



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov

PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

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Major General Daryl Bohac
Adjutant General
Nebraska Military Department
2433 NW 24th Street
Lincoln, Nebraska 68524

Dear Major General Bohac:

In planning and performing our audit of 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, 2015, 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, we have issued our report thereon dated December 17, 2015. 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 that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 certain internal control or compliance matters related to the activities of the Nebraska Military Department (Agency) 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 Agency's management, are 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. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Agency in a separate early communication letter pursuant to AICPA Auditing Standards AU-C Section 265.A17, dated November 2, 2015.

Draft copies of this letter were furnished to the Agency 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 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 they will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2015.

1. Military Buildings

A good internal control plan requires policies and procedures to ensure fixed assets are proper in the accounting system for accurate presentation in the State's financial statements.

The Agency has several federally owned buildings that it occupies and/or maintains. In order to track those buildings, the Agency identified the assets with a separate code in the accounting system to prevent them from being included in the State's financial statements. While adding the federally owned buildings in the accounting system, the Agency erroneously identified 13 State-owned buildings costing \$37,786,139 as federally owned. This resulted in an understatement of assets and depreciation expense on the State's financial statements. An adjustment was made to ensure the assets were included in the financial statements.

Without procedures to ensure fixed assets are recorded accurately in the State's accounting system, there is an increased risk that financial statements will be materially misstated.

We recommend the Agency implement policies and procedures to ensure State-owned assets are appropriately recorded in the accounting system and on the State's financial statements.

Agency Response: The Agency respectfully disputes the finding that 13 buildings were "erroneously" identified. Buildings are coded in accordance to National Guard regulations – and include all buildings owned, operated, managed or occupied by the Nebraska Military Department. Information is reported and submitted to DAS-Building Division for entry into the EnterpriseOne.

APA Response: We understand there may be additional criteria for National Guard regulations, however, for financial reporting purposes assets need to be identified properly in the State's accounting system. The Agency identified the 13 buildings as being federally owned however, these were State owned buildings. The error caused the State's financials to be understated and a correction was made by State Accounting to ensure the financials were accurately presented.

2. Improper Accounting of Federal Receipts

A good internal control plan requires procedures to ensure transactions are properly recorded in the accounting system for accurate financial reporting.

During August and September 2012, three wildfires occurred in western Nebraska. The Agency incurred \$7,041,434 in related State general fund expenditures. The Federal Emergency Management Agency (FEMA) approved a grant to reimburse the Agency for 75% of the total costs incurred or \$5,281,075. The Agency recorded the grant revenue as a reduction to the general fund expenditures. However, the Agency should have recorded the expenditures in the Federal fund and the grant reimbursement as Federal revenues. This resulted in Federal expenditures and Federal revenue being understated.

When adequate procedures are not in place to ensure the accuracy of financial information recorded in the accounting system, there is an increased risk material misstatements may occur and remain undetected.

We recommend the Agency implement procedures to ensure Federal grant funds and related expenditures are properly recorded in the accounting system for accurate financial reporting.

Agency Response: Procedures have been implemented to ensure all grant transactions – revenues and expenditures-are properly recorded in the EnterpriseOne System.

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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 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 communication is a matter of public record, and its distribution is not limited.



Don Dunlap, CPA
Assistant Deputy Auditor