



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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](http://www.auditors.nebraska.gov)

December 17, 2015

To: Governor's office representatives - Chief of Staff, Matt Miltenberger and to the Speaker of the Legislative Council – Galen Hadley

We have audited 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, as of and for the year ended June 30, 2015, which collectively comprise the State of Nebraska's basic financial statements, and have issued our report thereon dated December 17, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as the accompanying information related to the conduct of our audit.

### **Our Responsibility Under Professional Standards**

We are responsible for forming and expressing an opinion about whether the financial statements, which have been prepared by management, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the State of Nebraska's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Nebraska's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of those charge with governance in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

We applied certain limited procedures to the Management's Discussion and Analysis, the Budgetary Comparison Schedules, the Information About Infrastructure Assets Reported Using the Modified Approach, and the Information About Pension Plans, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United State of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

### **Management Letters**

We have communicated to management in separate management letters our comments and recommendations for improvement in procedures and internal controls. We did not identify any material weaknesses but significant deficiencies were identified and communicated to the Department of Administrative Services, the Department of Health and Human Services, the Department of Correctional Services, the Department of Roads, and the Department of Labor.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the State of Nebraska's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the State of Nebraska's consolidated annual financial report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

### **Accounting Practices and Alternative Treatments**

#### **Unusual Transactions**

As disclosed in Note 15 to the financial statements the following restatements to the financial statements were made:

GASB 68 Statement No. 68, *Accounting and Financial Reporting for Pensions: an amendment of GASB Statement No. 27*, was implemented during fiscal year 2015. As a result, the beginning Net Position of Governmental Activities on the Statement of Activities decreased \$374,255,000 to reflect the beginning balances of Net Pension Liability, Net Pension Asset, and Deferred Outflows of Resources related to Pensions. This restatement did not include Deferred inflows of Resources related to Pensions as this information was not available for the beginning of fiscal year 2015. Fiscal years prior to 2014 were not restated as this information was not available.

Component Units Net Position – The Nebraska State College System restated prior year net position due to some liabilities and assets that were not accrued or were not properly accrued. These errors caused the fiscal year 2014 ending net position to be understated. As a result, the beginning Net Position for Component Units on the Statements of Activities increased by \$101,000.

#### Qualitative Aspects of Accounting Practices

We have discussed with management our judgments about the quality, not just the acceptability, of the State of Nebraska's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the State of Nebraska's accounting policies and their application, and the understandability and completeness of the State of Nebraska's financial statements, which include related disclosures.

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the State of Nebraska are described in Note 1 to the financial statements.

#### Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the State of Nebraska to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Management uses estimates for instance when calculating the reserve for bad debts; lives of property and equipment; and self-insurance reserves. We evaluated the key factors and assumptions used in these estimates in determining that the estimates were reasonable in relation to the financial statements taken as a whole.

#### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management in performing our audit other than several delays encountered in obtaining audit documentation required to be provided by the Department of Administrative Services.

#### **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' reports on the State of Nebraska's financial statements.

### **Significant Issues Discussed, or Subject to Correspondence, with Management**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout our field work.

### **Financial Statement Misstatements**

In connection with our audit of the State of Nebraska's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the State of Nebraska's books and records as of and for the year ended June 30, 2015. We have reported such misstatements to management on a Schedule of Uncorrected Financial Statement Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The attached schedule summarizes uncorrected misstatements of the financial statements.

The following material misstatements detected as a result of audit procedures were corrected by management:

1. The Federal fund was misstated by \$30,324,469. Other revenues were overstated and federal grants and contracts revenue was understated.
2. The Unemployment Compensation financials were misstated as follows:
  - Accounts receivables and charges for services were understated by \$16,494,267 due to unrecorded amounts at June 30, 2015.
  - Charges for services and unemployment claims were overstated by \$2,974,100.
3. The Other Special Revenue fund was misstated as follows:
  - Tax revenues were understated and other revenues were overstated by \$8,543,052 at June 30, 2015.
  - A cash fund with revenues and expenditures each totaling \$15,797,653 was not reflected in the State's financial statements.
4. The Highway fund was overstated for improper inclusion of federal accounts receivables by \$12,984,402.

### **Management's Consultation with Other Accountants**

The Department of Administrative Services Accounting Division used the services of a certified public accounting firm for assistance with the implementation of GASB 68, *Accounting and Financial Reporting for Pensions*.

### **Written Representations**

We have requested certain representations from management that are included in the management representation letter dated December 17, 2015.

## **Group Audit Communications:**

- 1. Instances in which the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.**

None

- 2. Any limitations on the group audit (for example, when the group engagement team's access to information may have been restricted)**

We encountered no limitations while performing our audit.

- 3. Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others in which a material misstatement of the group financial statements has or may have resulted from fraud.**

No fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others was identified.

## **Other Items**

### **New Applicable Accounting Standards by the Governmental Accounting Standards Board (GASB)**

#### ***Statement No. 72, Fair Value Measurement and Application.***

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

#### ***Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.***

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues: 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported; 2) Accounting and financial reporting for

separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions; and 3) Timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

**Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.***

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016.

**Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.***

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

**Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.***

The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

**Statement No. 77, *Tax Abatement Disclosures.***

This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; 2) The gross dollar amount of taxes abated during the period; 3) Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

**Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.***

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

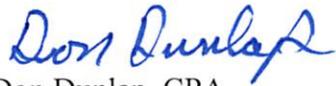
**Statement No. 79, *Certain External Investment Pools and Pool Participants.***

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

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

Sincerely,



Don Dunlap, CPA  
Assistant Deputy Auditor

Enclosure

**Schedule of Uncorrected Financial Statement Misstatements  
Fiscal Year Ended June 30, 2015**

**Federal Fund Opinion Unit**

Beginning Balance Unadjusted	\$	5,508,231.00	Understated
Due to Fund Unadjusted	\$	(1,293,704.05)	Overstated
Intergov Revenue Unadjusted	\$	(7,989,018.88)	Overstated
Other Revenues Unadjusted	\$	1,624,294.93	Understated
Total Revenues Unadjusted	\$	(6,364,723.95)	Overstated
Health and Social Services Expenditures Unadjusted	\$	1,493,915.50	Understated
Ending Fund Balance Unadjusted Overall Effect	\$	(1,056,704.40)	

**General Fund Opinion Unit**

Beginning Balance Unadjusted	\$	(1,530,688.43)	Overstated
Due From Other Fund Unadjusted	\$	(1,293,704.05)	Overstated
Other Revenues Unadjusted	\$	(6,479,844.04)	Overstated
Education Expenditures Unadjusted	\$	(987,534.32)	Overstated
Public Safety Expenditures Unadjusted	\$	2,052,848.91	Understated
Health and Social Services Expenditures Unadjusted	\$	(11,426,255.51)	Overstated
Total Expenditures Unadjusted	\$	(10,360,940.92)	Overstated
Ending Fund Balance Unadjusted Overall Effect	\$	1,056,704.40	

**Other Fund Opinion Unit**

Beginning Balance Unadjusted	\$	4,879,022.89	Understated
Revenues Unadjusted	\$	(3,891,488.57)	Overstated
Education Expenditures Unadjusted	\$	987,534.32	Understated
Ending Fund Balance Unadjusted Overall Effect	\$	-	

**Governmental Activities Opinion Unit**

Beginning Net Position Unadjusted	\$	(113,051.79)	Overstated
Intergov Revenue Unadjusted	\$	(7,989,018.88)	Overstated
Other Revenues Unadjusted	\$	(8,747,037.68)	Overstated
Expenditures Unadjusted	\$	(16,849,108.35)	Overstated
Ending Net Position Unadjusted Overall Effect	\$	-	