



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 17, 2025

Vicki Kramer, Director
Nebraska Department of Transportation
1500 Nebraska Parkway
Lincoln, Nebraska 68502

Dear Ms. Kramer:

We have audited, in accordance with the 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, 2025, 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 17, 2025. 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 Department of Transportation (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 a certain deficiency in internal control that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number 1 (Year-End Financial Reporting and Other Accounting Issues) to be a significant deficiency.

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

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Department, pursuant to American Institute of Certified Public Accountants (AICPA) Auditing Standards AU-C Section 265.A18, in a separate early communication letter dated June 30, 2025.

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, 2025.

1. Year-End Financial Reporting and Other Accounting Issues

The Department is responsible for ensuring accurate financial information is entered into the State's accounting system, as well as reporting other financial information to the Department of Administrative Services – State Accounting Division (State Accounting) for proper financial statement and footnote presentation.

The Department failed to report accurately values related to construction-in-progress (CIP), retainage payables, beginning balance adjustments, Federal grant expenditures, and infrastructure assessed road condition. See below for more information.

The table below details over \$6.7 million in errors made by the Department that, after inquiry, were proposed and adjusted by State Accounting to ensure the State's financial statements were materially correct:

Description	Amount
Ongoing projects to the State's highway system are reported as CIP until substantially complete. Projects meeting certain criteria for the preservation of the highway system are expensed as incurred. Two highway system projects were expensed in the prior year; however, these projects should have been capitalized, resulting in an understatement of CIP beginning balance of \$2,931,205.	\$ 2,931,205
Ongoing projects to the State's highway system are reported as CIP until substantially complete. Projects meeting certain criteria for the preservation of the highway system are expensed as incurred. Three highway system projects were expensed in the current year; however, these projects should have been capitalized, resulting in an understatement of CIP beginning balance of \$119,871, and additions of \$3,035,370.	\$ 3,155,241
Payments made after the end of each fiscal year are recorded in the State's accounting system as a prior period adjustment. One payment tested, totaling \$645,294, for October through December 2024 workers' compensation expenses was incorrectly recorded as a prior period adjustment instead of as a current expenditure. This error resulted in the understatement of the Highway Fund beginning balance and transportation expenditures by the same amount.	\$ 645,294
Total Adjusted Errors	\$ 6,731,740

Additionally, State Accounting reports "Required Supplementary Information" in the Annual Comprehensive Financial Report, which contains the assessed condition of the State Highway System. The Department provides documentation containing these assessment amounts to State Accounting; however, the various reports provided did not agree to each other. After the Auditor of Public Accounts' inquiry, it was determined that amounts contained in the original report were not calculated correctly, which resulted in the "Required Supplementary Information" table requiring adjustments.

Lastly, as described below, we identified over \$1.4 million in other accounting issues and financial statement errors that did not require formal adjustments to the financial statements either due to the insignificance of the dollar amount or the error being corrected by State Accounting:

Description	Amount
The Department's Aeronautics Division records expenditures in the Airport Development Fund that are actually Federal Fund expenditures and are moved to the appropriate fund as part of the year-end process. The Department reported \$684,465 in expenses that were to be moved to the Federal Fund; however, upon inquiry, the Department could not provide documentation to support what fiscal year the expenses were incurred or if they have been included in prior accruals. Due to the lack of documentation, we could not determine the financial impact of this error on beginning fund balance or current expenditures.	\$ 684,465
Capital grant revenue is reported separately from operating grant revenue on the State's financial statements. The Department overstated the amount of capital grant revenue received by \$368,140. This caused State Accounting to reclassify an incorrect amount, resulting in the Highway Fund capital grant revenue being overstated by \$368,140 and the operating grant revenue being understated by the same amount.	\$ 368,140
Payments made after the end of each fiscal year are recorded in the State's accounting system as a prior period adjustment. One payment tested, totaling \$164,923, for work performed in fiscal year 2026 was incorrectly recorded as a prior period adjustment. As this payment was an inter-agency transaction, this error caused the Highway Fund payable and expenditures to be overstated by \$164,923 and the Other Special Revenue Fund receivable and revenue to be overstated by the same amount.	\$ 329,845
Retainage Payable includes liabilities due to contractors/vendors for amounts to be paid once a project is completed. The Department's retainage payable calculation failed to account for all prior period adjustments recorded in the State's accounting system during fiscal year 2026, resulting in the retainage payable being understated by \$22,443.	\$ 22,443
Total Unadjusted Errors	\$ 1,404,893

A proper system of internal control requires procedures to ensure complete and accurate financial information is entered into the State's accounting system and reported to State Accounting at year-end for proper financial statement presentation.

Without such procedures, there is an increased risk of material misstatements occurring and remaining undetected.

A similar finding was noted in the previous four audits.

We recommend the Department implement procedures to ensure the accuracy of financial information entered into the State's accounting system and reported to State Accounting.

Department Response: The Year-End Financial Reporting and Other Accounting Issues finding relates to accounting and financial reporting errors only. It does not involve misappropriation or loss of funds. Rather, the finding reflects instances of inaccurate or incomplete financial reporting. NDOT will maintain rigorous oversight and conduct a thorough review of accruals each fiscal year to ensure continued accuracy and compliance.

The year-end reporting and accounting issues have been addressed, and corrective measures have been implemented to prevent similar reporting errors in the future. NDOT will also continue to work collaboratively with the Department of Administrative Services (DAS) to ensure the accuracy of reported information moving forward.

Regarding the Division of Aeronautics' \$684,465 finding, the discrepancy was identified during the audit process and was determined to be the result of miscoded federal receivables caused by journal entry transfers between business units. The Division of Aeronautics coordinated with DAS to develop and implement a corrective action plan. With DAS' guidance, the drawdown process was revised so that funds are deposited directly into the appropriate business unit, eliminating the need for journal entries. These changes, along with enhanced fiscal year expense reviews, will help ensure accurate financial reporting in the State's accounting system moving forward.

2. Payroll Issues

The Department used the Kronos payroll application to track employee hours worked and leave used. This application interfaces with the State's accounting system, which then processes employee paychecks. Additionally, the Department annually calculates a payroll additive rate, which is a percentage used to distribute employee payroll costs based on certain leave, health insurance, retirement, and other employer benefits to all work activities on an equitable basis. Costs are allocated from the State Highway Trust Fund to various other funds by the Department through a journal entry in the State's accounting system.

During our review, we noted errors in the journal entries created in the State's accounting system to allocate the payroll additive as well as errors noted in the calculation of overtime and shift differential in Kronos. Additionally, the Department failed to keep track of on-call schedules and, therefore, is unable to monitor appropriately employees receiving additional on-call pay. Details are included below.

Payroll Additive Errors

As noted above, the Department miscoded the journal entries to allocate the payroll additive to the Department's various funds. Instead of recording the journal entry to the same payroll expense accounts from the original payroll posting, the Department recorded the allocation entries to operating expense accounts.

This resulted in the payroll expenditures in the State Highway Trust Fund being overstated by \$1,541,167 and operating expenditures in that fund being understated by the same amount. Additionally, various other funds also had operating expenditures overstated and payroll expenditures understated, totaling that same amount.

Overtime, Shift Differential, and On-Call Errors

The information below pertains to one employee's bi-weekly paycheck tested. While the amounts noted may appear relatively minor, similar issues could be occurring for all Department employees who receive such pay. The table below details the pay types at issue:

Pay Type	Amount Paid	Amount Calculated	Description
Overtime Premium	\$ 121.00	\$ 123.00	Kronos is not correctly calculating the amount of overtime premium. The Department explained this error as the result of Kronos calculating based on each bi-weekly paycheck rather than a separate premium rate calculation weekly, as used by all other agencies that utilize the State's accounting system. The impact of this error would fluctuate based on the amount of overtime earned by employees.
Shift Differential	\$ 10.95	\$ 10.80	Kronos is not correctly calculating the amount of shift differential. The Department explained this as the result of a manual error. The impact of this error would fluctuate based on the hours and days worked by employees.

Furthermore, this same employee received \$15 of on-call pay for the bi-weekly paycheck tested. It was noted during the audit that the Department does not track or otherwise maintain an on-call schedule for employees. Due to this lack of documentation, we were unable to determine if the on-call hours were appropriate. Further, the Department would not have procedures to ensure the accuracy of the amounts for on-call hours entered on each employee's timesheet.

A proper system of internal controls requires procedures to ensure payroll transactions are calculated correctly, supported fully, and recorded appropriately in the State's accounting system. Such procedures should include the tracking and review of all employee on-call hours.

Without such procedures, there is increased risk of not only financial statements being materially misstated but also employees not receiving the correct compensation.

We recommend the Department implement procedures to ensure all payroll transactions are calculated appropriately, supported fully, and recorded properly in the State's accounting system.

Department Response:

Payroll Additive:

NDOT addressed the payroll additive issue by creating a new account code and will continue working with DAS to ensure payroll additive costs are properly classified according to their underlying labor function.

Overtime and Shift Differential:

Effective June 30, 2025, NDOT implemented system configuration updates to align overtime premium calculations with statewide processing standards, including separate weekly premium rate calculations within the State's accounting system. NDOT also implemented timekeeping system configuration updates and updated internal review procedures related to shift differential. These configuration and process updates have been operating as intended since implementation. NDOT will continue to monitor overtime premium calculations and shift differential through existing payroll review processes to ensure accurate and consistent application.

On-Call:

NDOT operational needs require flexibility in assigning on-call status to ensure the safe and continuous operation of the State highway system. On-call assignments are managed at the supervisory level in accordance with applicable collective bargaining agreements, which establish parameters and limitations for on-call assignments. Supervisors are responsible for assigning on-call status and reviewing employee time entries prior to payroll submission. NDOT payroll staff review reported hours for reasonableness and compliance with established pay rules as part of the payroll processing cycle. NDOT will continue to evaluate opportunities to enhance documentation practices related to on-call assignments while maintaining the operational flexibility necessary to meet critical service demands.

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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 results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in blue ink that reads "Kris Kucera".

Kris Kucera, CPA, CFE
Assistant Deputy Auditor