



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 13, 2023

Rob Jeffreys, Director
Nebraska Department of Correctional Services
PO Box 94661
Lincoln, Nebraska 68509

Dear Mr. Jeffreys:

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 (State), as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and we have issued our report thereon dated December 13, 2023. In connection with our engagement to audit the financial statements, 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, 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 engagement to audit the financial statements as described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska Department of Correctional Services (Department) or other operational matter that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Department's management, is 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses or significant deficiencies may exist that have not been 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. The formal response received has been incorporated into this letter. The response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it. 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, 2023.

Capital Asset Errors

The Department is responsible for recording information regarding capital assets into the State’s accounting system. During testing, we found that the Department failed to record costs in the accounting system in a timely manner and recorded construction in progress payments incorrectly, as detailed in the table below:

Description of Issue	Amount
The Department recorded costs incorrectly for two projects as operating expenditures accounts rather than construction in progress (CIP) accounts. CIP is generally used to record construction activity for substantially incomplete projects, including buildings, infrastructure, computer software, etc.	\$ 6,699,779
The Department failed to add one asset to the accounting system timely. The asset was substantially complete in February 2021 but had not been added as of October 2023.	\$ 5,447,023
The Department failed to add another asset to the accounting system timely. The asset was substantially complete in March 2022 but had not been added as of November 2023.	\$ 3,084,915

Although, the Department failed to record these transactions properly in the accounting system, the Department of Administrative Services – State Accounting Division (State Accounting) accounted for these costs properly in the financial statements.

A proper system of internal control requires procedures to ensure all costs are recorded correctly and capitalized promptly upon completion of the project. Without such procedures, there is an increased risk for material misstatement of the financial statements and footnote disclosures and noncompliance with State Accounting policy.

We recommend the Department implement procedures to ensure costs are recorded properly in the accounting system and capitalized in a timely manner.

Department Response: NDCS will review procedures with team members to ensure costs are recorded properly in the accounting system and capitalized in a timely manner.

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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.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State of Nebraska’s internal control over financial reporting or on compliance. This letter is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Nebraska’s internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purposes.



Kris Kucera, CPA, CFE
Assistant Deputy Auditor