



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 2, 2012

Catherine Lang, Commissioner
Nebraska Department of Labor
550 South 16th Street
P.O. Box 94600
Lincoln, NE 68509-4600

Dear Ms. Lang:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Department of Labor (the Agency) or other operational matters that are presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Agency's management, is intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comment presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comment and recommendation included in this letter. The formal response received has been incorporated into this letter. The response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2011.

Accrual Information

As part of the Department of Administrative Services State Accounting Division's (State Accounting) preparation of the Comprehensive Annual Financial Report (CAFR), State Accounting requires all State agencies to determine and report payable and receivable amounts at the end of the fiscal year on an accrual response form. A good internal control plan requires procedures to accurately report these payables and receivables to State Accounting.

During testing we noted claims liability was understated by \$2,527,597 due to an improper calculation. State Accounting did make a correcting entry for the claims liability as recommended by the Auditor of Public Accounts. Additionally, the Agency did not provide State Accounting with all accrual information for inclusion in the State's financial statements. Interest receivables and contributions held in suspense, totaling \$36,018, were not reported and the Agency did not document their consideration of allowance for doubtful accounts for contributions receivable.

Without proper controls to ensure amounts reported to State Accounting are accurate, there is an increased risk of financial statements misstatements not being detected and corrected in a timely manner.

We recommend the Agency implement procedures to ensure accruals reported are complete and accurate, including consideration of allowance for doubtful accounts.

***Management Response:** Management asked for a meeting with DAS Accounting (DAS), due to the changes in the accounting functions of the Nebraska Department of Labor (Agency). After this meeting the Agency obtained a list and provided the information requested. Due to the lack of visibility of Unemployment Insurance transactions, it is difficult for DAS to gain an in-depth understanding of the Unemployment Insurance account descriptions. The Agency has added to the project list a meeting in the spring with DAS to obtain the prior year's work papers which DAS provides the Auditor of Public Accounts (APA). This will allow the Agency to review and provide desired account groupings. It will also give the Agency a chance to prepare or assist in preparing the work papers. This way, the Agency will have a chance to review the documentation prior to its release to the APA.*

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Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and recommendations that we hope will be useful to the Agency.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

Pat Reding, CPA, CFE
Assistant Deputy Auditor