



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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December 20, 2016

Board of Directors  
ESU No. 4  
Auburn, Nebraska

We have audited the financial statements of the governmental activities and each major fund information of the Educational Service Unit No. 4 (ESU No. 4) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you September 12, 2016. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the ESU No. 4 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended June 30, 2016. We noted no transactions entered into by ESU No. 4 during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

The completion of our audit was delayed because management did not provide brief audit responses to Comment Numbers 1, 4 and 10 or the management representation letter when originally due on November 17, 2016. Furthermore, management expressed concerns regarding adjustments made to the financial statements that were originally agreed upon during fieldwork. The Auditor of Public Accounts (APA) subsequently met with management to discuss the adjustments and management provided responses along with the management representation letter some 26 days after they were originally due.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We did experience disagreements which arose during the course of the audit, primarily with the outside accountant that prepared the financial statements, note disclosures,

and budgetary schedules. The accountant did not understand adjustments made during the course of the audit and felt the adjustments were not appropriate. However, the accountant provided no further documentation to support his basis. The APA discussed all proposed adjustments with ESU No. 4 before the draft report was issued. The APA also informed management that if the proposed adjustments were not made it could lead to a modified opinion. However, after further review management did not request further adjustment of the financial statements and an unmodified opinion was expressed in the auditor's report.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements, either individually or in the aggregate to each opinion unit's financial statements, were detected as a result of audit procedures and were corrected by management:

- The Statement of Assets and Fund Balance did not reflect each major fund as identified by the ESU No. 4, instead only a totals column was reflected. When the two major funds were reflected, cash in the bank had to be adjusted for the depreciation fund balance by \$1,002,109.
- The Budgetary Schedules (Total and General Fund) reflected \$1,717,380 in budgetary receipts for special education that was not included in the adopted budget of the ESU No. 4; therefore, the Budgetary Schedules were adjusted to remove the amount.
- Transfers In/Out of \$175,000 was not properly reflected between the General Fund and the Depreciation Fund.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 12, 2016.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to ESU No. 4's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. The draft financial statements, note disclosures, and budgetary schedules were reviewed by the outside accountant and the outside accountant did not agree with the exclusion of a subsequent events disclosure. ESU No. 4 had no subsequent events to report, therefore, according to Governmental Accounting, Auditing and Financial Reporting (GAAFR), Chapter 22, Detailed Note Disclosures states:

*A government should normally refrain from "negative disclosure" (for example, "no significant events occurred subsequent to the close of the reporting period").*

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management during the normal course of our engagement. Those discussion items included single audits performed by the outside accountant during the previous two years that were not required. Also, the outside accountant's firm, Rigg's & Associates, C.P.A.'s, P.C., had

deficiencies in its last two peer review reports that included findings that the firm performed audits in accordance with Government Auditing Standards and OMB Circular A-133, but had “not obtained adequate knowledge or fully utilized the specific industry practice aids to address the unique auditing or financial reporting requirements of these standards.”

#### Other Matters

We were engaged to report on supplementary information, budgetary schedules, which accompany the financial statements. 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 States 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.

#### Restriction on Use

This information is intended solely for the information and use of ESU No. 4 board and management of ESU No. 4 and is not intended to be, and should not be, used by anyone other than these specified parties.