

**ADVISORY LETTER OF THE
NEBRASKA HEALTH AND HUMAN SERVICES
SYSTEM - FIXED ASSETS**

**STATEWIDE INVENTORY SYSTEM (SWIS)
FOR THE PERIOD JULY 1, 2000
THROUGH NOVEMBER 20, 2001**

**COMPUTER ASSET MANAGEMENT SYSTEM (CAMS)
FOR THE PERIOD JULY 1, 2000
THROUGH FEBRUARY 15, 2002**

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NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

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Dear Health and Human Services Policy Cabinet:

In accordance with Neb. Rev. Stat. Section 84-304 R.S.Supp., 2000 we have performed certain procedures related to the objectives enumerated below for the Nebraska Health and Human Services System (HHSS) – Fixed Assets. We conducted those procedures in accordance with Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA) Management Consulting Services Executive Committee.

The scope of the procedures was to evaluate certain procedures regarding the fixed assets of HHSS for the Statewide Inventory System (SWIS) for the period July 1, 2000 through November 20, 2001, and for the Computer Asset Management System (CAMS) for the period July 1, 2000 through February 15, 2002. The objectives of the procedures were to:

1. Evaluate HHSS internal controls regarding maintenance of fixed assets records.
2. Determine if fixed assets values reported were complete and accurate.
3. Determine HHSS compliance with applicable State Statutes.

We performed certain procedures we considered necessary to meet the objectives enumerated above. Those procedures consisted primarily of obtaining an understanding of internal control procedures, communicating with various HHSS staff, conducting site visits to various HHSS locations, and testing transactions.

Based on the procedures performed, we noted numerous issues that HHSS should consider relative to the procedures performed. For detailed information on our comments and recommendations see the Summary of Comments and the Comments and Recommendations sections of this letter.

This advisory letter is intended for the information of the HHSS, however, this advisory letter is a matter of public record and its distribution is not limited.

April 3, 2002

A handwritten signature in black ink that reads "Don Dunlap CPA". The signature is written in a cursive style with a distinct loop for the letter 'D'.

Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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BACKGROUND

The Legislature passed 1996 Neb. Laws LB1044, the Nebraska Partnership for Health and Human Services Act, in April 1996. LB 1044 eliminated the Aging, Health, Public Institutions, and Social Services departments and the Office of Juvenile Services in the Department of Correctional Services on December 31, 1996, and created a unified system of three new functionally organized agencies beginning January 1, 1997. The agencies are the Department of Health and Human Services, the Department of Health and Human Services Regulation and Licensure, and the Department of Health and Human Services Finance and Support, collectively referred to as the Health and Human Services System (HHSS).

HHSS utilized two systems to maintain a record of its fixed assets.

- The Statewide Inventory System (SWIS) is a mainframe computer program used by many State agencies. HHSS uses SWIS to record capital assets with a cost of \$750 or more, excluding computer assets. We obtained a listing of assets from SWIS dated November 20, 2001. We also obtained the additions and deletions from SWIS for the fiscal year July 1, 2000 through June 30, 2001.
- HHSS uses a separate database system, the Computer Asset Management System (CAMS), to record computer assets from the time they are purchased through the life of the asset to the time the equipment is disposed. We obtained the information available on CAMS as of February 15, 2002.

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SUMMARY OF COMMENTS

In performing the procedures related to the advisory service objectives identified in our transmittal letter for the HHSS, we noted certain matters involving the internal control and other operational matters that are presented here. Comments and recommendations are intended to improve internal controls, ensure compliance, or result in operational efficiencies.

INTERNAL CONTROLS

1. ***Internal Control Over CAMS:*** There were 139 HHSS employees statewide with access to CAMS. There was not adequate monitoring of changes made to the system. There was a lack of written policies over the CAMS system in several areas, including an annual physical inventory of CAMS assets.
2. ***Internal Control Over SWIS:*** There was a lack of segregation of duties over fixed assets recorded in SWIS. There was not adequate monitoring of changes made to the system. There were not adequate procedures to ensure an annual statewide physical inventory was performed. There was not proper control over inventory tag numbers.
3. ***Costs of Computer Assets in CAMS:*** HHSS removed 1,972 computer assets from SWIS in fiscal year 2001. HHSS did not verify those assets were recorded in CAMS. There were 14 of 24 assets with a total cost of \$1,063,098 removed from SWIS that could not be located in CAMS. Ten assets were traced to CAMS but were recorded at a total of \$131,196 less than the amount recorded in SWIS.
4. ***Improvements to Buildings:*** HHSS did not have a policy in place regarding the capitalization of improvements to buildings. Two of five documents tested were improperly coded as improvements to buildings. The total of the two documents was \$484,551.

PHYSICAL INSPECTION OF ASSETS

5. ***Verification of Items on the List:*** We could not locate 26 of 103 assets tested in CAMS totaling \$42,288. We could not locate 9 of 50 assets tested in SWIS totaling \$13,142.

ADDITIONS TO THE INVENTORY LISTS

6. ***Assets Not Properly Added to CAMS:*** Ten documents tested included 468 individual items. There were 117 items that were not accurately recorded in CAMS. The result was an understatement of CAMS asset costs of \$16,435.
7. ***Assets Not Properly Added to SWIS:*** We noted 31 documents tested included assets that were not properly added to SWIS. The total cost of these items was \$238,530. We also noted 35 documents tested included items that were improperly coded as capital outlay expenses. The total cost of the 35 documents was \$80,370.

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SUMMARY OF COMMENTS
(Concluded)

DELETIONS FROM THE INVENTORY LISTS

8. ***Surplus Items Removed from SWIS and CAMS:*** Three assets tested from surplus property forms could not be traced to a deletion in SWIS. The items had not been deleted and HHSS did not follow up on the assets. One asset tested from surplus property documents could not be traced to CAMS because the asset did not have a bar code identification number.
9. ***Computer Assets Removed from CAMS:*** We noted 7 of 25 assets tested in CAMS that were listed as surplus, destroyed, replaced, transferred, or stolen, did not have adequate documentation to support the status change. We also noted 3 of 25 assets tested did not have documentation signed by authorized personnel.

ITEMS TRACED FROM THE LOCATION TO THE LIST

10. ***Unable to Trace Assets to CAMS and SWIS:*** HHSS did not have adequate procedures to ensure items were properly added to SWIS and CAMS. We noted 21 of 71 items, valued at \$22,172, had a different location on CAMS than the location the items were actually observed. We also noted 2 of 17 items were not located in SWIS.

OTHER

11. ***Items Less Than \$750 on SWIS:*** HHSS had an unwritten policy to record items greater than \$750 as capital assets. Those items would be recorded on SWIS. There were 195 items with a cost of less than \$750 still on SWIS. The total cost of the 195 items was \$45,035.
12. ***Fund of Origination in CAMS:*** CAMS does not contain a field to identify the Nebraska Accounting System (NAS) fund used to purchase the asset. Proceeds from the sale of property are to be deposited into the fund of origination.

More detailed information on the above items is provided hereafter. It should be noted this advisory letter is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this advisory letter were furnished to the HHSS to provide them an opportunity to review the advisory letter and respond to the comments and recommendations included in this advisory letter. All formal responses received have been incorporated into this advisory letter. Responses have been objectively evaluated and recognized, as appropriate, in the advisory letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the cooperation and courtesy extended to our auditors.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999 states that each department shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any department. The inventory shall include property in the possession, custody, or control of each department as of June 30 and shall be completed and filed with the Material Administrator by August 31 each year.

Neb. Rev. Stat. Section 81-1118.02(2) R.R.S. 1999 requires if any of the property of the State referred to above is lost, destroyed, or unaccounted for by the negligence or carelessness of the State agency, the Materiel Administrator, with the advice of the Attorney General, shall take the proper steps to recover such State property or the reasonable value thereof from the State agency charged with the same.

Neb. Rev. Stat. Section 81-1118.02(3) R.R.S. 1999 states each such department shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska with the following: Property of the State of Nebraska.

As of November 20, 2001, HHSS reported \$8,768,854 for the total non-computer capital assets on SWIS.

We obtained the most current listing of CAMS assets as of February 15, 2002. This was the most complete, readily available list of computer assets. CAMS included the status of each asset. As of February 15, 2002, HHSS reported the following information related to computer assets:

Status	Number of Assets	Value of Assets
Active	16,973	\$ 17,356,921
Surplused	3,349	5,479,473
Destroyed	4,505	4,107,405
Inventory	1,135	1,204,773
Received	441	347,298
Replaced	179	243,186
Transfer	157	99,077
In Transit	69	89,088
In Repair	55	74,233
Remote Inventory	36	33,420
NFOCUS Maintenance Spares	49	27,483
Stolen	8	16,149
Small Purchase Inventory	15	7,312
CHARTS Maintenance Spares	7	5,301
CHARTS Inventory	12	3,850
NFOCUS Inventory	2	864
Disposal	1	365
Total CAMS Fixed Assets	26,993	\$ 29,096,198

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
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COMMENTS AND RECOMMENDATIONS

The following comments and recommendations were noted during our testing of the SWIS and CAMS.

INTERNAL CONTROLS

1. Internal Control Over CAMS

Good internal control requires an adequate segregation of duties so no one individual is in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires a plan of organization, written procedures, and records designed to safeguard assets and provide reliable financial information.

There was an overall lack of segregation of duties over assets in CAMS. There were 139 HHSS employees statewide with unrestricted access to CAMS. These employees could add assets to CAMS, change the status of an asset on CAMS, or change the location of an asset on CAMS. There was inadequate monitoring by the central office in Lincoln of changes made to the system. The risk of loss or misuse of State assets significantly increases without controls to monitor those with access to the system. Also, the large number of employees with access to the system would make monitoring the changes a tremendous task.

In addition to the lack of segregation of duties over CAMS, we noted there were no official, written policies related to the operation of CAMS to ensure adequate control over the computer assets. We noted a lack of written policies related to the following areas in CAMS:

- There was not a written policy requiring an annual statewide physical inventory of computer equipment on CAMS. We physically inspected assets at 32 locations throughout the State. During testing, 24 of 32 locations indicated they had not conducted an annual physical inventory of assets on CAMS. This is in violation of Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999, which requires an annual inventory be made. There were 8 of 32 locations that conducted an annual physical inventory. However, the individual completing the inventory also was the individual who had access to CAMS. Again, the result was a lack of segregation of duties over CAMS assets.
- There was not a written policy requiring adequate documentation of status or location changes made to assets in CAMS. For example, a technician in the field could change the status or location of an asset without indicating to which location the asset was moved. As a result, there were 628 computer assets in CAMS, totaling \$685,481, with an unknown location. The assets were listed as “active” or in “inventory” on CAMS.
- There was not a written policy for an adequate review of the documentation in CAMS to ensure all status or location changes to the assets were appropriate. CAMS maintained a history for each asset that could be used to perform this review.

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COMMENTS AND RECOMMENDATIONS

INTERNAL CONTROLS (Continued)

1. Internal Control Over CAMS (Continued)

- There was not a written policy regarding the tracking of internal computer components with significant costs. We noted items, totaling \$49,574, purchased in the fiscal year that were not included in CAMS. The items were primarily computer components such as network equipment, laptop hard drives, and tape drives. The individual cost of these items ranged from \$129 to \$4,329. The informal HHSS policy required all internal computer components purchased separately not to be maintained on the inventory list. There was no consideration of the type or cost of the asset.
- There was not a written policy regarding the cost of computer monitors in CAMS. We noted HHSS inconsistently applied costs to computer monitors purchased as part of a complete computer system. HHSS intended to include the monitors as a separate asset with a cost of \$.01. However, we noted monitors purchased as part of a complete computer system with a cost of \$350 in CAMS. The result was an overstatement of the overall computer system in CAMS.

Again, the risk of loss or misuse of State assets significantly increases without proper internal controls and written policies to ensure consistency and accountability over the assets in CAMS.

We recommend HHSS implement procedures to ensure an adequate segregation of duties exists over CAMS. If an adequate segregation of duties is not possible, we recommend HHSS implement controls to compensate for the lack of segregation of duties. We also recommend HHSS reduce the number of employees with access to CAMS in order to provide better control over changes made to the system.

We recommend HHSS implement written policies and procedures over the operation of CAMS, including the following areas, to ensure consistent records and accountability over the assets:

- To implement an annual statewide physical inventory
- To require adequate documentation to ensure all changes in status are appropriate (We also recommend HHSS resolve the status and location of the 628 assets with an unknown location)
- To require an adequate review of the documentation provided for status changes of assets in CAMS (HHSS should consider the reports available in CAMS that might allow them to track status changes)

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COMMENTS AND RECOMMENDATIONS

INTERNAL CONTROLS (Continued)

1. Internal Control Over CAMS (Continued)

- To track significant internal computer components in CAMS
- To determine whether the cost of monitors purchased as a complete computer system are added to CAMS

HHSS's Response:

FINDING 1, Par. 2 sentence 2: Too many employees with unrestricted access.

RESPONSE: DISAGREE

Only people with a need have access to CAMS. Second, the wording "unrestricted access" is too strong. With the exception of two to three programmers who do not update data, all users are restricted to a set of things that can be done. The CAMS system is accessible to HHSS staff having the responsibility for asset management, reporting and tracking. The control is the CAMS history file. With the exception of few programmers who do not handle the equipment, no asset change can be made in CAMS by unauthorized personnel and without it being tracked.

FINDING 1, Par. 2 sentence 4: Risk of loss increases without controls to monitor those with access to the system.

RESPONSE: AGREE

HHSS will have a CAMS coordinator designated within the next month who will check all changes to the history file to insure no inappropriate changes are made.

Auditors' Response: The 139 employees with access to CAMS were able to add, delete, or move assets on the system. It is critical to monitor all changes made to the system when there are this many authorized individuals. We did not indicate the number of users was too high; our emphasis was on the control issues related to the number of employees authorized to make changes. We would also recommend the CAMS coordinator document the review of changes made to the system.

HHSS's Response:

FINDING 1, Par. 3, bullet 1 - no written policy for an annual physical inventory

RESPONSE: AGREE

HHSS is considering how to make an effective yearly inventory work. As the auditors know, some of the equipment is only identifiable by the computer technicians. HHSS has almost completed an electronic approach to tracking all CPU's attached to the network. HHSS believes that the electronic survey of all attached CPU's eliminates the need for physically inventorying those CPUs. A physical inventory will have to be conducted for all laptops, CPU's in inventory status, and stand alone PCs.

Auditors' Response: HHSS should account for all items on CAMS, including printers, monitors, and other hardware that is inventoried as a separate asset.

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COMMENTS AND RECOMMENDATIONS

INTERNAL CONTROLS (Continued)

1. Internal Control Over CAMS (Continued)

HHSS's Response:

FINDING 1, Par. 3, bullet 2 – No written policy on documentation of status or location changes

RESPONSE: AGREE

The 628 items were identified in the CAMS system. The 628 assets that are missing are assets that have been moved to other locations or surplused. There is a current effort to locate all 628.

A history file is used to track any changes to the CAMS assets. HHSS intends to have a CAMS coordinator designated within a month that will check all changes to the history file to insure no inappropriate changes are made.

HHSS provided the first step to resolving the missing asset issue to the auditors. That was the identification of the missing items. The second step underway is to make every effort through use of the history file to find the missing items. The third step to resolve the missing equipment is the use of a new electronic process to find all PCs on the network. Step four is to identify a CAMS coordinator. Finally, when all means have been exhausted, the remaining equipment that can not be found must be written off by some means not yet identified. Old equipment loses its value to the state quickly after five or six years.

FINDING 1, Par. 3, bullet 3 – No written policy on review of CAMS changes.

RESPONSE: AGREE

A designated CAMS coordinator will be responsible to review CAMS changes.

Auditors' Response: The CAMS coordinator should document the review of CAMS changes and have them reviewed periodically by management.

HHSS's Response:

FINDING 1, Par. 3, bullet 4 – No written policy regarding tracking of internal components including network equipment (switching gear)

RESPONSE: AGREE on network equipment (switching gear).

Will track network equipment (switching gear).

RESPONSE: DISAGREE on internal components.

HHSS disagrees with the ability to track internal components on servers at a reasonable level of effort in comparison to the benefit. This recommendation provides one of the more significant challenges for HHSS. The recommendations cover the switching gear in the field and the servers in use by HHSS. HHSS does agree to barcode and inventory switching gear. Other components listed are not components that HHSS would likely barcode (a requirement to be considered an

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INTERNAL CONTROLS (Continued)

1. Internal Control Over CAMS (Concluded)

asset in CAMS) and would not be easily if at all audible. Verifying that disk drive “A” was purchased and installed in server “B” with an original drive “C” removed and disposed of may have cost implications, but is next to impossible to track. HHSS will take this part of the recommendation under advisement and take appropriate action.

Auditors’ Response: Our recommendation indicated HHSS should include significant internal items on CAMS. HHSS should develop a policy to determine what would be considered significant.

HHSS’s Response:

FINDING 1, Par. 3, bullet 5 – No written policy regarding the cost of computer monitors

RESPONSE: AGREE

See response to findings 3 and 6.

2. Internal Control Over SWIS

Good internal control requires an adequate segregation of duties so no one individual is in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires a plan of organization, written procedures, and records designed to safeguard assets and provide reliable financial information.

HHSS internal controls over the following areas should be improved:

- There were three individuals identified with unrestricted access to SWIS. These individuals could add, delete, change, and transfer assets on SWIS. There were also several other HHSS employees with restricted access to the system. The same individuals with unrestricted access to the system were also responsible for reviewing the 4800 Expenditures Not on Inventory Report to ensure all capital outlay purchases were added to the system.
- HHSS also did not have adequate procedures to ensure an annual statewide physical inventory was completed. HHSS indicated the informal policy was to send the SWIS listing to the locations throughout the State to perform the physical inventory at each location. However, we noted 9 of 23 locations visited did not conduct an annual physical inventory or did not receive a list from the central office. This is in violation of Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999, which requires an annual inventory be made. There were 10 of 23 locations that did complete an annual inventory, but did not

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COMMENTS AND RECOMMENDATIONS

INTERNAL CONTROLS (Continued)

2. Internal Control Over SWIS (Continued)

notify the central office of the results. The risk of loss or misuse of State funds increases without documentation that annual physical inventories were completed. If an office does not have any assets recorded on the SWIS listing, the central office should contact them to ensure they have no assets that should be on the list.

- HHSS also did not monitor the tag numbers used by out-state locations. We noted 9 of 23 locations visited could assign their own inventory tag numbers to SWIS assets. The central office did not track the tag numbers assigned to the various offices. We also noted multiple items that had the same inventory tag number within the System. The risk of loss or misuse of State assets increases without an adequate accounting of inventory tag numbers to ensure all assets are properly tagged and accounted for.

We recommend the following:

- HHSS should implement procedures to ensure an adequate segregation of duties over SWIS assets. A history report from SWIS should be obtained and reviewed to ensure all changes made to the system are appropriate. The review of the report should be documented and maintained on file.
- HHSS should annually complete a statewide physical inventory as required by Statute. Every HHSS location should receive notification of the annual inventory as well as be required to confirm whether they have assets that are required to be added to SWIS.
- HHSS should implement procedures to ensure a listing of all inventory tag numbers is maintained to ensure accountability over the assets.

HHSS's Response:

FINDING 2, Par. 1, bullet 1. Inadequate Segregation of Duties over SWIS:

RESPONSE: AGREE

With NIS (the Nebraska Information System) to replace SWIS effective November 4, 2002 we believe internal control will be strengthened with segregation of duties and documented on-line approval of transactions. NIS will provide an integrated system that will give end-users access to initiate transactions. NIS will allow authorized managers the ability to review and approve

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INTERNAL CONTROLS (Continued)

2. Internal Control Over SWIS (Concluded)

those transactions “on-line.” Without proper approvals, the system will not permit property transactions to move forward. However, while SWIS remains in use, we will change our policy so that a higher level of management reviews SWIS history in the future.

Source: NIS timetables and planned “process flows” are found at the NIS web-site. NIS is an enterprise resource planning (ERP) system which when adapted to Nebraska State Government’s needs is to replace separate systems now involved in accounting for fixed assets. HHSS is contributing to the State’s investment in this new resource and the finding demonstrates just one area where there will be a return on that investment.

FINDING 2, Par. 1, bullet 2. -- Annual physical inventories not conducted

RESPONSE: DISAGREE

An inventory was conducted in 2001. Several of the people interviewed were not the proper SWIS inventory contact persons. Many offices visited did not have items of fixed assets on SWIS. The emphasis was on items with a book value exceeding \$750. We will complete the inventory for items regardless of book value in 2002. We have purchased bar-coded tags to permit scanners to be used to document the annual inventory of each asset in the future.

FINDING 2, Par. 1, bullet 2. -- Annual physical inventories not submitted

RESPONSE: AGREE

We did not request that a listing be completed and returned to us by each office. However, we will change our policy to so that offices submit a listing in 2002.

Auditors’ Response: **There was no documentation provided that the nine offices noted in the finding actually performed a physical inventory. Additionally, HHSS central office did not receive the results of the physical inventories at ten of the offices.**

HHSS’s Response:

FINDING 2, Par.1, bullet 3 -- Control over tag numbers at facilities - SWIS

RESPONSE: AGREE

We agree that we do not control tag issuance centrally. Currently when an item moves from one facility to another, the item will be re-tagged by the new owner. This also occurs when items are transferred from one state agency to another. Each agency re-tags and enters the item under its agency number in SWIS. There is no central control by the Department of Administrative Services (DAS) over tags issued by each agency and duplicate numbers do occur. We believe NIS will address this by having business rules for tag issuance and accounting across all agencies of Nebraska State Government.

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INTERNAL CONTROLS (Continued)

3. Costs of Computer Assets on CAMS

Good internal control requires procedures to safeguard assets and provide reliable financial information.

HHSS removed 1,972 assets from SWIS during fiscal year 2001, totaling over \$5.2 million. The assets were removed from SWIS because HHSS used another system, CAMS, to manage and maintain computer assets. HHSS did not verify that computer assets removed from SWIS during the fiscal year were actually recorded in CAMS.

We selected a total of 24 computer assets removed from SWIS during the fiscal year to determine whether the assets were recorded in CAMS. In order to determine whether the assets previously recorded on SWIS were properly transferred to CAMS, we attempted to obtain the serial numbers of the assets from SWIS. The serial number for one asset was not in SWIS; therefore, it was not possible to trace this item to CAMS. There were 14 assets greater than \$10,000 and 10 assets less than \$10,000. The total value of the 24 assets was \$1,291,498. The results of our tests were as follows:

- There were 14 of 24 assets that could not be located in CAMS. The total of the 14 assets was \$1,063,098. The assets included laptop computers, printers, AS400 systems, and servers.
- We traced the remaining 10 assets from SWIS to CAMS; however all 10 assets had a different amount listed in CAMS than in SWIS. HHSS estimated a cost for the assets at the time CAMS was implemented instead of recording the actual cost originally recorded in SWIS. The value of the 10 assets in CAMS was \$131,196 less than the value of the 10 assets in SWIS. The assets included laptop computers, desktop computers, printers, a scanner, and AS400 systems.

The risk of loss or misuse of State assets increases significantly without adequate procedures to ensure all computer equipment is properly accounted for. Additionally, the State will be implementing Governmental Accounting Standards Board (GASB) Statement Number 34 for the fiscal year ended June 30, 2002. GASB Statement 34 requires capital assets to be reported in the government-wide statement of net assets at their historical cost, net of accumulated depreciation. The Statement also requires depreciation to be reported in the government-wide statement of activities. Without an accurate amount of fixed assets recorded in CAMS, the financial statements could be misstated.

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INTERNAL CONTROLS (Continued)

3. Costs of Computer Assets on CAMS (Concluded)

We recommend HHSS follow up on each asset that could not be traced to CAMS in order to provide assurance the assets have been properly accounted for. We also recommend HHSS review the method it used to determine the value of the assets recorded in CAMS to ensure the assets are properly valued. This is particularly important in light of the upcoming changes in financial reporting due to GASB Statement 34.

HHSS's Response:

FINDING 3: SWIS data was not used in creating CAMS

RESPONSE: AGREE with the finding DISAGREE with the recommendation

The audit finding is correct. The SWIS data was NOT used in creating CAMS. Rather than find the original purchase document, the data entered on CAMS for a value was the market value when no purchase order was available. At the time the decision was made to create CAMS, all faith was lost in the validity of SWIS data for computer equipment tracking. All computer equipment has a short life and the equipment that was on SWIS is of little value.

Auditors' Response: Again, with the implementation of GASB 34 by the State of Nebraska for fiscal year ended June 30, 2002, the historical cost of assets will be recorded on the government-wide statement of net assets, net of accumulated depreciation. With this in mind, it is critical that HHSS determine the historical cost of the assets that were moved from SWIS to CAMS. Without accurate fixed assets historical costs, the financial statements could be misstated.

4. Improvements to Buildings

Good internal control requires written policies be in place regarding the capitalization of improvements to buildings to ensure items are properly recorded to this account in the Nebraska Accounting System (NAS) or are properly included on SWIS.

HHSS did not have an official policy to identify expenses that should be capitalized as improvements to buildings. We tested five documents coded to the improvements to buildings account code on NAS to ensure the assets were properly coded or were properly added to SWIS. The total amount coded to improvements to buildings on NAS for the five documents tested was \$555,418.

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INTERNAL CONTROLS (Continued)

4. Improvements to Buildings (Continued)

Two of five documents tested were improperly coded as improvements to buildings on NAS. The total of the two documents was \$484,551. Items purchased on the two documents included beds, mattresses, chairs, tables, and lounge furniture for the Norfolk Veterans' Home. As a result of the improper coding, the assets on the two documents were also not properly added to SWIS.

HHSS procedures to ensure all items were added to SWIS included a review of the 4800 Expenditures Not On Inventory Report. However, items coded in NAS to improvements to buildings are not included on this report. If items are improperly coded as improvements to buildings, not only is that account code in NAS overstated, the risk that the capital assets are not added to SWIS increases.

We recommend HHSS implement a written capitalization policy regarding improvements to buildings. We also recommend HHSS implement procedures to ensure items are properly added to SWIS. HHSS should ensure the policies and procedures are adequately communicated to HHSS staff.

HHSS's Response:

FINDING 4, Par. 2 – There is no official policy to identify expenditures to be capitalized as improvements to buildings.

RESPONSE: AGREE.

We met with DAS Accounting and the DAS Building Division to discuss this matter. NIS is intended to correct the problem in the future. This is another important benefit of NIS. Past methods of building valuation have included estimates and since the State is implementing the Governmental Accounting Standards Board (GASB) statement 34, NIS will be used for all future asset accounting needs at actual cost. The valuation of buildings is important to HHSS for accurate depreciation and insurance charges and we are supportive of the investment the State is making in this change.

Note: The new standard (GASB-34) calls for financial statements prepared using full accrual accounting for all of the government's activities, not just those that cover costs by charging a fee for services, which was previously required. Typically, those funds were motor pools, utilities, etc. Reporting will be required on all capital assets, including the infrastructure, in the government-wide statement of net assets and will report depreciation expense.

Auditors' Response: As with other fixed assets, it will be critical to have accurate historical costs for buildings.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

INTERNAL CONTROLS (Concluded)

4. Improvements to Buildings (Concluded)

FINDING 4, Par. 3 – Possible Miscodes see finding 7.

RESPONSE: See response above and finding 7.

Progress payments coded to buildings included moveable fixed assets. They were reviewed with the architect following completion of the project as planned and SWIS adds are in progress. For the portion that was the cost of the building, we met with DAS as mentioned in the response to finding 4, par. 2.

PHYSICAL INSPECTION OF ASSETS

5. Verification of Items on the List

Neb. Rev. Stat. Section 81-1118.02(1) R.R.S. 1999 states, “Each executive, department, commission, or other state agency . . . shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency.” Good internal control requires a plan of organization, procedures, and records designed to safeguard assets. Neb. Rev. Stat. Section 81-1118.02(3) states, “Each executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska.”

We selected items from the listing of assets from SWIS and CAMS to attempt to physically locate the asset.

CAMS

We selected 103 items from CAMS with a total cost of \$125,054. The total amount of CAMS assets, from which we selected our sample (listed with the following status codes of Active, CHARTS Inventory, CHARTS Maintenance Spares, In Repair, In Transit, Inventory, NFOCUS Inventory, NFOCUS Maintenance Spares, Received, Remote Inventory, or Small Purchase Inventory) as of February 15, 2002, was 18,794 computer assets with a total cost of \$19,150,544. We noted the following:

- 71 assets with a total cost of \$78,422 were located.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

PHYSICAL INSPECTION OF ASSETS (Continued)

5. Verification of Items on the List (Continued)

- 26 assets with a total cost of \$42,288 were not located. Thirteen of these assets totaling \$14,234 were not located and there was no additional information regarding the assets. Ten of the assets totaling \$25,287 were identified as transferred to another location (not identified on CAMS) by HHSS staff; however, we did not verify the transfer of the assets. Two items totaling \$2,353 had never been at the location indicated on CAMS according to HHSS staff. These two assets were not located. Finally, one asset with a cost of \$414 had been recorded as in-transit since 1998 and HHSS staff were not aware of its location.
- 6 assets with a total cost of \$4,344 were not found during the initial site visit but were later found and verified.
- 1 of 77 items found was not properly tagged with the bar code number or properly tagged with "Property of the State of Nebraska."

SWIS

We selected 50 items from SWIS with a total cost of \$123,590. The total SWIS inventory recorded at November 20, 2001 was 3,125 assets with a total cost of \$8,768,854. We noted the following:

- 36 assets with a total cost of \$107,426 were located.
- 9 assets with a total cost of \$13,142 were not located. Three of the nine assets were not located and no further explanation was provided. The three assets were a trailer, a concentrator, and a camcorder with a total cost of \$3,362. Two assets were not readily located, because the exact location of the specific asset was not known. The two assets were a hospital bed and a picnic table with a total cost of \$1,775. Two assets were either destroyed or had been replaced several years ago. The two assets were a hospital bed and a file system with a total cost of \$5,103. Two assets were not located, because assets of the same type did not have inventory tag numbers. Therefore, we were unable to determine if the location had the exact asset listed. The two items were a medicine cart and a garbage disposal with a total cost of \$2,902.
- 3 assets with a total cost of \$1,126 were surplused before the time of our testing; therefore, they were not located.
- 2 assets with a total cost of \$1,896 were not found in the initial site visit but were later found and verified.
- 1 of 38 assets was not properly tagged with "Property of the State of Nebraska."

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

PHYSICAL INSPECTION OF ASSETS (Continued)

5. Verification of Items on the List (Continued)

These findings likely occurred due to the lack of an annual statewide physical inventory. HHSS is not in compliance with statutes without an annual statewide physical inventory and without properly tagging all items. There is also an increased risk of loss or theft of fixed assets without adequate procedures and records to safeguard assets.

We recommend the HHSS immediately complete a statewide physical inventory and implement procedures to annually complete a statewide physical inventory of all HHSS assets to ensure all assets are accounted for and properly recorded in CAMS or SWIS. We further recommend HHSS review its current procedures to ensure all assets are properly tagged with the inventory number and "Property of the State of Nebraska" in accordance with statutes.

HHSS's Response:

CAMS

FINDING 5 PART 1: Items on CAMS could not be verified.

RESPONSE: AGREE

As stated for Bullet 1 of Item 1, HHSS is considering how to make an effective yearly inventory work. As the auditors know, some of the equipment is only identifiable by the computer technicians. HHSS has almost completed an electronic approach to tracking all CPUs attached to the network.

HHSS believes that the electronic survey of all attached CPUs eliminates the need for physically inventorying those CPUs. A physical inventory will have to be conducted for all laptops, CPUs in inventory status, and stand alone PCs.

Bullet 2 of item 1 expands further on efforts being taken to correct the situation.

Auditors' Response: HHSS should account for all items on CAMS, including printers, monitors, and other hardware that is inventoried as a separate asset.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

PHYSICAL INSPECTION OF ASSETS (Concluded)

5. Verification of Items on the List (Concluded)

HHSS's Response:

SWIS

FINDING 5, PART 2: Items on SWIS could not be verified.

RESPONSE: AGREE

All 9 items that were not located had been accounted for prior to the audit or were accounted for during the audit and action is being taken to update SWIS or to retag the items for which tags had worn off. Barcodes and scanners will help to prevent recurrence when they are in place at some time in the future.

ADDITIONS TO THE INVENTORY LISTS

6. Assets Not Properly Added to CAMS

Good internal control requires assets be recorded on the inventory list at cost. HHSS' informal policy states all computer items, excluding internal components purchased separately, are listed on CAMS.

We tested 10 documents coded to NAS as data processing hardware. The 10 documents contained 468 individual items. The total invoice cost of the 10 documents was \$661,416. There were 117 assets listed with an incorrect cost on CAMS. Most assets were understated on CAMS. The errors resulted in a total understatement of fixed assets in CAMS of \$16,435.

We recommend HHSS implement procedures to ensure all capitalized computer assets are accurately added to CAMS. We also recommend HHSS review the errors noted in our testing and update CAMS to reflect the actual costs of the assets.

HHSS's Response:

FINDING 6: The cost paid for computer monitors does not match the cost entered on CAMS

RESPONSE: AGREE

The computer monitor costs have been corrected.

FINDING 6: In addition to the monitor pricing, there were some cases where the final invoice price disagreed with the purchase order price entered on CAMS.

RESPONSE: AGREE

The solution will be incorporated with NIS. The auditors had to do a manual search of the payment documents to find these differences. There is currently no known easy way to

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

ADDITIONS TO THE INVENTORY LISTS (Continued)

6. Assets Not Properly Added to CAMS (Concluded)

electronically compare the data to insure costs match. Existing manpower does not allow a check for each item on paper. The more integrated NIS system may solve the problem. In the mean time HHSS will take the recommendation under advisement and take appropriate action.

Auditors' Response: With the number of errors noted in our testing, we strongly recommend HHSS review its records to ensure the CAMS assets are valued accurately. This is important with the implementation of NIS, as NIS will integrate the CAMS system costs into the new asset management system for the State. If the errors are not corrected prior to the implementation of NIS, NIS will also have inaccurate costs of certain assets from CAMS.

7. Assets Not Properly Added to SWIS

Good internal control requires adequate procedures to ensure all capital assets are accurately recorded on the fixed assets records.

SWIS generated a report, the 4800 Expenditure Not On Inventory Report, to identify items coded as capital outlay expenditures on NAS, but not added to SWIS. HHSS indicated they reviewed the report. We tested the report dated September 2001. We did not review documents coded to data processing hardware on NAS, because those items should have been recorded on CAMS. We also did not test documents that were less than \$750, because that was the unwritten guideline from HHSS for the capitalization of assets.

There were 105 documents on the 4800 Expenditure Not On Inventory Report. The 105 documents totaled \$1,178,285. We did not test 26 documents totaling \$103,857. We noted the following regarding the 79 documents tested totaling \$1,074,428:

- 31 documents included assets that were not properly added to SWIS. The total of the 31 documents was \$238,530. The documents ranged from \$830 to \$44,766. There were 13 fax machines, a truck, lab equipment, two whirlpools, a mattress, furniture, a freezer, and a cappuccino machine, among other items.
- 35 documents included items that were improperly coded as capital outlay expenses. The total of the 35 documents was \$80,370. Again, HHSS policy is to capitalize assets with a total cost greater than \$750. The NAS Accounting Manual, Section ACCT-004, lists an office supplies expense, which is to be used to record chairs, desks, and other equipment

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

ADDITIONS TO THE INVENTORY LISTS (Continued)

7. Assets Not Properly Added to SWIS (Continued)

below the agency-set capitalization policy. The 35 documents included items that were individually less than \$750, and therefore, should not have been coded to a capital outlay expense code.

- 6 documents with a total cost of \$688,053 were incorrectly coded to capital outlay expenses. Four of the documents totaling \$641,483 appear to have been miscoded to the wrong capital outlay account code. Three of these four documents were improvements to buildings that were coded as office furniture and equipment. Two documents were coded to a capital outlay account, but did not appear to be capital assets. The two documents were operating leases of data processing equipment that should have been coded to an operating expenses account. The total of these two documents was \$46,570.
- 7 documents totaling \$67,475 appeared to be coded correctly.

After review of the 4800 Expenditures Not On Inventory Report, we determined HHSS procedures to review this report were not adequate. HHSS staff indicated they sent the report to the facilities to review, but did not follow up or require documentation that the facilities actually performed a review of the documents noted on the report.

We recommend HHSS improve its procedures to review the 4800 Expenditure Not On Inventory Report from SWIS. The facilities should be required to provide documentation they have reviewed the report and have made necessary changes to the system. This review would help ensure all items are added to SWIS timely.

HHSS's Response:

FINDING 7, Par. 3, bullet 1. Assets not properly added to SWIS

RESPONSE: AGREE

We are adding the items the auditors identified. The cause of the problem is the separate systems requiring payment transactions to occur without fixed asset entries. Until NIS is in place, HHSS will continue to rely on accounts payable staff to code and provide documents to the fixed assets staff at the time a fixed asset is acquired. That will prevent entries from appearing on the 4800 Expenditure Not on Inventory Report.

Auditors' Response: HHSS' review of the 4800 Expenditure Not On Inventory Report was not adequate. We recommend HHSS improve its review and documentation of the 4800 Expenditure Not On Inventory Report.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

ADDITIONS TO THE INVENTORY LISTS (Concluded)

7. **Assets Not Properly Added to SWIS** (Concluded)

HHSS's Response:

FINDING 7, Par. 3, bullet 2. Account coding errors.

RESPONSE: AGREE

We agree items individually totaling less than \$ 750.00 were coded to 4800 series, capital asset accounts when they should have been coded to account 4357, non-capital equipment. As a result of this finding, staff were reminded of the capitalization level and coding procedure.

Auditors' Response: An adequate review of the 4800 Expenditure Not On Inventory Report would detect items improperly coded to capital outlay.

HHSS's Response:

FINDING 7, Par. 3, bullet 3. Account coding errors.

RESPONSE: DISAGREE

Three out of the six items tested related to the new Norfolk Veterans Home project. All three of the payments were approved by DAS-Building and represented a specific payment number in a series of payments per the contract. It was not possible to determine actual amounts to code to equipment, account 4841, at the time of payment. Instead, all payments were coded to equipment, account 4841, with the understanding the account 4841 would be adjusted to the actual amount upon completion of the project based upon data provided by DAS-Building. Two items out of the six items tested related to capital lease payments for dictation equipment. Both items were from the same document. Each time a capital lease payment is made the amount is coded to a 4800 series, capital asset account, as the Nebraska Accounting System does not have another way to handle capital lease purchases. We believe these five items tested were properly coded given the limitations previously described.

NOTE: The NIS system will integrate purchasing, receiving, fixed assets tagging and payment into one system. As long as the invoice is matched to the purchasing and receiving information entered in detail in the NIS system, the fixed assets records will be such that the finding will not be repeated after NIS is in place. The purchasing component of NIS is scheduled to begin in February of 2003.

Auditors' Response: Without an official policy regarding the capitalization of improvements to buildings, it would be difficult to determine the amounts to capitalize. Additionally, an adequate review of the 4800 Expenditure Not On Inventory Report would detect items improperly coded. There was no documentation provided that the items coded to equipment were properly adjusted.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

DELETIONS FROM THE INVENTORY LISTS

8. Surplus Items Removed From SWIS And CAMS

Good internal control requires written policies and procedures designed to safeguard assets and provide reliable financial information.

SWIS:

We tested ten assets from HHSS surplus property documents to determine whether the assets were properly removed from SWIS. We could not trace five of ten assets to the deletion list from SWIS.

- Three items could not be traced to the deletion list. The items, a typewriter, a video recorder, and a copier were either destroyed or traded. One item was surplus and traded in August 2000. Two of the items were surplus and destroyed in June 2001.
- One asset had more than one component listed under the inventory tag number. We tested a component of the asset that was surplus. Therefore, the inventory tag number was not removed from SWIS. The cost of the asset was also not reduced after the removal of the component.
- One asset, a full-size refrigerator, did not have an inventory tag number. There was not adequate documentation to determine whether the item should have been on SWIS.

CAMS:

We tested ten assets from HHSS surplus property documents to determine whether the status of the assets was properly recorded on CAMS. We could not trace one of ten assets to CAMS. The asset, a printer, was surplus in November 2001. This item did not have a bar code number. The serial number was used in an attempt to locate the item in CAMS.

The risk of overstatement of fixed assets increases without adequate procedures to ensure all items marked for deletion are actually deleted.

We recommend HHSS implement procedures to improve the deletion process to ensure all items indicated on a surplus document are in fact deleted.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

DELETIONS FROM THE INVENTORY LISTS (Continued)

8. Surplus Items Removed From SWIS And CAMS (Concluded)

HHSS's Response:

FINDING 8, PART 1 (SWIS): Surplus items not all in SWIS

RESPONSE: AGREE with finding disagree with recommendation

We agree that some items on surplus forms are not on SWIS. It is required that all surplus property whether on SWIS or not be listed on surplus forms when it is surplus. As in the case of the refrigerator, if it cost less than \$750 its purchase price made the item ineligible for entry on SWIS. Thus it cannot be deleted from SWIS. Component parts are not removed from SWIS because SWIS does not track the cost of individual components so there is insufficient information to adjust the historical cost on SWIS.

Auditors' Response: The description "full-size" refrigerator indicated the refrigerator cost could have been more than \$750. There was no documentation that the refrigerator cost was less than \$750.

HHSS's Response:

FINDING 8, PART 2 (CAMS), par. 2, bullet 1: Surplus items not in original CAMS

RESPONSE: AGREE with the finding, disagree with the recommendation

When equipment is NOT found until it is destroyed or surplused, it has not been added to CAMS. The documentation for destroying or surplusing the equipment records the equipment and the serial number. HHSS does not believe the extra work of adding the equipment to CAMS gives any business advantage but will take the recommendation under advisement and take appropriate action. The specific asset identified in the audit was a printer that is likely to have a value of less than \$750. Once deleted, the item would not be identified as a fixed asset and would not overstate the fixed asset value.

Auditors' Response: The HHSS policy for CAMS requires all computer related assets, regardless of value, be recorded on CAMS. This would include the printer noted in the finding, regardless of the cost of the printer.

9. Computer Assets Removed From CAMS

Good internal control requires written policies and procedures designed to safeguard assets. Good internal control also requires adequate supporting documentation be approved by authorized personnel and maintained.

There were 8,199 assets on CAMS as of February 15, 2002, totaling \$9,945,653, which were listed as surplused, destroyed, disposed, replaced, transferred, or stolen.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

DELETIONS FROM THE INVENTORY LISTS (Concluded)

9. Computer Assets Removed From CAMS (Concluded)

We tested a total of 25 assets listed as surplus, destroyed, replaced, transferred, and stolen on CAMS to determine the items had proper documentation and the documentation was signed by authorized personnel. The total value of the 25 assets was \$29,951.

- We noted 7 of 25 items tested did not have proper supporting documentation. The documentation provided was a hand-written copy of the items to be removed. This hand-written document was attached to the surplus document. These items included terminals, printers, monitors, and hubs totaling \$4,546.
- We also noted 3 of 25 items did not have supporting documentation signed by authorized personnel. These items included CPUs totaling \$4,800.

The risk of loss or misuse of State assets increases without adequate procedures to ensure all computer assets are properly documented and accounted for.

We recommend HHSS implement procedures to ensure all items listed on CAMS as surplus, destroyed, replaced, transferred, or stolen contain proper supporting documentation that is signed by authorized personnel.

HHSS's Response:

FINDING 9, par. 3, bullet 1: Handwritten lists of surplus

RESPONSE: AGREE with finding however correction occurred prior to audit

In the early days of CAMS, handwritten lists were used. Now computer lists are used. The concern is over handwritten lists of surplus equipment. Until recently, all lists were handwritten and since these were the original documents, HHSS will not go back and change these. HHSS is currently using a typed listing that is generated from CAMS to be part of the Surplus Notification Document.

FINDING 9, par. 3, bullet 2: Properly signed documents for all equipment deletions (CAMS)

RESPONSE: AGREE

HHSS will henceforth make sure that the document is obtained and signed by an authorized person.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

ITEMS TRACED FROM THE LOCATION TO THE LIST

10. Unable to Trace Assets to CAMS and SWIS

Good internal control requires procedures be in place to safeguard State assets.

CAMS

We tested 72 computer assets selected at HHSS locations during our site visits to ensure the assets were recorded in CAMS. The total value of the assets was \$73,741.

- We noted 21 of 71 items had a different location on CAMS than the location the items were observed. These items included monitors, laptop computers, printers, hard drives, and desktop computers. The total value of these assets was \$22,172.
- The status was incorrect for 4 of 72 assets on CAMS. These items included a monitor, a printer, and two computer CPUs. The total value of these assets was \$4,683.
- We obtained the bar code identification number of the assets at various HHSS locations. We noted 1 of 72 assets was not located on CAMS. This item was a computer monitor.

SWIS

We tested 17 items selected at HHSS locations during our site visits to ensure the assets were recorded on SWIS. The total value of the assets was \$34,504.

- We obtained tag numbers of assets at various HHSS locations. We noted 2 of 17 items were not located in SWIS. The first item was an oven at the Norfolk Regional Center. The second item was a patient lift at the Norfolk Veterans' Home.

The risk of loss or misuse of State assets increases if items are not properly added to SWIS and CAMS and the status and location of these items are incorrect.

We recommend HHSS implement a written policy to ensure items are properly added to SWIS and CAMS and the status and location of these items are accurate. HHSS should also ensure all employees are aware of and follow this policy.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

ITEMS TRACED FROM THE LOCATION TO THE LIST (Concluded)

10. Unable to Trace Assets to CAMS and SWIS (Concluded)

HHSS's Response:

FINDING 10, PART 1 (CAMS): Some occasions where equipment not listed

RESPONSE: AGREE

HHSS originally surveyed all equipment and placed it into CAMS. HHSS recognizes that there were some occasions where the equipment was not found. All of the service technicians have a defined set of barcode labels. They have been instructed to barcode any computer equipment found and add that equipment to CAMS. Thus, HHSS believes that procedures exist for ensuring all equipment is bar-coded and added to CAMS.

The answer to Bullet 2 of item 1 gives additional details of the efforts to correct the CAMS asset locations.

FINDING 10, PART 2 (SWIS): Equipment costing under \$750 not found on SWIS

RESPONSE: AGREE with finding, disagree with recommendation

HHSS does agree that it is important that all items of fixed assets be accounted for. The finding that numbered items are not on SWIS relates to our decision to NOT remove numbered tags when we recently archived over 30,000 assets with a purchase cost of less than \$750 when DAS changed rules we follow. This decision saved the State of Nebraska the cost of tag removal. The numbered tags meet the statutory requirement that all property be marked, "Property of the State of Nebraska." So if they had been removed, replacement would have been required at an additional cost we avoided. However, we were able to call up archived records for all but two of the items to explain why the items were no longer on the active inventory listing.

Auditors' Response: With the limited testing done on the system, it is likely the errors noted in testing indicate a larger system-wide problem. HHSS should improve its procedures to ensure all items are added to SWIS or CAMS.

OTHER

11. Items Less Than \$750 on SWIS

HHSS has an unwritten policy in which only assets greater than or equal to \$750 are considered capital assets. This policy became effective July 1, 2001. HHSS has removed a considerable number of assets from SWIS that were less than \$750.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

OTHER (Continued)

11. Items Less Than \$750 on SWIS (Concluded)

There were 3,125 assets on the SWIS as of November 20, 2001. The total value of the assets was \$8,768,854. We noted 195 items less than \$750 still remained on SWIS. The total cost of these items was \$45,035.

We recommend HHSS continue the process of removing items less than \$750 from SWIS.

HHSS's Response:

FINDING: Items costing less than \$750 on SWIS

RESPONSE: AGREE with finding, disagree with recommendation

The SWIS system does not permit HHSS to remove items after a Surplus Property Number (SPN) is assigned to an item. For internal control purposes, HHSS is segregated from the duty of deleting surplus items assigned an SPN, a role of DAS. However, in order to correct the finding, we are corresponding with DAS.

Auditors' Response: The assets on the system are the responsibility of HHSS. If the deletion function was not performed, HHSS should have procedures for a more timely follow up with the office responsible for deleting the items.

12. Fund of Origination in CAMS

Neb. Rev. Stat. Section 81-161.04(2) R.S.Supp., 2000 states, "the proceeds of the sales [of surplus property] shall be deposited with the State Treasurer and credited to the General Fund unless the using agency certifies to the materiel division that the property was purchased in part or in total from either cash accounts or federal funds or from a percentage of such accounts or funds, in which case the proceeds of the sale to that extent shall be credited to the cash or federal account in the percentage used in originally purchasing the property."

CAMS did not contain a field to identify the NAS fund the assets are paid with. Therefore, the fund of origination is not readily available when computer assets are sold.

We recommend HHSS implement procedures to ensure the fund of origination is readily available when HHSS computer equipment is sold to ensure the proceeds from the sale will be deposited to the fund of origination.

NEBRASKA HEALTH AND HUMAN SERVICES SYSTEM
FIXED ASSETS

COMMENTS AND RECOMMENDATIONS

OTHER (Concluded)

12. Fund of Origination in CAMS (Concluded)

HHSS's Response:

FINDING: Equipment not identified by fund of origination

RESPONSE: AGREE

The only current way back to the fund of origination in CAMS system today is through a paper trail. It is hoped that the new NIS system will provide a better way. HHSS will take the advice under consideration and take appropriate action.