



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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John Hilgert, Director
Nebraska Department of Veterans' Affairs
301 Centennial Mall South
P.O. Box 95083
Lincoln, Nebraska 68509-5083

Dear Mr. Hilgert:

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, 2017, 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 14, 2017. 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 Department of Veterans' Affairs (Department) 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 Department's management, are intended to improve internal control or result in other operating efficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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.

Draft copies of this letter were furnished to the Department to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2017.

1. Incorrect Payable

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 Department payment was not correctly identified as a prior period obligation. The payment was for the construction costs incurred as of June 30, 2017, for a new veterans' home. Although the payment was an obligation of the fiscal year ended June 30, 2017, the Department incorrectly recorded the expense for fiscal year June 30, 2018. This would have caused expenditures and accounts payable to be understated in the fiscal year ended June 30, 2017, by \$3,478,487; however, the Department of Administrative Services, State Accounting Division, adjusted the financials to correct the error.

Per Government Accounting Standards Board (GASB) Codification section 1100, Summary Statement of Principles, paragraph .110(a), "Expenditures should be recognized in the account period in which the fund liability is incurred, if measureable"

A good internal control plan requires procedures to ensure that expenditures are properly recorded in the correct fiscal year.

Without such procedures, there is an increased risk that the financial statements will be misstated.

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

Department Response: The NDVA recognizes the payable that was recorded in the incorrect fiscal year. We will institute training for the business office personnel who are involved with the payable process. Further, we will develop a process to run reports to find and correct payments that occurred inaccurately.

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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.



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