



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Mike Foley  
State Auditor

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February 10, 2014

Matthew Blomstedt, Commissioner of Education  
Nebraska Department of Education  
301 Centennial Mall South, 6<sup>th</sup> Floor  
Lincoln, Nebraska 68509-5026

Dear Mr. Blomstedt:

We have audited the basic financial statements of the State of Nebraska (State) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and have issued our report thereon dated December 30, 2013. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the basic financial statements of the State, 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 a certain internal control or compliance matter related to the activities of the Nebraska Department of Education (Agency) or other operational matters, which is 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 comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

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.

Draft copies of this letter were furnished to the Agency to provide management with an opportunity to review the letter and to respond to the comment and recommendation included herein. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were 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, 2013.

**Incorrect Accrual Information**

The Department of Administrative Services State Accounting Division (State Accounting) prepares the State Comprehensive Annual Financial Report (CAFR) and 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 agencies to have procedures for the reporting of accurate financial information to State Accounting.

We noted that two of six accruals were not properly recorded in the financial statements. Both accruals were understated for a total of \$1,500,749. State Accounting did make correcting entries, as recommended by the Auditor of Public Accounts.

The first accrual was understated by \$1,239,524 because the Agency improperly calculated the accrual. The second accrual was understated by \$261,225. The Agency maintained a spreadsheet of payments to entities, which was used to calculate the various payables constituting the second accrual. During testing, we determined that three errors in the spreadsheet and a summation error caused the second payable to be understated.

Without proper controls to ensure the accuracy of amounts reported to State Accounting, there is an increased risk of financial statement miscalculations not being detected and corrected in a timely manner.

We recommend the Agency implement procedures to ensure amounts reported are complete and accurate.

*Agency Response: We appreciate and understand the APA's recommendation. We will review our internal procedures and work with State Accounting to ensure that all accrual amounts reported are materially complete and accurate.*

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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 suggestions that we hope will be useful to the Agency.

This communication is intended solely for the information and use of management, the Governor and State Legislature, and others within the Agency and is not intended to be, and should not be, used by anyone other than these specified parties. However, this communication is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

Pat Reding, CPA, CFE  
Assistant Deputy Auditor