



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 24, 2017

Courtney Dentlinger, Director
Nebraska Department of Economic Development
301 Centennial Mall South, Fourth Floor
Lincoln, Nebraska 68509

Dear Ms. Dentlinger:

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, 2016, 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 15, 2016. 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 Department of Economic Development (Department) or other operational matters that are presented below for your consideration. The comments and recommendations, which have been discussed with the appropriate members of the Department'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 the Department's internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

Draft copies of this letter were furnished to the Department 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, 2016.

1. Incorrect Identification of Prior Period Obligation

The State's accounting system has the ability to identify payments as current period or prior period obligations. Payments made after the fiscal year end, and entered as a prior period obligation, would be included as an accounts payable for the State of Nebraska Comprehensive Annual Financial Report (CAFR) reporting purposes.

One of six documents tested was not correctly identified as a prior period obligation. The document tested was a grant reimbursement request that totaled \$446,671 and was dated July 1, 2016. However, the reimbursement request was related to three payment applications dated December 30, 2015, February 22, 2016, and April 19, 2016. All services included on the reimbursement request were provided prior to June 30, 2016; therefore, the payment was an obligation of the fiscal year ended June 30, 2016, and should have been properly identified as a prior period obligation. The Department incorrectly used the date of the grant request to determine if the expense was a prior period obligation or a current period obligation, instead of when the services were originally provided.

Per GASB Codification section 1100, Summary Statement of Principles, paragraph .110 (a), "Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable"

A good internal control plan requires a review of expenditures to ensure they are properly recorded in the correct fiscal year.

When expenses are not properly identified as a current period or prior period obligation, there is an increased risk the financial statements will be misstated.

We recommend the Department implement procedures to ensure expenditures are recorded in the proper fiscal year.

Department Response: Procedures and internal controls will be established to ensure proper recording in the correct fiscal year, and to reduce the risk of misstatement of financial statements. DED thanks the APA for identifying these concerns.

2. Loan Receivables Not Reported

The Department has two loan programs, the Nebraska Progress Loan Program, which makes loans to qualifying small businesses, generally representing existing and start-up businesses experiencing financing challenges, and the State Revolving Loan Program, which includes

program income earned from the Federal Community Development Block Grant (CDBG) program, which can be used to fund CDBG loan projects. Local governments can select to retain the program income earned from the loans and maintain their own revolving loan fund or return the funds to the Department.

The Department did not report loan receivables for the progress loan program or the CDBG discontinued loans during fiscal year 2016. Furthermore, the receivable balances had not been reported in previous CAFRs, understating loans receivable for the previous year. The Progress Loan beginning balance at July 1, 2015, totaled \$5,957,250, and the ending balance at June 30, 2016, totaled \$5,490,356. The CDBG discontinued loan beginning balance at July 1, 2015, was \$1,882,851, and the ending balance at June 30, 2016, totaled \$1,207,782.

It is unknown why the Department did not report the Progress Loan receivable. For CDBG loans, the Department had previously not considered the balance due for these loans as receivables of the State. Thus, the Department did not report the balance to the Department of Administrative Services for inclusion in the State of Nebraska Comprehensive Annual Financial Report (CAFR). The Department explained that the balances were not included because the loan agreements were still between the local government and the business. However, once local governments choose to discontinue their loan program, the funds are due back to the State.

Good internal controls require policies and procedures to ensure financial activity is properly recorded in the accounting system.

Without adequate policies and procedures to ensure loans are properly recorded, there is an increased risk for incorrect financial reporting.

We recommend the Department work with the Department of Administrative Services to ensure loan activity and balances are properly reflected in the CAFR and the accounting system for proper financial reporting.

Department Response: DED will implement procedures and internal controls to ensure that loan activity and balances are properly reflected in the CAFR and its accounting system for the Nebraska Progress Loan Fund loan receivable balances and for the State's Community Development Block Grant Economic Development Revolving Loan Fund loan receivable balances from local governments that have discontinued their loan programs. DED thanks the APA for identifying these concerns.

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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 Department 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 Department.

This communication is intended solely for the information and use of the Department, the Governor and State Legislature, others within the Department, 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.

A handwritten signature in blue ink that reads "Philip J. Olsen". The signature is fluid and cursive, with a long horizontal stroke at the end.

Philip J. Olsen, CPA, CISA
Audit Manager