the current fiscal year accrual for prior period expenditures that had been previously accrued in the prior fiscal year.	$ 259,847,021	State Accounting Errors	No
4	State Accounting improperly classified receivable revenues from UNMC for Medicaid poison control, DSH, and Supplemental GME revenues. The Department of Health and Human Services (DHHS) originally recorded the revenues as non-grant reimbursements. State Accounting's process is to record that type of account activity as sales of services revenues, but it should have been reported as operating grants and contributions in the Health and Social Services Fund.	$ 85,393,456	State Accounting Errors	No
5	Agencies use various object accounts, including other revenue, licenses, and fees and permits, to record revenue received from surcharges. State Accounting is responsible to review the activity and properly reclassify the revenues to surcharge revenue. State Accounting failed to identify all of the surcharge revenue for reclassification during fiscal year 2024.	$ 15,686,388	State Accounting Errors	No
6	State Accounting improperly recorded the elimination of University of Nebraska Foundation capital assets to investments on the Statement of Net Position - Component Units.	$ 14,630,000	State Accounting Errors	No
7	State Accounting failed to include in the taxes receivable accrual significant receipts received in September 2024 for tax periods of June 2024 and prior that NDOR sent to State Accounting. This adjustment includes tax categories of Sales & Use Tax, Motor Vehicle Sales Tax, and Nameplate Capacity Tax. For sales & Use and Motor Vehicle Sales taxes, amounts were split between the State and Local portion of taxes.	$ 9,518,075	State Accounting Errors	No
8	State Accounting improperly recorded a payment for software as a prior period expenditure after June 30, 2024, which resulted in the overstatement of an accounts payable amount.	$ 6,858,947	State Accounting Errors	No
9	State Accounting used the Nebraska Department of Transportation (NDOT) accrual response form to record the Federal accounts receivable. However, NDOT provided updated documentation supporting a revised Federal accounts receivable amount which State Accounting failed to review.	$ 6,129,788	State Accounting Errors	Yes
10	The allocation of long-term investments receivables and payables to trust funds was inaccurate because State Accounting did not calculate the value at the individual custodial fund level.	$ 4,088,914	State Accounting Errors	No
11	State Accounting made an adjustment to the beginning balance of the Federal Fund due to the Ryan White accrual. In its deferred revenues calculation, the short-term portion of the accrual was used rather than the long-term portion causing an understatement to the adjustment.	$ 3,667,671	State Accounting Errors	No
12	In fiscal year 2024, DHHS made an entry to correct duplicative activity in the prior year. During State Accounting's fiscal year 2024 ACFR preparation procedures, an adjustment to beginning fund balance was made to account for this correction. However, the duplicative activity from the prior year was never included in the prior year activity because State Accounting intentionally excluded the duplicated entries. As such, State Accounting's fiscal year 2024 accrual of the DHHS correction was not necessary since the error did not exist in the prior year financial statements.	$ 2,812,819	State Accounting Errors	No

Supplementary Table #1

Item #	Description	Amount	Category	Prior Audit Finding?
13	State Accounting improperly classified the Other Special Revenue Fund as restricted when it should have been classified as unrestricted per GASB Statement 54.	$ 2,648,172	State Accounting Errors	No
14-15	State Accounting records unearned premiums in the Excess Liability Fund based on amounts determined by an actuary. The APA's review of the actuary reports uncovered some issues, resulting in revised calculations and reports. Both the prior year and current year amounts were changed, requiring adjustments to the original entry recorded by State Accounting.	$ 2,390,000	State Accounting Errors	No
16	State Accounting did not adjust the Cultural Preservation Endowment fund endowment principal balance for a $1 million transfer into the fund in fiscal year 2024.	$ 1,000,000	State Accounting Errors	Yes
17	State Accounting reported all of the revenue in the Nebraska Game & Parks Commission's (NGPC) accounts receivable accrual to Rental Income revenue, even though a portion of it should have been recorded as License, Fees, and Permits revenue.	$ 963,757	State Accounting Errors	No
18	State Accounting failed to include all applicable employees in its calculation of the compensated absences related to internal service funds.	$ 637,327	State Accounting Errors	No
Total State Accounting Errors		**$ 2,659,974,518**		
19	The Department of Revenue (NDOR) failed to accurately calculate and report the local portion of certain taxes payable related to the reclassification of local taxes to the municipal tax custodial fund. Because of this, corrections were needed for the fiscal year 2023 and fiscal year 2024 payables for sales tax and use tax owed to municipalities.	$ 279,571,766	Agency Errors	No
20	In June 2024, DHHS began to implement rate updates approved by CMS in February 2024. The rate update process was not completed until August 2024. As such, a significant number of these changes were implemented after the fiscal year end. DHHS failed to report an accrual for this activity because MMIS lacks the capability to record transactions as a prior period transaction. Therefore, adjustments were required to record this subsequent activity in the current reporting period.	$ 72,083,960	Agency Errors	No
21-22	The Department of Environment and Energy (DEE) recorded several payments under the Clean and Drinking Water State Revolving Fund (SRF) programs after fiscal year end as prior year transactions. The APA's testing found certain transactions were not reported in the proper fiscal year. Additionally, in fiscal year 2023, DEE failed to properly accrue for transactions related to the SRF Programs. Therefore, a beginning balance adjustment was necessary.	$ 42,219,656	Agency Errors	No
23	DHHS made a beginning balance adjustment for GME receivables that were not accrued in fiscal year 2023. This beginning balance adjustment was understated because they failed to use the actual amounts received in fiscal year 2024. Additionally, DHHS also improperly recorded the GME payable in fiscal year 2023, which understated the payable in both the Federal and Health & Social Services funds.	$ 27,231,321	Agency Errors	No
24	The Racing and Gaming Commission failed to report Authorized Gaming Operating License fees to State Accounting resulting in accounts receivable, deferred revenue and revenue amounts being understated. Additionally, the balance in the prior year was misstated due to a portion being received within 60 days of year end.	$ 14,000,000	Agency Errors	No

Supplementary Table #1

Item #	Description	Amount	Category	Prior Audit Finding?
25	The DHHS calculation of the Disproportionate Share Hospital (DSH) accrual included a long-term payable for fiscal year 2024. However, in the prior year all this activity was reported as a short-term payable and required an adjustment.	$ 12,182,690	Agency Errors	Yes
26	DHHS recorded a journal entry to claim American Rescue Plan Act (ARPA) funding for provider rate increases for child welfare services. This journal entry was recorded entirely as fiscal year 2024 activity; however, expenditures related to those increases had been recorded in fiscal year 2022 and fiscal year 2023. As such, adjustments were required to remove this activity from the current year.	$ 9,914,279	Agency Errors	No
27-28	In August 2023, the Board of Educational Lands & Funds (BELF) improperly recorded the receipt of a fiduciary income tax refund as a negative expense rather than a prior period adjustment. BELF received the refund in August 2023 for its calendar year 2022 Fiduciary Income Tax Return. BELF also failed to report to State Accounting the outstanding tax refund due for the 2023 tax return.	$ 7,666,676	Agency Errors	No
29	The Department of Education (NDE) failed to accurately calculate their accounts payable accruals for several programs. The Department incorrectly reported prior period transactions, failed to include some grants, and used supporting worksheets that contained various formula errors.	$ 5,950,358	Agency Errors	Yes
30	The State Treasurer mistakenly recorded the January 2024 transfer it received for the Mutual Finance Assistance Fund twice. State Accounting reclassifies the transfers as insurance premium revenue, so that amount was also incorrect.	$ 4,979,280	Agency Errors	No
31	NDOR failed to include in its tax receivable accrual the estimated corporate income taxes received in July and August 2024 for the March 2024 tax period. Estimated taxes for the March 2024 tax period are due by June 15th and should be included as corporate income tax receivable at fiscal year-end.	$ 4,253,118	Agency Errors	Yes
32	The Nebraska Department of Corrections (NDCS) failed to accrue for revenue it was owed related to license plates ordered in fiscal year 2023 but not invoiced until fiscal year 2024. The Department of Motor Vehicles properly accrued for the expenditure related to its purchase of these plates.	$ 4,077,452	Agency Errors	No
33	DHHS overstated its patient and county billing accounts receivable accrual due to a number of errors in its calculations. The largest error related to over $3 million in uncollectible accounts being mistakenly included in the receivable calculation.	$ 3,594,011	Agency Errors	Yes
34	In its entry to record the settlement amounts due from each of the Managed Care Organizations (MCO), DHHS mistakenly calculated the amount charged to Federal and State Cash Funds – too much was charged to the Health and Human Services Cash Fund that should have been charged to the Federal Fund. Because State Accounting used these amounts to create a journal entry to record the Federal portion of this entry to a current revenue account, a correcting entry was necessary.	$ 3,432,431	Agency Errors	No
35	DHHS failed to accrue for activity related to deposits to be received from UNMC for the period of January 2024 to June 2024. The proposed adjustment to record this accrual was an estimate of the deposits to be received for this period based upon the two previous years of deposits made by the University.	$ 3,050,482	Agency Errors	No

Supplementary Table #1

Item #	Description	Amount	Category	Prior Audit Finding?
36	The Nebraska Supreme Court failed to identify an accrual for fiscal year 2023 for expenditures for courtroom technology installations completed in fiscal year 2023 but not invoiced until fiscal year 2024. Therefore, a beginning balance adjustment was necessary.	$ 2,505,610	Agency Errors	No
37	DHHS recorded $1,684,281 in deposits as prior period activity, even though the deposits were related to the period July 1, 2023, through December 31, 2023. Therefore, State Accounting reported the activity as prior period activity. As such, an adjustment was required to eliminate this activity from the accrual and report it in the proper fiscal year.	$ 1,684,281	Agency Errors	No
38	The NDCS Cornhusker State Industries (CSI) inventory balances recorded in the State's accounting system were overstated. The APA identified part of the overstatement in our review of reconciliations of the inventory system to the accounting system. The APA also performed actual physical inventory counts and found additional overstatements.	$ 1,449,626	Agency Errors	No
39	The BELF calculation of the gain or loss on land trades was not accurate. The supporting spreadsheet used to calculate the gain or loss included incorrect acres and incorrect rates per acre. This inaccurate documentation was then used by State Accounting to create a journal entry to adjust the land for presentation in the financial statements.	$ 1,006,329	Agency Errors	No
40	DHHS recorded certain correcting journal entries as prior period activity, even though the activity related to the current year. Because it was identified as prior period activity, State Accounting included it in its accrual and removed in from the current year activity. As such, an adjustment was required to eliminate this activity from the accrual and report it in the proper fiscal year.	$ 742,654	Agency Errors	No
Total Agency Errors		**$ 501,595,980**		
41-47	NDOL Accounting Errors – See Comment 2	$ 10,822,516		Yes
NDOL Accounting Errors Total		**$ 10,822,516**		
48-51	Capital Asset Accounting Errors - See Comment 3	$ 27,760,630		Yes
Capital Asset Errors Total		**$ 27,760,630**		
Grand Total		**$ 3,200,153,644**		