

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
ADMINISTRATIVE SERVICES**

JULY 1, 2003 THROUGH JUNE 30, 2004

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on June 6, 2005

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1 - 4
Mission and Vision Statements	4
Organizational Chart	5
Comments Section	
Exit Conference	6
Summary of Comments	7 - 11
Comments and Recommendations	12 - 75
Financial Section	
Independent Accountant's Report	76 - 77
Schedule of Revenues, Expenditures, and Changes in Fund Balances	78 - 82
Notes to the Schedule	83 - 92
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances Performed in Accordance with <i>Government Auditing Standards</i>	93 - 94

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

BACKGROUND

The Department of Administrative Services (DAS) was created by the 1965 Legislature. The Department coordinates and administers the following divisions: Departmental Administration, Accounting, Budget, State Building, Materiel, Communications, Information Management Services, Personnel, Employee Relations, Transportation Services Bureau, Risk Management, Task Force for Building Renewal, Federal Liaison, and Office of the Chief Information Officer.

State Statute established the Department of Administrative Services to aid the Governor in the execution and administration of the civil administration of the laws of the State. The legislative intent of the Department is to:

- Provide for the development and maintenance of a modern system of budgetary, inventory, and financial accounting;
- Provide for development and maintenance of such modern and economical methods and systems for record keeping, accounting, expenditure planning, and control as may be possible through timely adoption of modern technological developments;
- Provide for centralized direction of services and service agencies;
- Assure the development and operation of organizational and procedural innovations as may be expected to provide acceptable internal control of the handling and processing of public funds; and
- Focus responsibility for execution of the financial policies of this State on the chief executive and provide assistants having the necessary technical skills for the achievement of that end.

Departmental Administration - This division provides central administration for DAS. The director and her staff are funded through this division.

Accounting Division - DAS Accounting is comprised of Administration, Operations, Systems and NIS Support Team sections. The Operations Section is responsible for issuing payments, processing payrolls, managing user security, setting up vendors, setting up coding, managing federal grants, drawing federal funds, processing employee child support, garnishments, and levies, and paying employment taxes. The Systems Section is responsible for reviewing internal controls and accounting methods used by State agencies and monitoring audit reports to see if changes in methods are needed, monitoring the accounting activity of the state agencies, monitoring the integrity of data, and assisting agencies with the use of the NIS system. This Section will assist with NIS training and helping agencies with report generation and understanding NIS. Yearly reports, including the Comprehensive Annual Financial Report, the Budgetary Report, and the Statewide Cost Allocation Plan, are prepared in the Systems

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

BACKGROUND

(Continued)

Section of the Division. This section is also responsible for managing the State's Master Lease program that provides tax-exempt lease financing for equipment purchases. The NIS Support Team is responsible for ensuring NIS functionality in the areas of Finance, HR/Payroll and Procurement.

Budget Division - The 1969 Legislature reorganized the Budget Division as a result of a survey and recommendations made by the Nebraska Management Analysis Study Committee. The division: assists the Governor in the preparation of the executive budget; prescribes the budget calendar; collects and collates information on actual and intended receipts and expenditure levels; develops performance measures to evaluate actual and projected expenditure levels; administers the approved budget; prepares a monthly budget report for each State agency; coordinates State agency fiscal plans; develops long-term plans for program budgeting; and studies other states to compare them with Nebraska State agencies.

State Building Division - The State Building Division was created by the 1974 Legislature to plan, construct, and administer State facilities. The division ensures State funds are used wisely for construction projects, maintains building inventory and use records, plans future State buildings, and analyzes capital construction requests, programs, preliminary plans, and construction contracts. The division also performs daily maintenance and operation activities of the buildings, and works to restore, maintain, enhance, promote, and document the State Capitol. The Security section works to maintain a safe environment for all State employees and visitors in all of its facilities. The Administrative Support section: procures and manages required office space; serves as the State leasing agent; provides parking and parking billings; and provides related support to other areas of the division.

Materiel Division - The Materiel Division was established by the 1969 Legislature, which gave the division its responsibility as State purchasing agent. The division also provides the following support services to State agencies: Office Supply Bureau, Surplus Property, Print Shop, Central Mail Room, Copy Services, and Recycling.

Communications Division - The Division of Communications was established by the Legislature in 1975. The division develops the telecommunications system jointly used by all types of State government entities, consolidates telecommunications owned or used by the State, and coordinates all State government telecommunications. Each year, the division publishes and distributes the Nebraska State Government Directory.

Information Management Services (IMServices) Division - The Information Management Services Division first operated as part of the Accounting Division. The 1967 Legislature made it a separate division. The division supplies State and local government entities with several different information services, including application development and maintenance, education and training, online network services, and staff consulting.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

BACKGROUND

(Continued)

Personnel Division - The Personnel Division was created in 1967 as the Department of Personnel. The 1992 Legislature merged the Department of Personnel into the Department of Administrative Services. The division: maintains a job classification and pay system for State employees; provides State agencies with qualified job applicants; promulgates and enforces personnel rules and regulations; administers an employee grievance appeal procedure; promulgates and enforces affirmative action rules and regulations; and provides a State-sponsored management training program. In January 2000, the division became responsible for the Benefits Administration Section, which includes State Employee Benefits Programs such as flexible spending, health, and life insurance.

Employee Relations Division - In 1992, the Legislature merged the Department of Personnel into the Department of Administrative Services and created a separate Division of Employee Relations. The chief negotiator, who is appointed by the Governor, administers the division. The duties of the chief negotiator include: negotiating and administering all labor contracts involving agencies subject to the State personnel system; developing and coordinating the State's approach to labor relations by consulting, training, and other activities; coordinating and processing non-organized employee grievance appeals to the State Personnel Board within the provisions of the Classified System Personnel Rules and Regulations; and coordinating negotiated grievance procedures.

Transportation Services Bureau Division - The Transportation Services Bureau was created by the 1969 Legislature. The bureau provides management, service, and guidance in using privately owned and State-owned vehicles for official travel while monitoring State government transportation needs.

Risk Management Division - Risk Management is responsible for identifying and implementing the most economical and effective methods to reduce exposure of the State and its employees to personal injury, property damage, and legal liability. The division administers: the State Tort Claims Act; the State Miscellaneous Claims Act; the State Contract Claims Act; the State Workers' Compensation program; and the State risk management, indemnification, insurance, self-insurance, and bonding programs. The division was responsible for the Benefits Administration through December 1999. Statutory responsibility was transferred as of July 1, 2000.

Task Force for Building Renewal - The 1977 Legislature created the Task Force for Building Renewal to identify deferred maintenance projects and create and monitor a preventive maintenance program in State-owned facilities. The task force's main responsibility is to fund projects for deferred maintenance, removal of barriers for people with disabilities, fire/life safety projects, and energy conservation measures within existing State-owned facilities.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

BACKGROUND

(Continued)

Federal Liaison Division - DAS administers a program entitled Federal Liaison. This program provides operational funding for a Federal liaison whose primary function is to provide information to the Governor and State agencies regarding Federal legislation and policy developments. For administrative purposes, DAS reflects this program as a unique division.

Office of the Chief Information Officer Division - The Office of the Chief Information Officer, created by the 1998 Legislature, works with State agencies and the Nebraska Information Technology Commission to ensure cost-effective and efficient use of State resources and investments in information technology. The chief information officer is appointed by the Governor and confirmed by the Legislature.

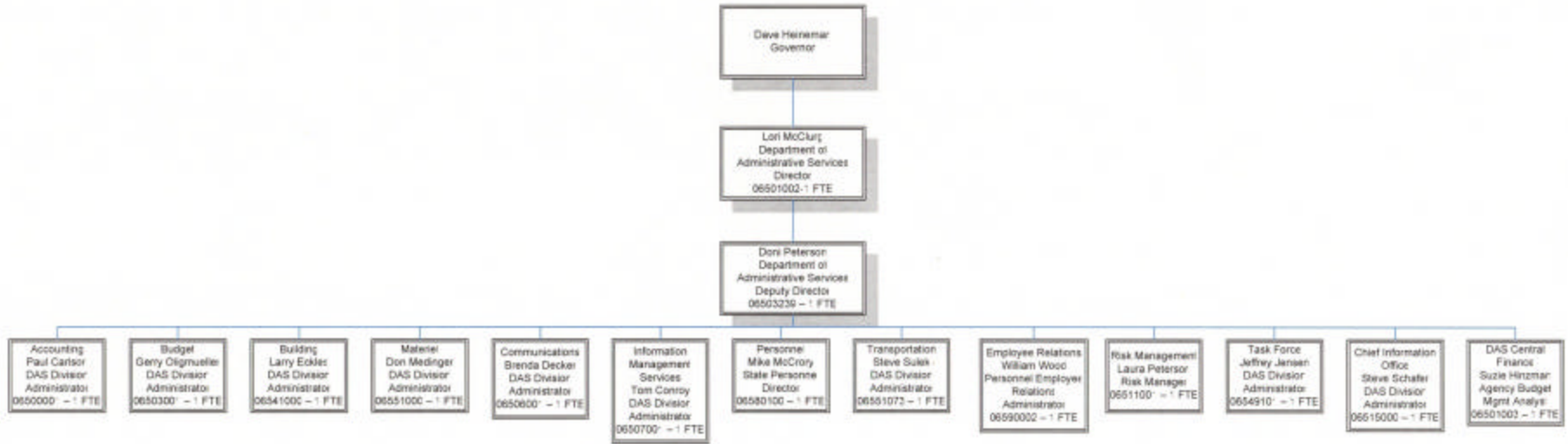
MISSION AND VISION STATEMENTS

Mission Statement - To provide expertly managed services to our customers that maximize the efficiency of State government.

Vision Statement - To be a value-adding partner with our customers; providing services and strategies that improve the quality and cost effectiveness of public services.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

ORGANIZATIONAL CHART



Updated 1/31/2005

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

EXIT CONFERENCE

An exit conference was held April 14, 2005 with DAS to discuss the results of our examination. Those in attendance for the Nebraska Department of Administrative Services were:

NAME	TITLE
Lori McClurg	DAS Director
Doni Peterson	DAS Deputy Director
Suzie Hinzman	DAS Budget and Finance Manager
Paul Carlson	DAS State Accounting Administrator
Amy Archuleta	DAS NIS Administrator

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Administrative Services (DAS), we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

Note: Comments are organized in the following matter:

- General - Areas that do not fall completely within one of the areas noted below
- Payroll/Personnel
- Expenditures
- Receipts

GENERAL

1. ***Nebraska Information System and Accounting Procedures:*** The Auditor of Public Accounts (APA) has identified concerns and areas where improvement to the Nebraska Information System (NIS) and the related Nebraska Accounting Procedures are needed.
2. ***Nebraska Information System Security:*** NIS is the statewide accounting system for the State of Nebraska. Thousands of individuals have access to the system in various capacities. The security system, which is maintained by the NIS security team of DAS, is the system that controls who has access to do what in the system. We noted some DAS staff security access in certain areas allowed for the lack of segregation of duties and where the number of staff who have access appears unreasonable.
3. ***Master Lease Purchase Program:*** The Master Lease Purchase Program (MLPP) was a program established to provide a low cost method of financing certain essential equipment purchases. Since the inception of the MLPP in 1993 through June 30, 2004, the State has financed over 35 lease issues for a total principal amount of \$87,031,501. As of June 30, 2004, the State had obligations for the MLPP of \$40,950,001 in principal and \$5,386,355 in interest. During our review of the MLPP, we noted DAS did have some written policies or procedures in place for the operations of the MLPP; however, it did not address certain key policies and procedures.
4. ***Monitoring of Claims Paid:*** DAS Personnel Division is responsible for the payment of the Medical and Dependent Care claims (Flexible Spending Plan) for the employees of the State of Nebraska. For the fiscal year ending June 30, 2004, the State of Nebraska paid claims of approximately \$4,700,000. DAS Personnel Division contracts with a vendor to process these claims. DAS Personnel Division's monitoring of the claims processed by the vendor was not adequate.

SUMMARY OF COMMENTS

(Continued)

GENERAL (Concluded)

5. ***Contract Bid Evaluation Documentation:*** Documentation from individual bid evaluation committee members supporting the composite summary of the individual evaluations were not maintained as part of the contract file for three of four service contracts tested.
6. ***Contract Procedures:*** In our review of contract procedures we noted a lack of documentation supporting certain procedures and a lack of written policies and procedures for determining whether a contract should be renewed or re-bid.
7. ***Imprest Payroll Fund:*** The Imprest Payroll fund is used to process all payroll transactions for the State of Nebraska. We noted there was no reconciliation between amounts coming into this fund and amounts being paid out to ensure all transactions are properly processed. We also noted several individuals had the capability to establish and change vendor codes in NIS without an independent review or approval of the changes.
8. ***Fixed Assets:*** DAS had a total of \$174,155,253 in fixed assets recorded on NIS as of June 30, 2004. In our sample of 68 items on the fixed assets records, we noted items that could not be located, items not tagged as property of the State of Nebraska, and other discrepancies in the fixed assets records. We also noted where internal controls and processes over fixed assets could be improved.
9. ***Accounting Division Head:*** The DAS Accounting Division Head may not meet the certified public accountant requirement of Neb. Rev. Stat. Section 81-1110 R.R.S. 1999.

PAYROLL/PERSONNEL

10. ***Timesheets:*** In our review of DAS's payroll records we noted that all employees did not prepare timesheets to support they worked 40 hours as required by Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999, some timesheets could not be located, compensatory time or overtime was recorded for some employees before the employees actually worked 40 hours in the week, and some employees were recording both compensatory time and overtime in the same pay period.

SUMMARY OF COMMENTS

(Continued)

PAYROLL/PERSONNEL (Concluded)

- 11. *Procedures for Terminations:*** During testing of payroll and employee terminations we noted two of five employees tested were not paid out their vacation and one-fourth of their sick leave appropriately, five of six terminated employees tested with vacation balances were not properly paid their balances, DAS does not have a policy on how to handle sick leave balances on NIS once an employee terminates, three of five employees tested did not have their NIS access removed in a timely manner and two of five employees tested were not removed from the payroll in a timely manner and had three or more additional pay stubs after their termination.
- 12. *Inadequate Personnel Files:*** Certain personnel records were not maintained. In a test of 20 employees we noted 10 employees did not have authorizations for their salary on file, five employees tested did not have Form I-9 on file when required, and 14 employees tested had payroll deductions which could not be traced to an authorization form in their personnel file.
- 13. *Adjusted Service Dates:*** Two of twenty employees tested had incorrect adjusted service dates on NIS. When an employee's adjusted service date is incorrect, the employee could be earning vacation and sick leave at an incorrect rate.
- 14. *Leave Balances Transferred from NEIS to NIS:*** We noted 2 of 19 employees tested did not have their sick and vacation leave balances properly transferred from the old NEIS system to the new NIS system.
- 15. *Incorrect Pay Rate Used for Overtime Compensation:*** We noted one instance where the pay rate used for overtime compensation was 2.25 times the regular pay rate. This resulted in the employee being overpaid \$68.
- 16. *Supporting Documentation for Payroll Allocation:*** We noted on the two employees tested whose payroll was split between fund or program that the basis for the allocation of their payroll expense could not be traced to supporting documentation.

EXPENDITURES

- 17. *Travel-State Employees:*** In our sample of 15 travel expense documents we noted a lack of documentation to support some reimbursements, incorrect mileage rates being used, unreasonable expenses being reimbursed, expense reimbursement documents not completed accurately or completely, and expenses incorrectly coded in the accounting records.

SUMMARY OF COMMENTS

(Continued)

EXPENDITURES (Concluded)

18. ***Travel-Contractual:*** In our sample of three contracts related to vendor employees being reimbursed for travel expenses we note one contract was not clearly written to define what work would be done and when the work would be considered acceptable and complete, all three contracts did not define what would be considered reasonable travel expenses; and we noted a lack of documentation to support certain expenses: an airline ticket of \$347 that should not have been reimbursed, overpayment of meals for \$44, and an overpayment of a hotel bill of \$122.
19. ***Blue Cross and Blue Shield of Nebraska (BCBS) Rates:*** Certain rates for services charged to the State by BCBS cannot be verified to contracts in effect for the audit period and the drug rebates received could not be determined as to completeness. The State received drug rebates for the fiscal year ended June 30, 2004 in excess of \$660,000.

RECEIPTS

20. ***Documentation and Controls Over Billing Rates:*** We noted many of the billing rates did not have adequate documentation to support how those rates were established. We also noted from our testing that the Print Shop included costs that were billed at incorrect rates. As a result of the incorrect rates, one agency was underbilled \$932 and another agency was underbilled \$77. In addition, our review of the rental rates charged to agencies by DAS Building Division noted leased space is not assessed an administrative cost allocation.
21. ***Rate Documentation:*** For the fiscal year ended June 30, 2004, billing rate documentation could not be located by the DAS Risk Management Division. Subsequent to the fiscal year ended June 30, 2004, DAS Risk Management Division has taken action to correct this problem.
22. ***Building Values and Depreciation Assessments for LB 530:*** Our testing of the DAS Task Force Division depreciation assessment noted all five quarterly payments tested did not trace to readily available supporting documentation verifying the building value was correct, which is the basis for the depreciation assessment.
23. ***Internal Control Over Receipts:*** Initial control over receipts in the DAS Building, Materiel, Communications, and Transportation Services Bureau Divisions could be improved.

SUMMARY OF COMMENTS

(Continued)

RECEIPTS (Concluded)

- 24. *Surplus Property Controls:*** A lack of segregation of duties exists at the Surplus Property operations of the DAS Materiel Division related to the surplus property function. In addition, we noted the DAS Materiel Division does not have written policies and procedures on when a surplus item should be sold or destroyed.

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

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

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

COMMENTS AND RECOMMENDATIONS

GENERAL

1. Nebraska Information System and Accounting Procedures

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk employees may unintentionally corrupt critical data and errors could occur and go undetected.

HISTORY AND BACKGROUND OF THE NEBRASKA INFORMATION SYSTEM (NIS) AND RELATED ACCOUNTING PROCEDURES COMMENT

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new Enterprise Resource Planning system called NIS. Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004, the Procurement and Employee Self-Service components were partially implemented and these two components continue to be implemented during fiscal year 2005. The implementation and the maintenance of NIS are the responsibility of the Department of Administrative Services (DAS) Accounting Division and the Nebraska Information System Project staff of the Director's Office of DAS (NIS Functional Team). NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003, at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA obtained further understanding of NIS and the related Nebraska Accounting Procedures.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS and the related Nebraska Accounting Procedures are needed. During the fiscal year ended June 30, 2004 and through April 1, 2005 (the APA's latest review of the findings in this comment) DAS Accounting Division and the NIS Functional Team addressed some areas of concern previously reported. The APA has reported some version of this comment in all agency reports since May 2004. Although DAS Accounting Division and the NIS Functional Team continue to work on correcting these issues, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency as of April 1, 2005:

COMMENTS AND RECOMMENDATIONS

GENERAL (Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items has been an issue for DAS Accounting Division for many years. In previous versions of this comment we have noted monthly reconciliations have not been done in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records.

The APA's review of the reconciliation process noted DAS Accounting Division is making progress in the reconciliation process, but continued progress is needed. We noted their reconciliation process has developed into a very detailed process of analyzing bank activity to activity recorded on NIS to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show consistent variances of \$2,944,126 and \$2,932,824, respectively. Again the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for the months of August and September, but the process has not yet been completed. Their current plan is to focus their resources on performing the reconciliation process on current months starting with January 2005 and working through June 2005.

Although DAS Accounting Division has made progress in how the reconciliation process is conducted, the process is still not done in a timely manner and the reconciliation done continues to reflect unknown variances. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The APA recommends DAS Accounting Division continue their reconciliation process, but in a timelier manner, and on at least a monthly basis to ensure all financial information is correct on NIS. We also recommend when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months reconciliations) DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS.

During our fiscal year ended June 30, 2004 examination of DAS, we noted a related fund reconciliation process was not being performed by DAS Accounting Division. The Imprest Payroll Fund is the State's statewide payroll fund used to process payroll for all State employees and to account for all payroll deductions such as Federal and State income taxes, other Federal taxes, and all other employee and State payroll benefit deductions.

COMMENTS AND RECOMMENDATIONS

GENERAL (Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

During our review of this fund we noted a monthly reconciliation between the amounts collected from all State agencies for employees' salaries, their payroll deductions, plus the State's share of these payroll deductions, to the amount paid to employees and vendors for these deductions had been started on a monthly basis, however, no monthly reconciliation has been completed since NIS began processing payroll in January 2003. (For more details on this see Comment Number 7 below).

Besides its overall impact on the Statewide reconciliation process noted above, when a reconciliation between amounts collected from other State agencies and what is paid out to vendors is not preformed there is a significant risk of errors occurring and a greater risk of irregularities occurring and going undetected. We recommend the Accounting Division establish as a priority a monthly fund reconciliation process that will provide assurance all money processed through the Imprest Payroll Fund is accounted for properly.

Agency Response: We agree there have been issues with the bank reconciliation in the past and are pleased that the Auditor recognizes that progress has been made in this area. We will continue to work on this issue and the imprest payroll reconciliation.

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. DAS continues to make progress in this area and significant policies and procedures can be found by users on the websites of the various divisions of DAS. However, DAS Accounting Division has not put together a comprehensive accounting policy manual. Currently user agencies must sort through various websites and flash memos to find specific information. We recommend DAS Accounting Division and other divisions of DAS work toward developing a comprehensive NIS policies and procedures manual that is in one location and user friendly to include all policies and procedures in place. We believe this would be of great assistance to State agencies and would help ensure consistent and accurate accounting of the State's financial transactions.

Agency Response: We have completely updated and revised our State Accounting Manual and will continue to do so. We will consider developing a more friendly website for NIS procedures as time allows.

COMMENTS AND RECOMMENDATIONS

GENERAL (Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem; however, there had been no system change to resolve this problem. The "work around" solutions, in some cases, were very time consuming. Per discussion with management of the NIS Functional Team, the team has now developed a custom program with the assistance of an IMServices Division developer to properly allocate all pay types across multiple business units. This program will be utilized for both Direct Time Entry and Employee Self-Service Time Entry. After further testing, the program should be operational within the Production Environment in the next few months. The APA agrees with the above approach to correct this problem and looks forward to seeing this program successfully implemented.

- d. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State. The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986. DAS Accounting Division has been working on updating their schedules and the APA obtained a draft of the schedules. DAS Accounting Division has indicated that all electronic records will be kept. The draft revised records retention schedule for DAS Accounting Division 43-1-3-1 states, "All electronic data currently in the NIS database — All records will be maintained as active files until a decision is made to archive the records." The draft revised State Agencies General Records retention schedule — Schedule 124, is revised to include the following, "All electronic records currently maintained in the NIS database will be maintained by the Department of Administrative Services - Accounting Division (Schedule 43-1) for 10 years, provided an audit has been completed." The draft schedules do not address the records retention for supporting documentation that is required to be kept for NIS transactions for supporting documentation other than invoices and employee expense reimbursement documents that agencies maintain to properly support transactions recorded in NIS. For this reason we do not believe these draft schedules are comprehensive enough to cover all required records.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the State Records Administrator, schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after

COMMENTS AND RECOMMENDATIONS

GENERAL (Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical, or fiscal value to warrant their further retention.

We recommend DAS Accounting Division develop comprehensive record retention schedules for all records to be maintained related to NIS.

Agency Response: State Accounting has been working with Records Management Division and has a working draft of the revised retention schedule which will soon be completed. At the current time, all NIS records that have been created are currently being maintained within the system, which is why we have included such a statement in the records retention policies. Records Management has agreed with this statement.

- e. The payroll component of NIS is not designed to promote an effective segregation of duties. We recommend DAS Accounting consider implementing compensating controls to ensure the accuracy and integrity of the payroll component of NIS.

Agency Response: The payroll component of NIS is no different than NEIS in regard to segregation of duties. In fact, the payroll certification process that is in effect with NIS, is an additional compensating control that did not exist for NEIS. However, DAS Accounting division intends to provide suggestions and training on payroll compensating controls to the agencies during future PHRUG meetings.

- f. During the first year of NIS implementation, an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, "We have now contracted with an outside vendor for business continuity planning." Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.

Agency Response: We believe we are progressing quite rapidly in developing our plans and are working towards completion.

COMMENTS AND RECOMMENDATIONS

GENERAL (Continued)

1. Nebraska Information System and Accounting Procedures (Concluded)

- g. The APA reviewed certain data in the NIS address book in July 2004. We noted duplicate names and addresses, duplicate bank information, and vendors with no Federal Tax Identification Number (FTIN) in NIS and vendors with an FTIN of 0000000000. Since this was first brought to the attention of DAS Accounting Division, they have corrected many of the records and are in the process of developing procedures to help ensure these errors do not occur in the future, or if they do, will be detected by the processes in place. We recommend DAS Accounting Division and the NIS Functional Team continue to correct the database and to ensure procedures are in place to detect future errors if they occur.
- h. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an e-mail or letter to the DAS Accounting Division Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

Our follow up to this comment noted DAS Accounting Division is in the process of putting on their website a policy which states each agency shall certify their payroll to State Accounting after a review process. DAS Accounting Division will require each agency “use verbiage that indicates the payroll has been certified and is ready for payment.”

Agency Response: This procedure was implemented on April 4, 2005.

The APA believes, if this procedure is implemented and followed, it will provide better controls and documentation that only approved agency payroll is processed.

2. Nebraska Information System Security

NIS is the statewide accounting system for the State of Nebraska. Thousands of individuals have access to the system in various capacities. The security system, which is maintained by the NIS security team of DAS, is the system that controls who has access to do what in the system. There

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

2. Nebraska Information System Security (Continued)

are two major components to the security system: Batch Management and Security Matrix. Batch Management provides control over who is authorized to prepare batches of documents for entry into NIS and who reviews and approves these batches. The Security Matrix provides controls over who has access to specific functions in NIS such as payroll or disbursements, and what level of access they have to these functions. Each agency then establishes which access to the system is appropriate based on the parameters established in the system.

The APA reviewed the NIS access of DAS staff. In our review we consider whether or not access established a good segregation of duties, that is, no one person could process a transaction from beginning to end, on whether or not the number of individuals having a particular access was reasonable, and whether or not the security setup was reasonable or not.

Our review noted the following as of June 30, 2004:

- Twelve instances where an individual's security was set up in such a manner the individual could prepare and approve their own documents. (A lack of segregation of duties)
- Ten instances where individuals had ALL approval access and also had the ability to prepare and approve their own documents through batch management. ALL approval access for DAS staff means they have the ability to prepare and approve any transaction for DAS. (A lack of segregation of duties. The APA acknowledges ALL approval access may be appropriate. However, the APA believes there should be an independent monitoring of the activity for this access. Management indicated there is a review of the activity processed by staff on the ALL access IDs, however, APA was not provided documentation to support that monitoring was taking place.)
- Eight instances where individuals had security clearance to the Governor and Lieutenant Governor's business units. (Reasonableness of the number of staff having access.)

Good internal control requires segregation of duties, whether or not the number of staff having a particular access is reasonable, and whether or not the security setup was reasonable or not. In addition, good internal control would require proper documentation of reviews being performed.

When there is a lack of segregation of duties established in system security and review procedures are not being documented, when the number of individuals having a particular access is unreasonable, and when security setup is unreasonable, there is greater risk of fraud or errors.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

2. Nebraska Information System Security (Continued)

We recommend that individuals in the NIS Security Matrix and Batch Management be reviewed for reasonableness. If necessary, DAS should make adjustments to the type of access and ability each employee has in NIS. We also recommend reviews of activity of individuals with ALL access security be documented to ensure their activity is appropriate.

Agency's Response to the above mentioned items:

Employees with the ability to prepare and approve their own documents:

We have reviewed the current batch management in NIS for our agency. As of 1/25/05 there were three employees listed who could approve their own documents. Of these three employees, the only batch management that is valid is that of the DAS Surplus Property manager for DAS Materiel division. The Surplus Property manager is responsible for surplus and disposing assets from the NIS fixed asset listing. We believe it is appropriate for him to have this ability with regard to surplus actions. However, we will implement a policy whereby DAS Central Finance will perform a periodic review of those journal entries to ensure they are only "Z" or "E" type journal entries, and are appropriate for his position. The other two employees' batch management was corrected, effective 1/25/05 so they cannot approve their own documents. We know of no such instance where either of those two employees ever did approve any document which they prepared, however.

Employees with All approval access:

*The agency reviewed the list of employees with access to "All". Two employees were removed and it has been determined that the remaining users need the access. Specific DAS staff must have *All access in batch management to assist NIS users as a Level 2 Help Desk function and to be able to review any transaction in NIS. This access is vital when working with users to resolve agency problems. Any misuse of State funds would be detected by agencies as they conduct their daily/weekly/monthly reviews. State Accounting processes very few documents. Bob Halada processes Master Lease documents and someone else always posts these. Central Finance processes all our other documents. In addition, Paul Carlson, State Accounting Administrator, receives a daily report of all payments over \$100,000 and follows up on any payment made to an organization which he is not familiar with or which would not normally received a large payment from the State. Allowing users this access is controlled by NIS Security.*

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

2. Nebraska Information System Security (Concluded)

Security clearance for the Governor and Lt. Governor:

We have reviewed the employees with access to the Governor and Lt. Governor's business units. DAS processes all NIS financial transactions and payroll for the Governor and Lt. Governor and must have this access. We do not feel the number of people with access to those business units is unreasonable. As this is not an internal control or a compliance issue, the agency feels this point should be dropped.

3. Master Lease Purchase Program

In 1993, the Accounting Division of DAS developed a Master Lease Purchase Program (MLPP) as established by Neb. Rev. Stat. Section 81-1108.03 R.S.Supp., 2004. The MLPP was established to provide a low cost method of financing certain essential equipment purchases. Per the State of Nebraska State Accounting Manual, this program may be utilized to lease/purchase data processing, telecommunications, laboratory, motor vehicles, and other essential equipment. However, since its inception, the MLPP has also been used to purchase parking garages, the Executive Building, and funded, in part, NIS. All State agencies can use the MLPP.

Since the inception of the MLPP in 1993 through June 30, 2004, the State has financed over 35 lease issues for a total principal amount of \$87,031,501. As of June 30, 2004, the State had obligations for the MLPP of \$40,959,001 in principal and \$5,386,355 in interest.

Good internal control requires documented policies and procedures to be in place to ensure efficient and effective operations, adherence to contracts, reliable and accurate financial data, and for the safeguarding of assets.

During our review of the MLPP, we noted DAS did have some written policies or procedures in place for the operations of the MLPP. However, these written policies and procedures did not address:

- The criteria for what is allowed to be purchased under the MLPP.
- The criteria to be used and the review process to be followed to ensure that purchasing items through the MLPP is the most effective and efficient option possible for the State.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

3. Master Lease Purchase Program (Concluded)

- The review and approval process of requests for purchases received from State agencies. Agencies submit their requests to DAS via e-mail. There is not a formal request form that agencies are required to complete for their purchase requests. These requests most often come from the agency's accounting staff. In this case there was no documentation noting an agency director has knowledge of the request and has approved the request to put the State in debt.
- The general records to be kept by DAS and State agencies.

Without written policies and procedures covering the above areas there is greater risk that processes and procedures will not be consistently followed to ensure efficient and effective operations, adherence to contracts, reliable and accurate financial data, and for the safeguarding of assets.

We recommend DAS develop and document policies and procedures for the MLPP. These policies and procedures should include criteria for purchases, documentation requirements, and for the general records to be maintained. In addition, we recommend DAS develop policies and procedures to determine if purchasing items through the MLPP is the most efficient and effective option possible for the State.

Agency Response: State Accounting has written policies concerning the Master Lease Program. They are dated September 21, 1994. General procedures to be followed are on pages 3 and 4. Such procedures do not require a special request form, nor do we see a need for one. Each request for leasing can be quite different in scope and need. The State does not set the criteria for what is allowed to be purchased under the leasing program. Such criteria are established by federal law and we use outside legal counsel to verify all purchases. However, we agree with the suggestion that all purchases under the master lease program should have the agency's head or chief financial person's approval before the lease is finalized. DAS will implement a policy to document that approval.

APA's Response: We do not believe the general procedures as mentioned by DAS adequately address our recommendations, which we believe are appropriate to better ensure efficient and effective operations, to help ensure adherence to contracts, reliable and accurate financial data, and for the safeguarding of State's assets for a program as significant as the MLPP.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

4. Monitoring of Claims Paid

DAS Personnel Division is responsible for the payment of the Medical and Dependent Care claims (Flexible Spending Plan) for the employees of the State of Nebraska. For the fiscal year ended June 30, 2004, the State of Nebraska paid claims of approximately \$4,700,000.

DAS Personnel Division contracts with Application Software Incorporated (ASI) to process all IRS Section 125 claims. Good internal control requires procedures to be in place to ensure that claims paid by the State of Nebraska were in accordance with contractual agreements.

During our examination we obtained an understanding of the control environment over claims processing. We noted the following:

- Per the contract between the State of Nebraska and ASI, it was the responsibility of ASI to obtain all documentation for claims directly from State employees, to review claims to determine whether they were appropriate, to determine that all claims were in accordance with the Internal Revenue Code, and to pay claims. Therefore, ASI executed transactions and maintained the related accountability for those transactions.
- ASI sent a daily e-mail summarizing the claims they had paid to employees. DAS Personnel Division created a disbursement document for the amount of the claims based on the information contained in the e-mail. Additionally, a report was received via e-mail detailing the amount of claims paid each week. An employee compared the detailed weekly report to the daily e-mails of claims paid.
- Statement of Auditing Standards (SAS) 70, codified as AU Section 324, "Reports on the Processing of Transactions by Service Organizations," provides guidance on what a "Service Organization" is and the type of reports that may be obtained by user agencies (the State of Nebraska and DAS Personnel Division in this case) to gain an understanding of the service organization's control environment. Based on our review, the guidance provided in SAS 70 is applicable to ASI as they provide services to the State of Nebraska in which they execute transactions, maintain the related accountability, record transactions, and process related data. The SAS also provides guidance to external auditors to provide two types of reports on service organizations such as ASI. It provides guidance on "Reports on Controls Placed in Operation" and "Reports on Controls Placed in Operation and Tests of Operating Effectiveness." Either report would provide DAS Personnel Division with an external assessment of ASI's internal control processes and procedures over the claims they process for the State of Nebraska.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

4. Monitoring of Claims Paid (Concluded)

However, the “Report on Controls Placed in Operations and Tests of Operating Effectiveness” would provide more assurance, as its name implies, as it would report on evidence of the service organizations control effectiveness.

This was a comment in our fiscal year ended June 30, 2000, audit report of DAS.

Based on our review we believe DAS Personnel Division’s controls over the claims process are inadequate. Internal monitoring procedures for its claims processing as noted above could be improved. In addition, based on inquiry of the Division, ASI does not have either of the SAS 70 reports as noted above.

Without adequate monitoring by DAS Personnel Division and assurance of ASI’s claims processing procedures and controls, there is a higher risk that claims are not processed in accordance with Section 125 of the Internal Revenue Code.

We recommend that DAS Personnel Division implement procedures to ensure claims paid by ASI are in accordance with the contract and are proper. We further recommend the Division obtain a better understanding of the controls ASI has in place to ensure claims are processed in accordance with the contract. We believe the best way to accomplish this is to obtain a SAS 70 report from ASI.

Agency Response: Procedures for monitoring claims processing will be reviewed and corrective action taken to ensure adequate internal controls are in place for this process. Regarding the SAS 70 report, this report was not a provision in the ASI RFP or contract. We will ensure that a request for this report is a standard provision in future RFPs.

5. Contract Bid Evaluation Documentation

Documentation from individual bid evaluation committee members supporting the composite summary of the individual evaluations were not maintained as part of the contract file for three of four service contracts tested. Service contracts awarded to Sedgwick Claims Management Systems, Modern Methods Inc., and Alltel Wireless did not have supporting documentation for the composite summary of the individual evaluations.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

5. Contract Bid Evaluation Documentation (Concluded)

Neb. Rev. Stat. Section 73-505 R.R.S. 2003 states, "State agency directors shall be responsible for maintaining accurate documentation of the process used for selection of all contracts for services . . . Such documentation shall be kept with each contract for services."

The absence of supporting documentation makes it impossible to verify with any certainty the scores reflected on the composite summary are the actual scores of the individual bid evaluation committee members.

We recommend all documentation from individual bid evaluation committee members be maintained to accurately document the process used for selecting the lowest responsible bidder and that this documentation be kept with each contract for services. We recommend at a minimum, individual bid evaluation committee members initial or sign the composite summary of the individual evaluations as to verify the accuracy and legitimacy of the scores.

Agency Response: The referenced statute requires "adequate documentation of the process used for selection of all contracts for services." The summary sheet does provide documentation of the process that was used. The agency will however, consider whether additional supporting documentation is appropriate and will revise policy as necessary.

6. Contract Procedures

DAS has a dual role in contracting for good and services. They are responsible for contracts that ensure the specific duties of the agency are met. DAS Materiel Division is also responsible for contracting for goods and services for the State as a whole when deemed necessary or beneficial; and for establishing contracting policies and procedures to be utilized by all other State agencies, unless otherwise exempted by State statute. The Division handles statewide contract renewals that are worth millions of dollars each year. During our testing of contracts and review of contractual procedures we noted:

- Two of seven contracts tested did not have documentation to show the contract was reviewed by legal counsel. Information was also requested from DAS Materiel Division to verify documentation of legal review of standard contract templates/terms. No documentation was received. We received indication that legal counsel for DAS reviewed the contracts, but such review was not documented. When a review is not documented there is no assurance the review was actually performed.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

6. Contract Procedures (Continued)

- The Division indicated to us that there are processes in place to determine when to renew or not to renew contracts. According to discussion with management, the process consists of reviewing the contract terms to ensure renewal is an option, checking the Consumer Price Index (CPI) for any price reductions in the area, and considering the competition level in the relevant area, among other factors. However, there are no written policies and procedures on this process.
- The only documentation kept regarding this review is the buyer's signature, the Procurement Manager's initials, and the Administrator's signature. These signatures were the documentation that the review was completed. However, no other documentation exists to show they performed this review. There is also no documentation to show how the renewal would be in the best interests of the State.

Good internal controls over contracts requires a review of contracts by a person or persons having the legal expertise and knowledge to determine if the contract is in compliance with Federal and State laws and regulations governing contracts, and to ensure the best interest of the State is being served. In addition, good internal controls require that when a legal review is performed it be documented.

Good internal controls would require when a review of a contract which could potentially be renewed is performed that it be documented. This would document the procedures, in accordance with management's directives, were actually performed. Good accounting practices would require the policies and procedures to be in writing to ensure consistency and avoid confusion.

When legal reviews are not documented there is less assurance the review was actually performed to ensure the State enters into contracts that meet all legal requirements and are in the best interest of the State.

When a review of a contract is performed to determine if a contract should be renewed or re-bid and the procedures performed are not documented, and there are no written policies and procedures to ensure procedures are being followed consistently, there is, again, a greater risk the best interest of the State is not being obtained.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

6. Contract Procedures (Continued)

We recommend DAS's legal counsel review contracts before they are executed and the review be documented. This can be accomplished by legal counsel signing a checklist or routing sheet for the contract, or by legal counsel drafting correspondence stating the recommended changes to the contract or approval of the contract. We also recommend any standard contract templates/terms be reviewed annually, at a minimum, and that this review be documented on a standard form and maintained in a separate file for reference.

We further recommend the internal control procedures for the renewal of contracts DAS Materiel Division indicates are in place be documented. We also recommend DAS Materiel Division establish a written policy regarding the processes and procedures that are to be followed when considering whether a contract should be renewed or re-bid.

Agency Response:

Legal Review & Documentation of Legal Review

Many contracts are routine and contain only standard, previously approved terms and conditions. Additional legal review of such contracts would not add value and does not seem to be the most efficient use of state resources. There is no statutory requirement for any legal review. We are aware of no challenges to DAS contracts or issues raised which would have been avoided had there been legal review. Reviewing every contract and documenting such review would not be possible with current resources. However, DAS will review current policies and consider whether additional review or documentation of review is appropriate and will revise policies as necessary.

Policies & Procedures on Renewal & Documentation of Renewal Review

Statute prohibits perpetual contracts but does not specify a maximum length for contracts. Materiel Division recommends that contracts be limited to 3 to 5 years depending on whether it's a good or service and uniqueness of the good or service. Rather than having the contract term be the entire 3 or 5 years (during which there would be no review), Materiel Division recommends one-year renewable terms to give the State an additional tool for contract

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

6. Contract Procedures (Concluded)

Agency Response, Concluded:

management as well as added contract flexibility. At renewal Materiel Division receives a notice from the agency indicating vendor performance and the notice from the vendor indicating willingness to continue with the contract and buyers consider all other relevant information (such as CPI, other interested vendors, etc.). There is no statutory requirement for the one-year renewals or for a review to be conducted prior to renewal. DAS will consider whether additional documentation of renewal procedures is appropriate and revise policy as necessary.

7. Imprest Payroll Fund

The Imprest Payroll fund is the State's statewide payroll fund used to process payroll for all State employees and to account for all payroll deductions such as Federal and State income taxes, other Federal taxes, and all other employee and State payroll benefit deductions. The Imprest Payroll Fund accounts for hundreds of millions of dollars in transactions each fiscal year. DAS Accounting Division is responsible for the accounting of this fund.

During our review of this fund, we noted a monthly reconciliation between the amounts collected from all State agencies for employees salaries, their payroll deductions, plus the State's share of these payroll deductions, to the amount paid to employees and vendors for these deductions had been started on a monthly basis; however, no monthly reconciliation has been completed since NIS began processing payroll in January 2003.

From our review of the reconciliation process that has been completed, we did note DAS Accounting Division does review the payment against the Deduction Benefit Account (DBA) code and extract of transactions (detail of the transactions that make up the DBA coded total), if available. If variances are noted DAS Accounting Division investigates and determines why there was a difference. However, we also noted the account balances (All activity through this fund is accounted for through the following accounts: Due to vendors, Due to Employees, Due to Fund, and Due to Government) as of June 30, 2004, were materially misstated on NIS, in some cases by millions of dollars. For financial statement reporting purposes these accounts as of June 30, 2004, have been materially adjusted.

We also noted there was no documented review of changes made to the DBA codes and the related plans (For example there is a DBA code for the accumulation of all the payments to be made to a health insurance carrier for a specific health insurance plan selected by State employees---both the employee

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

7. Imprest Payroll Fund (Continued)

and State's share). NIS accumulates these amounts through liability accounts, and then processes payments to the vendor—in our example to the health insurance carrier. There are in excess of one hundred DBA accounts set up in NIS. One individual in DAS can and does make changes to these DBA codes without any review of these changes by another individual. The entire functional team, which includes several people, has the ability to change the DBA codes. Thus there is no independent review of the changes made to the DBA codes to ensure only valid and proper DBA codes have been established.

Good internal control requires a reconciliation of the fund activity to ensure the correct amount of money is being received, is being paid out to the correct vendor, and the account balance yet to be paid is correctly stated and supported. Good internal control also requires a documented review of changes made to the DBA codes by someone separate from the person who changes the codes. This review should be by an individual knowledgeable of NIS to ensure only valid and proper DBA codes have been established.

When a reconciliation as described above is not performed on a monthly basis, on a fund that accounts for millions of dollars, there is a significant risk of errors occurring and a greater risk of irregularities occurring and going undetected.

In addition, when there is no documented review of changes made to the DBA codes by someone separate from the person who changes the codes, there is, again a greater risk errors and irregularities will occur and go undetected.

We recommend DAS Accounting Division establish as a priority a monthly fund reconciliation process that will provide assurance all money processed through the Imprest Payroll Fund is accounted for properly. This would include a review of all account balances on a monthly basis to ensure these balances are correctly stated. In addition, we recommend reviewing the security access related to those who can change the DBA codes and develop a procedure to document a review of any changes made.

Agency Response:

Imprest Payroll Fund:

DAS Accounting has reviewed the accounts and prepared adjusting entries to correct some conversion issues. We are working on a reconciliation process that will provide a timely reconciliation of all the imprest accounts.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

7. Imprest Payroll Fund (Concluded)

Agency Response, Concluded

There are 108 accounts being used to track various activities in the Imprest Fund. Each object relates to a different vendor or benefit. Each must be reconciled separately.

Originally during the design phase of NIS, a set of business unit/object codes was developed using Income Statement business units. As the design phase progressed, it was determined that Balance Sheet business units were more appropriate to use. At conversion, not all activities were converted using Balance Sheet business units and some on-going activities were using the Income Statement business units in error. The on-going activities have now been converted to the appropriate Balance Sheet business unit/object codes. Adjustments have been processed to correct some conversion entries that were made to the wrong set of business unit objects.

Of these 108 accounts, 35 accounts were reconciled, including the above noted conversion errors. In addition, we have reviewed the 73 other accounts. Reconciling the other accounts is on going. However, we have examined such accounts and the remaining balances appear reasonable.

DBA Codes:

This process has not changed, it was the same under NEIS. The DBA codes can be changed by very few people, and there really are a variety of independent reviews that take place to ensure that the deductions and related payments are valid and accurate. First of all, the deductions for a DBA code have to come from employees' pay. If the wrong amount is being deducted, the employee will let us know. Second, someone in State Accounting must create a payment for the DBA deductions. If a deduction has been made that is unusual, they will notice. And thirdly, if the vendor does not get the expected amount of payment from the deductions, we will hear from such vendors. The agency believes there are enough controls to ensure no improper payments are made. DAS will however consider whether additional procedures or documentation are appropriate for DBA changes and will implement or revise current policy as deemed necessary.

8. Fixed Assets

DAS had a total of \$174,155,253 in fixed assets recorded on NIS as of June 30, 2004. DAS's fixed assets include equipment, buildings, and land. DAS has 13 divisions. The accounting for and the control over DAS fixed assets is at the division level.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

8. Fixed Assets (Continued)

Neb. Rev. Stat. Section 81.1118.02 R.R.S 1999 states “(1) 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 each executive, department, commission, or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission or other state agency as of June 30 and shall be completed and filed with the materiel administrator by August 31 of each year . . . (2) If any of the property of the state, referred to in subsection (1) of this section, is lost, destroyed, or unaccounted for by the negligence or carelessness of the executive, department, commission, or other state agency, the administrator shall, with the advice of the Attorney General, take the proper steps to recover such state property or the reasonable value thereof from the executive, department, commission, or other state agency charged with the same and from the person bonding such executive, department, commission, or other state agency, if any . . . Each such executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska.” Good internal controls over fixed assets would also require accurate and complete records be kept of the assets.

During testing for compliance with this State Statute, we noted the following:

- Staff at DAS Accounting Division stated they do not mark all of their items as “Property of the State of Nebraska.”
- Staff at DAS IMServices Division stated they did not perform a physical inventory count as of June 30, 2004, and DAS Budget Division did not have documentation of their physical inventory count at year end.

During our examination fieldwork, DAS IMServices Division was performing a physical inventory. Their preliminary results noted the following:

- Conversion issues with fixed assets.
- Items were found which were previously surplus or destroyed prior to conversion, and either should not have been converted or were not placed in the same status as they were prior to conversion.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

8. Fixed Assets (Continued)

- Documentation of the cleanup of DAS IMServices Division's fixed assets consisted of electronic files listing the items in question that were verified with Surplus Property. The items verified had corresponding surplus numbers. DAS could not provide hard copies of any documentation of their cleanup process or any other documentation such as surplus property notification forms to support the surplus or destruction of these items. The APA did view electronic copies of the surplus property notification forms sent to Surplus Property.
- DAS could not provide complete and adequate documentation for those items that did not have corresponding surplus numbers but that the DAS IMServices Division believes the items should be surplus based on electronic notes in the old Internal Billing System (IBS) indicating the items have been surplus or destroyed.
- During our examination, the APA had to run fixed asset reports (Auditor Fixed Asset Listing, Additions and Retirements, and the Asset Master List) several times in order to determine the final figures to use in the workpapers and footnote. Changes to the specifications of the additions and retirements report were made, causing the final figure for the fiscal year 2004 additions to change.
- We selected 68 assets from the fixed asset records and attempted to locate the items. We noted the following:
 - Four items could not be located.
 - Three were not tagged, one of which had an incorrect description.
 - Four had a typo in the serial number.
 - Three additional items could not be located. After the auditor brought this to the attention of DAS, DAS indicated these items had been surplus and began the process to prepare the appropriate surplus documents.
 - Staff indicated four items we selected were not tagged. They were subsequently tagged by DAS. Two of these four items did not have serial numbers that agreed to the numbers on NIS.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

8. Fixed Assets (Continued)

- Two were duplicates, one of which was surplus after we notified the DAS of which assets we would be testing.
- We selected 18 assets from the physical items in DAS and attempted to locate them on the fixed asset listing. We found all 18; however, we noted four had serial numbers on the asset that did not match the serial numbers on the fixed asset listing.
- During testing of surplus documents, we noted two of three assets were not promptly removed from the records for DAS Communications Division and DAS IMServices Division.
- We selected six original fixed asset disbursement documents to determine if the fixed assets purchased on those documents were added to the fixed asset records. We noted the documentation provided was not adequate to determine the acquisition date and cost for one asset, the acquisition date for one of the assets tested did not appear to be in compliance with the agency's policy, and DAS was not able to provide supporting documentation for two assets tested, as two disbursement documents could not be located. Records Retention and Disposition Schedule 124, Item 124-2-54, states disbursement documents must be kept on file for at least 2 years, provided audit has been completed.
- During review of the internal control questionnaire, we noted a lack of segregation of duties. The following divisions had the same individual performing all fixed asset functions, especially maintaining the fixed asset records and completing the physical inventory count: Accounting, Budget, Building, Communications, Personnel, TSB, CIO, and Risk Management. Those divisions not listed above do have the same individual performing all of the fixed asset functions, do have a separate individual reviewing and approving, however, these procedures are not documented. Good internal control requires compensating controls be in place and documented if there is a lack of segregation of duties to ensure the accuracy of inventory records.
- It is our understanding fax machines located and purchased by all State agencies out of their appropriation currently are on each State agencies fixed asset records. However, these fixed assets should be recorded on the fixed asset records of DAS Communications Division and should be assigned a tag number. This appears to be the requirement of Neb. Rev. Stat. Section 81-1120.19 R.S.Supp., 2004 which states “. . . The powers conferred by this section shall be subject to the condition that, except for existing state-owned facilities, the division shall

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

8. Fixed Assets (Continued)

obtain all telecommunications service as defined in section 86-121 from telecommunications carriers that are certificated or permitted by, or registered with, the Public Service Commission for any area in which such services are rendered. Any purchase or lease, except from such telecommunications carriers, made by the division shall be made through the materiel division of the Department of Administrative Services pursuant to the functions, powers, and duties of such division.” DAS Communications Division and DAS Materiel Division-Surplus Property (Surplus Property) are in the process of transferring these assets on NIS.

The APA made further inquires to determine what procedures were in place to ensure, when these fax machines are surplus, the proceeds of the sale would be deposited to the fund in which they were originally purchased as required by Federal requirements and a general policy of the State. It is Surplus Property’s understanding these proceeds would be deposited to the Division’s fund. However, Surplus Property could not provide us with any support for this position. As noted, the statute referenced above is silent on this issue.

When internal controls and procedures are not adequate to ensure the fixed asset records of the State are accurate and complete, DAS loses control and accountability over those assets and greatly increases the risk of assets being misplaced or stolen. In addition, when there are no clear policies and procedures in place to ensure proceeds from surplus items are appropriately deposited, the proceeds may be deposited to the wrong fund.

We recommend:

- DAS comply with State Statute and ensure that all assets, those on the fixed asset listing and those that are not, are marked as Property of the State of Nebraska. Tags should be attached to the asset as soon as the asset is received.
- DAS comply with State Statute and implement procedures to require all divisions to take an annual physical inventory count of all fixed assets to ensure there are not duplicates, that all assets which should be on the listing are on the listing, and that the tag and serial numbers, asset locations, and asset descriptions all agree to what is on NIS and to ensure those assets that need to be surplus, are properly disposed of.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

8. Fixed Assets (Continued)

- DAS continue follow up procedures on DAS IMServices Division's fixed assets, make certain assets in question are surplus or destroyed, and ensure adequate documentation is kept for all follow up procedures related to the conversion issues. In addition, DAS should keep documentation of their physical inventory.
- DAS inform all State agencies of the changes made to the fixed asset reports and the accuracy of the reports.
- DAS ensure there is an adequate segregation of duties and if not possible, ensure compensating controls are in place.
- DAS comply with the records retention policy and keep adequate documentation on file for at least 2 years.
- DAS determine and document their position whether or not the sale of fax machines purchased out of the funds of other State agencies should be deposited to those funds or a DOC fund.

Agency Response:

Fixed Assets General Issues:

The agency does have policies that require all assets be tagged "Property of the State of Nebraska" where required. DAS also has a policy which requires all divisions to perform an annual inventory. The agency will review current procedures and continue to implement improvements to agency policies and procedures related to fixed assets. The agency will also centrally monitor those fixed asset procedures within the divisions to ensure compliance with agency policies and procedures.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

8. Fixed Assets (Concluded)

Agency Response, Concluded:

Fixed Assets NIS Reports:

After reviewing the additions and retirements report with the APA, the NIS Team discovered issues with the coding of the report. This report has not been utilized or questioned by many agencies and there was never a reason to suspect it was coded incorrectly. During the implementation of fixed assets on the NIS Project, this report was created primarily for the use of the APA. The report is now coded accurately and will be a primary tool for the APA to utilize in other State Agency audits.

In addition, the NIS Team also discovered the Auditor's Fixed Asset Listing by Tag Number had data selection causing some fixed assets to improperly not appear on the report. Once again, until the APA questioned the report, there was never a reason to suspect it was not providing accurate results. The data selection has been provided to the APA and after the April production build in NIS, this data selection will be in the report for all agencies to see and a Flash Memo will be sent communicating this to the State Agencies.

Fixed Assets – Surplus of Fax Machines:

DAS has reviewed the policy and procedure concerning purchases of fax machines. Based upon this review and effective immediately, fax machines costing below \$1,500 will be purchased directly by state agencies and will remain their property. Any subsequent surplus sales of these fax machines will be properly deposited to that agency's fund of origination. Fax machines costing \$1,500 or more, will be purchased by DAS Communications division, and will be recorded as a fixed asset of DAS Communications division. Any proceeds from sales of these fax machines will be deposited into Communications division funds.

9. Accounting Division Head

Neb. Rev. Stat. Section 81-1110 R.R.S. 1999 provides, "The Director of Administrative Services may appoint as accounting division head any person who shall have successfully completed a four-year course with a major field of concentration in accounting at an accredited college or university and who shall have had not less than three years responsible experience either as an auditor or in an executive capacity involving responsibility for directing the work of others engaged in governmental accounting or auditing or both, **and in addition shall be a certified public accountant.**" (Emphasis added.)

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Continued)

9. Accounting Division Head (Continued)

Neb. Rev. Stat. Section 1-151 R.R.S 1997 provides no person shall assume or use the title or designation certified public accountant or any other designation tending to indicate that such person is a certified public accountant unless such person has (1) received certification in Nebraska; and (2) either holds a valid permit or is classified as inactive under Section 1-136.

A Nebraska Attorney General's Opinion, 2000 Op. Att'y Gen. No 36, also suggests a person with the designation of certified public accountant in Nebraska must comply with Section 1-151 which states, ". . . we have concluded that, although the statutes in question are not entirely clear, one cannot use the CPA designation until one has obtained a certificate of certified public accountant, the requisite work experience, and either a permit to practice or classification as inactive."

Neb. Rev. Stat. Section 1-124 R.S.Supp., 2004 provides the Nebraska Board of Public Accountancy may, at its discretion, waive its examination requirements and issue a reciprocal certificate as a certified public accountant to any person who possesses the qualifications specified and who is a holder of a certificate as a certified public accountant, then in full force and effect, issued under the laws of any state. Implicit in this statute is the requirement a foreign certified public accountant must petition for recognition in Nebraska.

It has come to our attention the DAS Accounting Division head is a certified public accountant with an inactive permit in the State of Minnesota, not in the State of Nebraska.

Nowhere is the term certified public accountant defined in Section 81-1011; however, based on our analysis of the above statutes and Attorney General's opinion, the requirements of Neb. Rev. Stat. Section 81-1110 R.R.S. 1999 suggest the DAS Accounting Division head is required to be a certified public accountant according to the terms and conditions as described by Neb. Rev. Stat. Section 1-151 R.R.S. 1997.

We recommend the Director of DAS request an Attorney General's opinion to determine if the Accounting Division head currently meets the requirements of Neb. Rev. Stat. Section 81-1110 R.R.S. 1999 or take steps to ensure the Accounting Division head is in compliance with Neb. Rev. Stat. Section 81-1110 R.R.S. 1999 by seeking reciprocity under Neb. Rev. Stat. Section 1-124 R.S.Supp., 2004.

COMMENTS AND RECOMMENDATIONS

(Continued)

GENERAL (Concluded)

9. Accounting Division Head (Concluded)

Agency Response: The Department disagrees with this finding. The State Accounting Administrator is licensed as a CPA. He belongs to the Nebraska Society of CPA's and the AICPA. He serves on a national AICPA committee, representing the state comptrollers of all fifty states. There is no doubt he is a CPA with the requisite experience. The statute to which you are referring only requires that he be a CPA, it does not state he must be a Nebraska CPA. However, DAS will confer with agency legal council to determine whether or not to request an Attorney General's opinion on this matter.

PAYROLL/PERSONNEL

10. Timesheets

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." In addition, good internal control requires hours actually worked be adequately documented, for example, via timesheets, time logs, etc., and such documentation kept on file to provide evidence of compliance with the requirements of Section 84-1001. Furthermore, good internal control also requires that whenever employees accrue vacation and sick leave, adequate documentation should be maintained to support the employees' having "earned" the amounts recorded in the leave records by documenting not less than forty hours of work each week.

State Agencies General Records Retention Policy 124-4-30 states timesheets may be disposed of after 3 years, provided audit has been completed.

DAS Human Resource Policies and Procedures Manual states "Hours actually worked in excess of 40 in any work week are required to be compensated at a time and one half rate." Good internal control requires overtime or compensatory time to only be recorded once 40 hours of actual work has been reached. Employees should not be earning compensatory time or overtime at straight pay for hours worked over 8 in a day when they did not work 40 hours for the week.

Article 12.8 of the 2003-2005 Nebraska Association of Public Employees-American Federation of State, County and Municipal Employees (NAPE-AFSCME) contract states "Employees eligible for

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Continued)

10. Timesheets (Continued)

overtime shall receive compensation . . . in the form of either pay or compensatory time off.” It goes on to say “The employee must indicate his/her choice of overtime compensation on the timesheet or on a required overtime approval form for the pay period during which the overtime was worked; the first overtime designation made during a pay period applies to the entire pay period . . .” Title 273 - Nebraska Classified System Personnel Rules, Chapter 8, Section 003.03 states that non-exempt employees “. . . shall receive compensation . . . in the form of either pay or compensatory time off . . .”

During our testing of payroll, we noted the following related to employee timesheets:

- We noted 4 of 19 employees tested did not have a timesheet. These were upper management level employees and DAS did not require this type of employee to submit a timesheet. As a result, there was no support all staff rendered not less than forty hours of labor each week as required by statute. All of these employees accrued vacation and sick leave. With the implementation of NIS Time Entry, supervisors and split coded employees do not record hours worked, but rather only their leave used for the period.
- We noted 3 of 19 timesheets requested for additional testing were not on file. As a result, DAS was not in compliance with record retention policies.
- Some employees were recording compensatory time or overtime on a daily basis on their timesheet. If the employee worked more than 8 hours in a day, the employee would record 8 hours of regular pay, and the rest as overtime pay or compensatory time earned. This would be adjusted by the Personnel Assistant before payroll was processed so that compensatory time or overtime that was recorded before the employee actually worked 40 hours in the week would be recorded as overtime at straight pay or compensatory time at straight pay. When employees are recording on their timesheets overtime or compensatory time before it is actually earned, there is the risk the timesheet will not get corrected before it is submitted and an employee would be paid time and a half without having worked more than 40 hours for the week.
- Some employees were recording both compensatory time and overtime in the same pay period, which is a violation of the NAPE-AFSCME contract and the Personnel Rules and Regulations. However, this is no longer an issue with Employee Time Entry as NIS will not allow it.

The APA position is that DAS does not have documentation to support they are in compliance with the above statute and recommends DAS establish a policy requiring all DAS employees maintain adequate

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Continued)

10. Timesheets (Concluded)

supporting documentation, such as timesheets, to ensure all staff render not less than forty hours of labor each week as required by Statute. We also recommend DAS comply with the Secretary of State's Record Retention policies. We further recommend DAS communicate with their employees that compensatory time or overtime should not be recorded until 40 hours of regular pay has been recorded.

Agency Response: As to Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999, that statute does not require that employees complete timesheets. DAS Administration has taken the position that exception reporting for leave is more appropriate for those Managerial employees not eligible for overtime. With the implementation of NIS, all employees do record time entry and all on-line time reporting is approved by appropriate supervisors for each pay period. For managerial/overtime exempt employees, the agency policy continues to require those employees to record any leave taken and that leave be approved by the employee's supervisor. DAS believes best business practice whether in government or in industry supports this policy. Requiring exempt employees who often work well in excess of 40 hours to complete an hourly timesheet, is not best business practice in our opinion. If the APA can produce documentation that general government or industry practices support hourly time reporting for management, we are willing to reconsider our policy. In addition, we feel that exception reporting in these instances does not violate state statute. With NIS, the Agency is in compliance with records retention as timesheets are saved in the NIS system for all employees. The APA has not identified any instance whereby a DAS employee did not complete 40 hours of work as required by this statute.

As to recording compensatory time, the agency will re-communicate the compensatory and overtime policy with employees and supervisors. As the APA stated above, NIS does have built-in controls that will not allow employees to record both overtime and compensatory time, so that is no longer an issue.

APA's Response: We do not believe exception reporting of time worked provides adequate documentation to determine whether an employee worked 40 hours per week. There are, in our opinion, options to meet the documentation requirements of the 40 hours per week without an exempt employee documenting they work 8 hours each work day. For example, the agency could develop a time report where employee would certify they worked or were on approved leave 40 hours per the reporting period. Good internal control, in turn, would require a supervisor to sign this time report. We suggest DAS consider this option or a similar reporting option to provide documentation that all employees worked 40 hours per week.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Continued)

11. Procedures for Terminations

Neb. Rev. Stat. Section 81-1325 R.R.S. 1999 states “Each employee . . . upon termination of employment with the state by reason of retirement . . . shall be entitled to a one-time payment of one-fourth of his or her accumulated unused sick leave.” Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 states “Each employee, upon retirement, dismissal, or voluntary separation from state employment, shall be paid for unused accumulated vacation leave.” Good internal control requires leave hours be accrued based on actual hours worked and that no leave hours be accrued after termination.

Good internal control requires a written policy on how the agency should handle sick balances that remain on NIS after an employee terminates.

Good internal control also requires terminated employees be removed of their NIS access and removed from payroll in a proper and timely manner.

During our testing of payroll, we noted the following related to terminations:

- Two of five retired employees tested were not paid out their vacation and one-fourth of their sick leave appropriately. One employee was overpaid 3.63 hours or \$56. Another employee was underpaid 6.34 hours or \$72. Besides the obvious effect employees were not paid the correct amount, this type of error results in noncompliance with State Statute and also indicates a higher risk of misuse of State funds.
- Five of six terminated employees tested with vacation balances, were not properly paid their balances on their final pay check. Two of these employees were underpaid for 1.85 hours and 0.49 hours, respectively, due to the payoff not being calculated correctly. One employee had a vacation balance on NIS that was properly not paid; however, the balance remained on the system and should have been removed. One employee was never paid out her vacation balance, and is owed 28.3 hours. Finally, one employee was paid out the correct amount, however, DAS did a one-time override to his pay, and therefore, the balance of his leave remained on NIS. Again, the effect of these errors results in employees not being paid the correct amount, noncompliance with State Statute, and also indicates a higher risk of misuse of State funds.
- DAS does not have a policy on how to handle sick leave balances on NIS once an employee terminates. Sick balances remain on NIS; therefore, employees which return after a leave of more than five years may inappropriately have sick leave hours in their beginning balance that they are no longer entitled to.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Continued)

11. Procedures for Terminations (Continued)

- Three of five employees tested did not have their NIS access removed in a timely manner. These employees had their access removed between three and five months after their termination. If a terminated employee is not removed immediately, there is a risk the employee could access NIS and interrupt the system.
- Two of five employees tested were not removed from the payroll in a timely manner and had three or more additional pay stubs after their termination. There was no payment made to these employees; however, when terminated employees remain on NIS there is a greater risk of inappropriate payments being made.

We recommend DAS:

- Develop written procedures and consider developing a standard worksheet for calculating employees' final pay and payoff of leave balances. A second individual should review the calculation to ensure the final accrued leave is correct and the payoffs of unused vacation and sick leave balances are correct.
- Develop a policy on how sick leave balances should be handled on NIS once an employee terminates and communicate this policy to all State agencies.
- Implement procedures to ensure terminated employees are removed from payroll in a timely manner.
- Implement procedures to ensure the NIS Security Administrator for DAS notifies the IMServices Division help desk immediately upon the termination of an employee to have their access removed from NIS.

Agency Response:

Final payment upon termination:

DAS will implement policies to review and approve accumulated balances upon termination. Included in those policies will be a review by Central Finance of all payout amounts calculated by Central HR. Those policies are in the process of being written and will be distributed to appropriate personnel within the next 30 days.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Continued)

11. Procedures for Terminations (Concluded)

Agency Response, Concluded:

Sick leave balances upon termination:

This is not a finding relative to the DAS financial statement audit, but is rather a statewide issue. This matter has been forwarded to DAS State Accounting for their consideration. The agency does not feel this finding is relative to our financial audit and request it be dropped.

APA's Response: As DAS State Accounting is a division of DAS we believe this is an appropriate agency finding.

Termination of NIS access:

DAS Central Finance and DAS HR Central have changed procedures for terminations this fiscal year. Currently, HR Central notifies Central Finance immediately of termination information via email. Central Finance then forwards a termination spreadsheet to NIS security immediately. Termination of employees is now performed in a timely manner.

12. Inadequate Personnel Files

DAS State Personnel Classified System Rules & Regulations, Chapter 11, Section 2, states "Each agency covered by the State Classified Personnel System shall maintain certain personnel records . . . The required records are Copies of all personnel transaction forms pertaining to individual employees. Copies of documents initiated by the employee that affect pay (W-4's, authorized deductions, etc.) . . ."

State Agencies General Records Retention Policy 124-4-20 states I-9's can be disposed of 3 years after date of hire OR 1 year after separation/termination from employment, whichever is later.

During our detail testing of payroll, we noted the following:

- 10 of 20 employees tested did not have authorizations for their salary on file.
- 5 of 20 employees tested did not have I-9 forms on file when required.
- 14 of 20 employees tested had payroll deductions which could not be traced to an authorization form in their personnel file.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Continued)

12. Inadequate Personnel Files (Concluded)

Without adequate and complete personnel files, there is increased risk for unauthorized employee deductions.

We recommend DAS review their employee personnel files and ensure all necessary and required forms are included in the files. (The APA understands when all State employees were required to enter their own benefit information on NIS during the fiscal year ending June 30, 2005, that documentation requirements authorizing these deductions would no longer exist as they would be authorized directly by the employee.)

Agency Response: Employee files have been and will continue to be reviewed to ensure they contain all required information. The agency will implement documented policies and procedures to ensure that employee personnel files are complete and accurate. The Agency now has a centralized HR/Payroll team. This should facilitate improvements on payroll and personnel practices within DAS.

13. Adjusted Service Dates

Good internal control requires adequate procedures to ensure all adjusted service dates on NIS are correct.

The NAPE/AFSCME labor contract as well as Title 273 of the Nebraska Classified System Personnel Rules states the employee's Service Date shall be adjusted when a leave of absence exceeds 14 consecutive calendar days.

We noted 2 of 20 employees tested had incorrect adjusted service dates on NIS.

When an employee's adjusted service date is incorrect, the employee could be earning vacation and sick leave at an incorrect rate.

We recommend DAS implement procedures to ensure all adjusted service dates on NIS are correct. We further recommend DAS take action to correct these two employees' adjusted service dates, and determine if any adjustments need to be made.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Continued)

13. Adjusted Service Dates (Concluded)

Agency Response: After review of supporting documentation for the two employees, it was determined that these are not NIS errors, but the errors were in fact made in excess of 20 years ago. One of the employees in question was formerly employed by the Auditor of Public Accounts. The error to that employee's service date was made by the APA while he was employed by them, and has been incorrect both in NEIS and NIS. DAS does not feel either of these errors are material, and although we will correct the service dates in NIS, no adjustments to leave balances for either employee will be required.

14. Leave Balances Transferred From NEIS to NIS

Good internal control requires a review of all employee leave balances to ensure balances were properly transferred from the old accounting system, Nebraska Employee Information System (NEIS), to the new accounting system, NIS.

During testing of payroll, we noted 2 of 19 employees tested did not have their sick and vacation leave balances properly transferred from the old NEIS system to the new NIS system. As a result, these employees' vacation and sick leave balances were overstated. One employee's vacation leave was off 3.86 hours and sick leave off 4.62 hours. The other employee's vacation and sick leave was off 3.7 hours. DAS Accounting Division felt these were isolated incidents, and that no other employee balances were incorrect. Therefore, the APA did additional testing of 35 employees and noted 11 more individuals from DAS Building Division with possible incorrect balances, and two more individuals from DAS IMServices Division with possible incorrect balances. These balances may appear incorrect because of adjustments made to the 2003 beginning balance, but DAS did not provide documentation to support their position.

We recommend DAS review all employees' beginning vacation and sick leave balances at January 1, 2003, and ensure they agree to the ending 2002 NEIS balances. If adjustments were made that cause the balances to differ, the adjustments should be adequately documented.

Agency Response: The agency will go back and review employees for any balance discrepancies. A sample review performed by Central Finance noted accurate leave balances for the five employees we tested. The agency believes that the discrepancies noted above for the two employees tested by the auditors, were isolated incidents. In addition, the problems encountered with NIS Payroll implementation were one-time issues and therefore will not result

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Continued)

14. Leave Balances Transferred From NEIS to NIS (Concluded)

Agency Response, Concluded:

in changes to future policy or procedure regarding payroll. For several of the additional 35 employees tested by the APA, Central Finance was able to find documentation of subsequent adjustments and corrections to the employees' balances. Time constraints during the course of the audit have prevented the agency from following up on all balances. Again, the agency will continue to review this situation and make corrections as needed.

15. Incorrect Pay Rate Used for Overtime Compensation

Neb. Rev. Stat. Section 81-117 R.R.S. 2003 states "when any employee is required to work more than forty hours in any week he or she may . . . be paid a sum equivalent to one and one-half times his or her hourly pay."

Good internal control requires a detailed review of employees' payroll for those employees with access in NIS to perform one-time overrides in the payroll function.

During our testing of payroll we noted one instance where the pay rate used for overtime compensation was 2.25 times the regular pay rate. The regular rate was \$12.021 and the overtime rate paid was \$27.048. The correct rate that should have been paid was \$18.032. This resulted in the employee being overpaid \$68. This was noted on the employee responsible for processing payroll, and who also has the ability to do one-time overrides in NIS to pay rates. Due to the lack of controls set up in NIS, the ability to do one-time overrides to pay rates exists, therefore, increasing the risk for possible fraudulent activity.

We recommend a supervisor review in detail payroll each pay period for those employees with access in NIS to do one-time overrides in the payroll function. This review should be documented for subsequent inspection.

Agency Response: The Agency has implemented procedures to now review the payrolls of all agency employees with NIS payroll access. The procedure is now for Central Finance to review all paystub data of every employee with HR22 or HR25 access. This will prevent any employee with payroll functionality from performing any overrides to their own payroll. An email verification will be sent to the Finance Manager documenting the payroll review.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL/PERSONNEL (Concluded)

16. Supporting Documentation for Payroll Allocation

Good internal control requires adequate documentation to support how cost allocations were determined.

We noted on the two employees tested whose payroll was split between fund or program that the basis for the allocation of their payroll expense could not be traced to supporting documentation. There are approximately 41 employees in DAS whose payroll is split between fund or program. This was a prior comment for the fiscal year ended June 30, 2000 audit for DAS Building Division. During our current examination, it appears this is a concern throughout the entire agency, and not just the Building Division. DAS stated payroll allocations are based upon the distribution of work and are reviewed as part of the legislative budget and rate setting procedures. However, when asked, no documentation was provided to support this review.

Without adequate procedures and documentation for how employees' payroll expenses are allocated between programs and funds, there is an increased risk payroll expenses may be over or understated in some funds or programs.

We recommend DAS develop and document formal procedures for the allocation of payroll expenses.

Agency Response: DAS payroll allocations are based upon the distribution of work and are reviewed as part of the Legislative Budget and Rate Setting procedures. The Department believes that leave allocations are appropriate for all employees with split coding. The Department's allocation of payroll has also been reviewed by the Federal auditor with no instances of concern or A-87 issues noted.

EXPENDITURES

17. Travel-State Employees

The APA selected 15 documents totaling \$16,243 out of a total of \$174,591 in travel expenditures by DAS for the fiscal year ended June 30, 2004. In our review of these documents we reviewed meal, lodging, vehicle mileage, airline travel, and other related travel expenditures. Based on our review we noted the following:

- Four documents tested did not use the correct mileage rate or it was not reasonable to reimburse mileage and other related travel expenses were not considered reasonable.

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

17. Travel-State Employees (Continued)

- a. Two employees drove separately to Kansas City at different times to catch different flights to the same conference in Harrisburg, Pennsylvania. One employee stayed overnight in Kansas City to catch his flight the next morning. The APA calculated the additional costs of the overnight stay in Kansas City (which the APA believes was unreasonable for the State to reimburse) and the additional mileage because the two employees drove separately rather than together to be \$177.
- b. Two employees were under-reimbursed mileage at an incorrect rate. The rate should have been \$.375 instead of \$.36. As a result, the employees were under-reimbursed a total of \$13.
- c. One employee was over-reimbursed mileage at an incorrect rate. The rate should have been \$.375 instead of \$.38. As a result, the employee was over-reimbursed \$14.

Agency Response:

Employees traveling to the same conference:

The two employees who went on this trip do not live in the same town. One lives in Lincoln and the other close to a town 20 miles away. While they were going to the same conference, one had to be at the conference earlier than the other. Both these facts made traveling together not feasible. In addition, both could have flown from Lincoln, which would have saved each of them personal weekend time. However, in both cases, these trips did not cost the State any more money by driving to Kansas City and flying from there than it would have from Lincoln. One stayed at a motel in Kansas City in order to catch a morning flight in order to get to the conference on time. However, this additional motel cost when added to the cost to drive to Kansas City was still less than the cost of the flight from Lincoln. The State is obligated to pay for the cost from Lincoln to the site of any approved meeting. If an employee can get there another way at less cost to the State, then the State can have no recourse and there is no statute or good business practice that dictates otherwise.

Mileage reimbursements:

Agency pre-audit procedures have recently been expanded to include a much more thorough review of all financial transactions. Although we believe these errors are isolated in nature, the agency will continue to improve pre-audit processes to prevent these issues from occurring in the future.

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

17. Travel-State Employees (Continued)

- Two documents tested did not have adequate documentation supporting meal expense or the expense was not allowable.
 - a. One employee did not have a meal log or receipts to support the meal expenses he claimed. Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 5, states “Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of the incurrence of the expense. Such log should list the date, amount, place (e.g. city) or description, and purpose for each expense or meal/food cost.”
 - b. One employee attended a conference and was reimbursed for all meals for the days she attended the conference. The conference agenda provided by DAS did not note whether or not meals were provided during the conference and thus part of the conference registration fee. DAS was not able to provide us further documentation to determine whether or not meals were provided during the conference or not. Therefore, the APA was unable to determine whether meals were allowable for reimbursement. Good internal control requires procedures to ensure meal costs reimbursed to employees are allowable.

Agency Response:

Meal logs:

DAS policy is to require an employee to maintain a meal log, or keep receipts related to meal reimbursements. However, the policy does not require employees to submit the logs or receipts in order to be reimbursed. All requests for meal expense reimbursements are reviewed for reasonableness before expenses are approval and payment is made.

Meals while attending conferences:

The APA clearly indicated that the conference registration form reviewed during testing did not indicate that meals were included. Since meals were not mentioned on the registration form the assumption should be that meals were “not” included as part of the conference and therefore the meal reimbursement to the employee was appropriate. If meals are included as part of a conference and an employee submits a request for meal reimbursement in addition

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

17. Travel-State Employees (Continued)

Agency Response, Concluded:

to the meal provided with the conference, the employee would only be reimbursed if they could provide justification that a special circumstance occurred. Special circumstances could include a meeting or other scheduling conflict, special dietary requirements, etcetera that prevented them from eating the meal at the conference. The agency reviews all meal reimbursements for reasonableness as part of the pre-audit process. The agency believes this finding should be dropped.

APA's Response: The conference agenda information we obtained for this conference was an email from one DAS staff person to two other staff persons. Nothing was provided to us directly from the conference being attended. We did not assume that if this email did not note meals were served at the conference that indeed meals were not served. We clearly were not provided documentation to determine whether meals were served at the conference or not.

- Seven documents tested did not have all the proper elements of a completed expense reimbursement document. The documents did not have one or more of these elements: start/stop times, employee job title, headquarter city and/or residence, no employee signature, authorized signature, and/or division approval signature, or was not submitted each month. Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 states, "Each request shall be fully itemized, including when, where, and why the expense was incurred and the actual amount involved." Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 also requires employees submit expense reimbursements on a monthly basis. Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 11 a., states "The employee claiming reimbursement of expenses must provide an original signature on the expense document . . ." In addition, good internal control requires procedures to ensure employees include start and stop times of travel so meals are reimbursed appropriately.

Agency Response: New pre-audit policies and procedures have been implemented to provide a more thorough review of required documentation for all payments including expense reimbursements. This should correct this issue in the future.

- One document tested did not have supporting documentation for miscellaneous travel expenses. One employee did not have supporting documentation for \$21 in long distance phone calls on his hotel bill. In accordance with DAS policy "employees may call family members at State

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

17. Travel-State Employees (Continued)

expense while in travel status. One phone call to family members of no more than five minutes is authorized each day. All other personal phone calls are made at employee expense.” However, the APA saw no documentation on the hotel bill verifying the calls met this criteria.

Agency Response: The agency is reviewing its current phone policy and considering revisions to policy to clarify restrictions on phone call reimbursements. For the document tested by the APA, the reimbursement was reviewed during pre-audit and found to be reasonable and appropriate for reimbursement to the employee.

- Four documents tested did not have the correct coding for the expense. Good accounting practices require travel expenses be correctly coded to account, fund, and program to ensure expenses are properly paid and accounted for.
 - a. Telephone calls of \$21 were coded to Board and Lodging expense and should have been coded to Miscellaneous Travel Expenses.
 - b. Parking expenses of \$104 was coded to Board and Lodging and should have been coded to Miscellaneous Travel Expenses.
 - c. Petroleum expenses of \$300 were coded to State-Owned Transportation expense and should have been coded to Vehicle and Equipment Supply Expense. Further review in this area noted a total of \$931 miscoded.
 - d. A banquet room rental expense of \$300 paid to a hotel was coded to Board and Lodging and should have been coded to Other Contractual Services.

Agency Response: We concur that some instances of miscoding were noted during the course of the audit. As stated previously, the agency has implemented new pre-audit policies and procedures, which should prevent such coding errors from occurring in the future. None of the above mentioned coding errors were material to the DAS financial statements. (In addition, in item d. above, the room rental should not be coded to Other Contractual Services, but should be coded to Building rent. Also, the telephone calls should not be coded to Miscellaneous Travel Expenses, but should be coded to telecommunications expense.)

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

17. Travel-State Employees (Continued)

- One document tested was not mathematically correct. One employee had parking expenses for \$56 which was not reimbursed because it was not included in the total on the expense reimbursement document. Good accounting practices require expense reimbursement documents be correctly calculated so employees are reimbursed for the correct amount. As a result, the State is less likely to underpay or overpay the employee.

Agency Response: New policies and procedures for agency pre-audit should prevent such errors from occurring in the future.

- For two documents tested, DAS did not have an agenda that matched the travel dates or the agenda was not adequate. Good internal control requires procedures to verify the employee's expense reimbursement agrees to the information on the receipts, expense vouchers, and any agendas related to the expenses incurred to ensure the dates, times, amounts, and locations all agree.
 - a. For one employee an agenda was provided for the conference attended in Washington, D.C., but the agenda showed the conference starting on Tuesday, September 16, 2003. However, the employee's expense reimbursement noted she flew down on Sunday even though the conference did not start until Tuesday. DAS explained the employee most likely would have flown down on Sunday for a pre-conference on Monday. However, no documentation was provided to support the pre-conference activities.
 - b. One employee attended a training course; however, the training agenda had no dates on it nor was other documentation provided to us to support the training dates. The result is the APA could not match the training dates to documentation supporting the travel dates.

Agency Response:

Employee agenda versus dates of travel:

It is not "most likely" that the employee had a pre-conference on Monday for this travel. This employee clearly indicates that she did attend a pre-conference activity on Monday and therefore needed to fly to the conference on Sunday. In addition, this employees' travel and the related conference were approved in advance of the trip, indicating that traveling on Sunday was appropriate for this conference.

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

17. Travel-State Employees (Continued)

Agency Response, Concluded:

Training agenda dates:

Conference/training agendas are not required either by statute or by State Accounting policy to be submitted and attached to employee expense reimbursements. All expense reimbursements are reviewed for reasonableness during the pre-audit process and approved by the employee's supervisor. However, the agency will consider whether policy should be amended to require inclusion of conference agendas as supporting documentation to these types of expense reimbursements.

- Good internal control requires procedures to ensure travel expenses are proper and reasonable and to ensure the dates on the bills received, which are related to a travel expense, agree to the actual dates of the travel.
- a. During our review of DAS's internal controls, we noted there was no review of direct bills, received separate from the employee's expense reimbursement document, to the employee's expense reimbursement document to determine the reason for the expense and to ensure the dates on the bill received agree to the dates on the expense reimbursement and to any agendas that correspond to the travel expense.
- b. When controls are not in place to ensure travel expenses are proper and reasonable there is a greater risk employees' travel expenses will be reimbursed for meal costs and for expenses incurred for travel that is not reasonable.

Agency Response: The agency will review current policies and procedures to see if additional procedures are necessary to ensure there is proper review of employee expense reimbursements, such as review of direct hotel bills, conference agendas, etc. This review will be done as part of the ongoing pre-audit review process.

We recommend DAS implement the following:

- Procedures to ensure travel expenses are proper and reasonable.
- Procedures to ensure compliance with DAS Policies and Procedures that require employees to either provide receipts for costs of meals or keep a meal log and comply with State Statute 81-1174 by requiring employees to fully complete expense reimbursement documents.

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

17. Travel-State Employees (Concluded)

- Procedures to ensure: 1) travel documents are properly prepared, 2) documentation is obtained to support reimbursement, and 3) expenses are properly coded to the correct accounts.
- Procedures to verify expense reimbursement information agrees to supporting documentation, which includes the date, time, amount, and location of all expenses and employees, submit their expense reimbursements on a monthly basis.
- Procedures to ensure direct bills received separate from employee expense reimbursement documents are reviewed to make certain the information on the direct bill corresponds to the information the employee submitted with their expense reimbursement document. Documentation supporting review might include some type of documentation with the direct bill; whether it is a note stating what the purpose of the travel was along with the dates or whether it is a copy of the agenda or travel request form.

Agency Response: All agency responses to Travel – State Employees were included in the detail above.

18. Travel-Contractual

We selected three documents totaling \$16,238 out of a total of \$25,033 in contractual travel expenditures by DAS for the fiscal year ended June 30, 2004. These documents were for payments on three different contracts. Our detailed review of these contracts noted the following:

- Although these contracts were selected to review the travel expenses related to them, our review noted one contract (Contract with Micro Focus) was not clearly written to define what work would be done and when the work would be considered acceptable and complete.
- In addition, the contracts did not define what would be considered reasonable travel expenses. For travel expenses we reviewed the contracts to determine what guidelines were established for travel expenses for vendor employees. Generally, we noted no specific guidelines in the

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

18. Travel-Contractual (Continued)

contracts on what travel expenses would be paid or what would be considered reasonable travel expenses. DAS management indicated they tried to follow the State's guidelines for reimbursing travel expenses for State employees. However, management also indicated this was not what always happened, as the State could not hold the vendor to something that was not specified in the contract.

- We noted the following for an employee of Micro Focus, a vendor the State had a contract with to provide services:
 - No receipt for a laundry expense of \$9 and no receipt for maid service for \$20.
 - Two parking receipts for the same garage. One receipt for \$28 was for August 4, 2003 to August 9, 2003 and the other for \$14 was for August 5, 2003 to August 7, 2003, so it appears the employee paid for parking twice for 3 of the 5 days.
 - Long distance phone charge of \$25 and no indication as to whether or not the calls were personal or business in nature.
 - From documentation provided, it appears DAS reimbursed for two round-trip airline tickets from Tampa, Florida to Omaha, Nebraska and back, totaling \$1,026, and purchased a one-way ticket for \$347 from Omaha, Nebraska to Tampa, Florida. According to the vendor, the employee expense reimbursement document, the employee only traveled to and from Omaha twice. At the completion of our examination DAS could not provide an explanation for the reimbursement of the one-way airline ticket.
 - The expense reimbursement document was not mathematically correct. The vendor employee was underpaid by \$13.
 - The vendor employee was overpaid \$44 in meals, as he requested this meal reimbursement in which another consultant traveling with him had already claimed those meals.
- We noted the following for an employee of Sybase, a vendor the State had a contract with to provide services:

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

18. Travel-Contractual (Continued)

- No supporting documentation for a \$32 taxi ride.
- \$738 was identified as “Lunch” expenses on November 14, 2003, but was actually the bill for the hotel. However, the hotel expense for November 4, 2003 to November 14, 2003, was only \$616 and the total hotel bill was \$677, which included meals and laundry expenses. Thus it appears the vendor employee was overpaid \$122, the difference between the actual lodging expenses of \$616 and the \$738 claimed by the vendor employee.
- For an Installshield Software employee we requested documentation such as a training schedule or similar documentation to determine if the travel expense document and the amount paid on that document would be consistent. This documentation was not provided. This type of documentation would normally be available if the travel expense was for a State employee.

Good internal control requires:

- Procedures to ensure contract terms are detailed and complete as to when and what services are to be provided.
- Contract terms to define what travel expenses would be reimbursed and what travel expenses would be reasonable.
- Procedures to ensure expense reimbursement documents are reviewed to ensure they are correctly calculated so that employees are reimbursed for the correct amount.
- Procedures to verify the employee’s expense reimbursement agrees to the information on the receipts, expense vouchers, and any agendas related to the expenses incurred to ensure the dates, times, amounts, and locations all agree.

When contract terms do not clearly define the deliverables and procedures are not in place to ensure payments are properly made, there is greater risk of the loss or misuse of State funds.

We recommend DAS ensure their contracts define the deliverables of the services provided by the vendor, and agree upon the reasonableness of travel expenses prior to the work being performed.

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

18. Travel-Contractual (Concluded)

Agency Response: The agency will review current and future contracts of this nature and will include standardized language to clearly define what travel expenses will be reimbursed and what supporting documentation will be required for such travel.

19. Blue Cross and Blue Shield of Nebraska (BCBS) Rates

Certain rates for services charged to the State by BCBS cannot be verified to contracts in effect for the audit period and the drug rebates received could not be determined as to completeness. We noted the following in our test of three monthly statements (June 2003, December 2003, and May 2004):

- Rate charged of \$10 per person utilizing step therapy drug coverage for calendar years 2003 and 2004 was not included in the BCBS contract for those years. (Amounts paid by the State were \$2,710, \$2,190, and \$2,340 for the three months tested. We understand similar payments would have been made the remaining nine months of the fiscal year.)
- Rates for tablet splitting and reviews charged in calendar year 2004 were not included in the BCBS contract for that year. (For the month of May 2004, we noted the State was charged for \$480 for tablet splitting and \$1,740 for review services.)
- Administrative Expense Allowance (AEA) rates for calendar years 2003 and 2004 were detailed in the contracts for those years but a report detailing the makeup of the monthly charges was not reviewed to verify the accuracy of the monthly charges. (Amounts paid by the State were \$5,106, \$6206, and \$3,117 for the three months tested. We understand similar payments would have been made the remaining nine months of the fiscal year.)
- A portion of the drug program rebates (8%) are to be credited to the State but no supporting documentation was provided by BCBS to support the amounts credited nor was there any monitoring procedures in place to ensure the State was receiving all rebates due. The total rebates received from the pharmacy benefit manager and recorded in the accounting records by the State for the fiscal year ended June 30, 2004, was in excess of \$660,000. The contract with this pharmacy benefit manager had expired effective December 31, 2004.

Good internal control requires verification of invoiced service rates to rates specified in the contract to ensure proper amounts are paid. In addition, when drug rebates are part of the contract there should be procedures in place to ensure the amount contracted for was received.

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Continued)

19. Blue Cross and Blue Shield of Nebraska (BCBS) Rates (Continued)

When verification of invoiced service rates to rates specified in the contract is not performed to ensure proper amounts are paid and when drug rebates are part of the contract and there is no procedures in place to ensure the amount contracted for was received there is greater risk of over payments being made and that not all rebates due the State were received.

We recommend DAS Personnel Division develop procedures to ensure that invoiced rates are verified to the contract. If amounts cannot be verified to the contract, they should not be paid or the contract should be amended to incorporate the amounts. We further recommend DAS Personnel Division consider appropriate procedures to determine if the State did receive all rebates it should have received in accordance with the contract from their past pharmacy benefit manager.

We understand effective January 1, 2005, the State of Nebraska has a new pharmacy benefit manager. The contract with this vendor has a drug rebate program. We strongly recommend a clear understanding of the drug rebate program be obtained with the current vendor and that procedures be developed and documented to ensure all drug rebates due the State are received.

Agency's Response: The PBM coverage was included in the BCBSNE contract. In 2003, the PBM carrier for BCBSNE was Caremark. However, beginning 1/1/04, the arrangement with Caremark was terminated and Prime Therapeutics, which is partially owned by BCBSNE, became the PBM carrier for BCBSNE. At the time Prime Therapeutics became BCBSNE's PBM, they offered the Step Therapy and Tablet Splitting programs. These programs were agreed upon in addendums to the contract, signed by Mike Boden. As a result, neither of these programs was included in the 2003 contract agreed upon with BCBSNE. The APA was given copies of the addendums during the course of this audit. These addendums should have been utilized by the APA to trace the step therapy drug therapy rates and the tablet splitting rates to supporting documentation, rather than the BCBSNE contract.

APA's Response: The APA was provided copies of these addendums to the contract and they were utilized to attempt to secure supporting documentation from the Benefits Administrator for DAS-Personnel. The addendums did mention the programs but did not specify the rates to be charged to the State. The APA attempted to secure additional supporting documentation from the Benefits Manager and Blue Cross-Blue Shield through the Benefits Manager, but none was available, per the Benefits Manager.

COMMENTS AND RECOMMENDATIONS

(Continued)

EXPENDITURES (Concluded)

19. Blue Cross and Blue Shield of Nebraska (BCBS) Rates (Concluded)

Agency Response, Concluded:

As for verifying the accuracy of rebates, information from Walgreens Health Initiative (WHI) indicates they would be able to provide information which would substantiate the amount of rebates the State of Nebraska receives from WHI, but would only provide this information to an independent 3rd party auditor not affiliated with the State. We will not have access to the contracts between WHI and the manufacturers, as this is proprietary information. The agency will review possible procedures available to verify the accuracy of rebates received in the future.

Our current plan with WHI provides for 100% pass through rebates, with a \$2.00 minimum for retail-30 days scripts and a \$7.00 minimum rebate for 180 days scripts (whether it was obtained at retail or through mail order). If we were to have a per claim rebate as opposed to a percentage rebate, we would be better able to ascertain the accuracy of the rebates, as we do have reports indicating the total number of claims per month.

RECEIPTS

20. Documentation and Controls Over Billing Rates

DAS provides transportation, communication, accounting, purchasing, central supplies, copy services, printing services, mail services, property management, building construction and maintenance, and other basic services to all State agencies. DAS bills all State agencies (and in some cases other political subdivisions) for these services. In our review of how these billing rates were set, our testing of the amounts billed to user agencies, and our review of the controls over these rates, we noted the following:

Transportation Services Bureau Division

In our review of DAS Transportation Services Bureau Division rates, we noted the following documentation was lacking:

1. An overall detailed narrative of how rates were calculated and where information and amounts came from used in these calculations. A letter from the previous Division Administrator to the Director was provided which included a brief summary of how the rates were determined, but contained very little detail.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

20. Documentation and Controls Over Billing Rates (Continued)

2. Supporting documentation for how they determined how much to adjust the average operation costs per mile for each vehicle. Per discussion with management, these adjustments were estimates, but no documentation was maintained to support these estimates.
3. Supporting documentation for how they determined the 2002 Vehicle Cost which is used in calculating the fiscal year ended June 30, 2004, monthly lease rates. For three of four vehicles tested, the documentation provided to support the cost did not agree. Per discussion with management, these costs may have been estimates based on previous years cost or prior bids. However, documentation was not available to support how they came to the estimated amount.

Agency Response: The rate information reviewed by this audit was prepared by the previous TSB Administrator. A review of the rates themselves indicates numbers used were reasonable and the resulting rates appropriate. The recommendations made by the APA for additional supporting documentation to be developed and retained on future efforts will be taken under advisement. In the future, rate-setting procedures will be overseen by one individual in the Agency. Efforts will be made to standardize supporting documentation for DAS rates.

Communications Division

1. Documentation was not provided by Communications Division to support the billing of internet rates differently from agency to agency. During the fiscal ended June 30, 2004, Communications Division charged internet user fees to agencies with fewer than 400 users at a rate of \$.42/month, with more than 400 but less than 2,000 users \$.25/month, with more than 2,000 but less than 4,000 users \$.20/month, and with 4,000 or more users \$.18/month. Per discussion with management, Communications Division started charging a flat rate for all users during fiscal year 2005. That rate was established at \$.39/month per user. As this rate structure was after our audit period ending June 30, 2004, we did not review the documentation to support this new rate structure.

Agency Response: The process for setting Internet rates has been documented beginning with FY05 Internet rates. Audit staff did not request this documentation.

2. Communications Division uses a computer billing system to prepare their billings to user agencies. Billing rate changes usually occur at the beginning of the fiscal year, however, they could occur during the year as well. Communications Division management indicated they review the rate changes in the system to the rates that were approved; however, this procedure is not documented.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

20. Documentation and Controls Over Billing Rates (Continued)

Agency Response: DAS Central Finance will prepare a procedural document for reviewing rates changes at the beginning of each fiscal year. The changes will be reviewed and documented by DAS Central Finance.

3. Communications Division included a 5% markup for all of its rates and fees. The rates and fees are charged to other agencies and divisions to help Communications Division recover expenses. The 5% markup is considered an administrative fee. Communications Division did not provide supporting documentation for how the markup percentage was figured or what administrative fees would be covered by this markup.

Agency Response: Worksheets were provided to audit staff to document the 5% markup. No further documentation from the APA was requested.

Material Division

1. The Material Division of DAS did not have supporting documentation for how rates were set for billing agencies for the areas of Copy Services, Print Shop, Office Supply Bureau, Surplus Property, and the Mail Room. For the Print Shop and Copy Services documentation was provided for how they determined the cost per unit rate, but this is not the rate being billed. In addition, some rates are billed at less than their actual cost per unit, and some rates are higher than the cost per unit.

Agency Response: DAS disagrees with this finding. Supporting documentation of rate review was provided to the APA. However, during FY2002, when rates were set for FY2004 and FY2005, the State's fiscal picture was a factor when determining how to adjust rates. DAS has a responsibility to other State agencies not to wreak havoc with their budgets by indiscriminately adjusting rates. After reviewing our estimated calculations of adjusted rates during this time period, an administrative decision was made to freeze rates wherever possible, in order to have the least impact on budgets for all state agencies. Review of FY2004 A-87 balances for DAS Materiel substantiates that rates charged to agencies resulted in no excess or adverse A-87 balance for this division. Furthermore, the differences between estimated projections and published rates for FY2004 would not have resulted in material changes to revenues received during FY2004.

In addition, the basis for determining the 10% administrative service charge to agencies by the Office Supply Bureau, the 7% administrative service charge to agencies by Surplus Property, and the 13.5% administrative charge to agencies by the Mail Room, were not supported. As it

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

20. Documentation and Controls Over Billing Rates (Continued)

relates to the 7% administrative service charge by Surplus Property; management has considered a "Step Rate" administrative charge. A step rate would be an administrative charge based on the amount of surplus property sold rather than a set percentage on all level of sales. We believe management should consider such an approach if it is determined to be a more equitable method to charge this expense to agencies.

Management indicated they have not changed the rates since 2000 as the fund balance of this fund had an excess balance at that time. The fund balance as of June 30, 2004, is at an acceptable level.

Agency Response: DAS disagrees with this finding. Administrative charges are intended to cover the administrative costs of providing services to state agencies for Office Supply Bureau, Surplus Property and the Mail Room. During FY2002, when reviewing the administrative rates, budgets for these three sections of DAS Materiel were held flat for the next biennium. As budgets were not increased, and projections of business activity within these cost centers was estimated to remain approximately the same, logically the administrative percentages were held flat as well. Again, as no excess or adverse A-87 balance resulted within any of these cost centers by the end of FY2004, the methodology used for administrative charges within these cost centers would appear to be appropriate.

In regard to using a "step" rate for Surplus property, DAS does not agree with that methodology and this was explained to the APA during the course of the audit. There is no mathematical or logical method of using a step approach to recoup the expenses for surplusing assets. Management of DAS has not "considered" this approach other than in discussions with the APA during the audit. In addition, A-87 regulations require that all agencies be charged the same rate for services. By charging various rates based on types or dollar amounts of items surplused, there would be no way to budget for this service and no way to verify that all agencies were charged the same rate for similar services. DAS believes the current methodology for the Surplus administrative rate is appropriate.

2. Two of five printing requisitions tested in the Materiel Division - Print Shop included costs billed at incorrect rates. As a result of the incorrect rates, one agency was underbilled \$932 and another agency was underbilled \$77.

Agency Response: These errors were the result of a new rate not being entered into the Print Shop RTS billing system in a timely manner. The Print Shop will set up procedures to ensure that all rate changes are entered into the RTS billing system by July 1st of each fiscal year.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

20. Documentation and Controls Over Billing Rates (Continued)

3. The Materiel Division has numerous functional areas that provide services to State agencies (See item 1 above). In our review of the allocation of general administrative expenses to these various functions we were not provided documentation to support the review or to adequately explain how these common administrative charges were allocated to the various functional areas.

Agency Response: The administrative allocation for DAS Materiel is reviewed during rate setting and during each biennial budget process. DAS maintains that the current administrative split for Materiel remains appropriate. The current split is basically even among all primary cost centers within the division, again we still feel this is appropriate. However, the agency now has one person assigned to coordinate and review all rates of the agency. Methodologies will be reviewed for future rates, including the allocation of administrative expenses.

Accounting Division

The Accounting Division used rates from 1997 to assess agencies for the fiscal year ended June 30, 2004. The Nebraska Accounting System (NAS) was used in 1997, while a new accounting system, the Nebraska Information System (NIS), was the system used for the fiscal year ended June 30, 2004. Therefore, the fiscal year ended June 30, 2004, assessments might not reflect actual and necessary expenses incurred by each agency, as the systems are completely different systems.

Neb. Rev. Stat. Section 81-1110.03 R.R.S. 1999 states, "The Accounting Administrator at the direction of the Director of Administrative Services shall prepare a schedule of fees to assess agencies for accounting services performed by the accounting division of the Department of Administrative Services. The fees shall be adequate to cover actual and necessary expenses associated with providing the services."

Accounting Division stated the rates are being changed for fiscal years 2006 and 2007. The rates will take into account usage in NIS by each agency and division. This will more accurately reflect actual expenses associated with the service provided.

Agency Response: As a point of clarification, Accounting Division did not use rates from 1997, but rather a formula based on 1997 data. Accounting rates for FY 2004 were set in 2002, as required by the budgetary process, well before NIS became operational. As a result, there were no actual cost drivers to use for NIS for FY2004. At a meeting of the NIS

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

20. Documentation and Controls Over Billing Rates (Continued)

Agency Response, Concluded:

steering committee it was decided to use the 1997 cost drivers and the related formula to bill for FY2004 and FY2005. We utilized actual data in creating our rates for FY2006 and FY2007. However, there will be no adjustment to correct any over or under billings as each agency is appropriated funds to cover the budgeted billing assessments.

Personnel Division

1. During our testing of the Specialized Office Services (SOS) program of the Personnel Division, we noted documentation was not available to support the 20% administration fee, set in place when the program began in 1987, which was charged to agencies using SOS services. Each time the budget is prepared, the fee is reviewed; however, this review historically has not been documented. This was also a finding in the prior audit. A documented review was done in March 2004 and as a result of this review the rate was increased to 24% effective July 1, 2004 (for fiscal year 2005). The APA did not review the adequacy of this documentation.
2. During our review of the Personnel Division's Contractual Advertising program we noted the review of the administration fee has not been properly documented. The administration fee is based upon operating expenses such as salaries, rent, phone, and computer equipment. The Division reviews the fee each time the budget is prepared for a new biennium; however, this review is not documented.

Agency Response: The administration fees did not increase between 2000 and 2004, therefore DAS did not formally document the review of the fees/rates each year. As the APA indicated above, during March of 2004 (which occurred during the audit period), the administration fee for SOS was adjusted. During that process, the review and subsequent adjustment to the administration fee was well documented. The documentation was provided to the APA during this audit. Per the audit finding above, the APA apparently chose not to review the documentation for adequacy.

Building Division

1. The State Building Division is responsible for, and administers, building office space for the State of Nebraska. This includes office space that is State-owned and office space the State leases from outside vendors. The Division pays all costs associated with these buildings and bills those costs to user agencies. It was noted during our examination there were 77 non state-owned buildings that DAS leases to State agencies. During our review of the rental rates

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

20. Documentation and Controls Over Billing Rates (Continued)

charged to agencies, we noted leased space is not assessed an administrative cost allocation. This has been a prior audit comment in our last two audits of the State Building Division. The effect of not charging State agencies occupying leased space a share of the Division's administrative expenses is to charge those agencies that occupy state-owned space more expenses than is equitable. This was a prior comment in our fiscal year ended June 30, 2000, audit.

Agency Response: The Division will review the cost recovery methodology associated with the lease program and determine the appropriate model to ensure that administrative costs are allocated equitably between all agencies.

2. In administering building office space for the State of Nebraska, State Building Division considers storage space in those buildings. When setting rental rates for this type of space, management indicated the standard for storage space is 50% of the regular rental rate for the building. However, this is not used for all buildings. The agencies in the Nebraska State Office Building (NSOB), for example, are charged 65% of the regular rate for the basement storage space used by those agencies. The Division determines the rate based upon how the space is heated, whether it can be used as office space, whether the space is cleaned, etc. During our review of rates charged to agencies for storage space, however, they could not provide supporting documentation to support the rates established. This was a prior comment in our fiscal year ended June 30, 2000, audit.

Agency Response: The Division continues to implement procedures to insure that all rates charged have appropriate financial analysis completed. It should be noted that the Division pays for storage on leased facility space and has determined that storage rates are within industry standards.

3. The State Building Division provides services to agencies for a specific job, such as moving furniture, moving walls, etc. The Division has developed specific work order rates to bill agencies for this work and the rates were established to cover costs. However, the Division did not have documentation to support their published work order rates were covering costs.

Agency Response: A revised work order rate was established in FY2000. This rate was established at a level sufficient to cover existing costs and anticipated costs for the next few bienniums. This work order rate has remained constant since that time.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

20. Documentation and Controls Over Billing Rates (Continued)

A good system of internal control requires adequate documentation to support any internally developed rates used for billing services. Adequate documentation would include documentation to support rates not only cover the overall cost of providing services to State agencies, but would also support the rates for individual users of the various services. Good internal control also requires procedures to be in place to ensure correct rates are used for billings.

As it relates to DAS Communications Division, controls over rates established in their billing system, good internal controls would require documentation to support rates in the system were the approved rates. In addition, Neb. Rev. Stat. Section 81-1120.22 R.R.S. 1999 states (referring to the Division), “. . . Such system of charges shall reflect, as nearly as may be practical, the actual share of costs incurred on behalf of or for services to each department, agency, or political subdivision provided service from the communications system.” So, DAS should document what goes into the calculation of the administrative fee that is billed. This will give a better understanding as to how they are recovering costs with the fee.

As it relates to the Accounting Division, Neb. Rev. Stat. Section 81-1110.03 R.R.S. 1999 states, “The Accounting Administrator at the direction of the Director of Administrative Services shall prepare a schedule of fees to assess agencies for accounting services performed by the accounting division of the Department of Administrative Services. The fees shall be adequate to cover actual and necessary expenses associated with providing the services.”

Without proper documentation to support rates used for billing purposes, it is more difficult to support the rates used are reasonable and properly charged to user agencies.

In general we recommend DAS maintain all supporting documentation used in determining billing rates, including the support for variables used in the rate calculations. This documentation should be well organized and readily available for subsequent inspection.

Specifically, we recommend:

- The Copy Service and Print shop areas of Materiel Division adjust rates to actual calculated cost per unit and the Materiel Division Print Shop review their billing procedures and implement the necessary controls to ensure that all agencies are billed the correct rates.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

20. Documentation and Controls Over Billing Rates (Concluded)

- The Accounting Division review their assessments and new rates be set that reflect actual use, by each agency, of the new accounting system. The new rates should reflect any adjustment necessary to correct over or under billings that were made in the past.
- We recommend State Building Division develop procedures to ensure administrative costs are allocated equitably between agencies occupying leased space and those agencies that occupy State-owned space.

Agency Response: Agency responses to the APA recommendations were provided for each specific detailed finding for each division. As a general response to audit findings relative to DAS rates, the agency would reiterate that during FY2002, when rates were set for FY2004 and FY2005, the State's fiscal picture was a factor when determining adjustments to DAS rates. DAS has a responsibility to other State agencies to maintain consistency with rate setting so as to least impact base budgets of agencies while still recouping necessary expenses of the agency in an equitable manner. After reviewing our estimated calculations of adjusted rates during this time period, an administrative decision was made to freeze rates wherever possible, in order to have the least impact on budgets for all state agencies. Review of FY2004 A-87 balances for all DAS revolving funds that rates charged to agencies resulted in no excess or adverse A-87 balance for the agency.

APA's Response: The focus of the comment is documentation. There appears to be some disagreement on what documentation would be needed to support the rate setting process for DAS. When information was requested it was often difficult to get information. The documentation received often required considerable verbal clarification. We believe we attempted to get all the information that was available and to review that information for adequacy. It was a very difficult process for us to complete. The documentation maintained should be readily traceable to supporting documentation and related financial information. This in our opinion was not always the case. In addition, documentation of the many decisions made in setting the rates and support for those decisions was not available or was not provided to us. We hope DAS will consider our recommendation in light of how it was written; we continue to believe documentation for setting rates needs to improve to support rates that DAS uses to bill all State agencies for the services they provide.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

21. Rate Documentation

The Risk Management Division of DAS is responsible for identifying and implementing the most economical and effective methods to reduce exposure of the State and its employees to personal injury, property damage, and legal liability. The resources to pay claims and insurance premiums as they become due comes from billing an equitable share of the overall costs to all State agencies.

As part of our review of the amounts being billed to State agencies we requested documentation to support how the rates were established. For the fiscal year ended June 30, 2004, rate documentation could not be located by the Risk Management Division. The explanation given was the previous director had developed the rates and the documentation of how the rates were set could not be located.

Risk Management Division has taken actions to correct this problem. During calendar year 2004 Risk Management Division contracted with an actuarial firm to conduct an "Actuarial Study of the Self-Insured Workers Compensation, Automobile Liability and Property Programs as of June 30, 2003," and an "Actuarial Study of the Self-Insured Workers Compensation, and Automobile Liability Programs as of June 30, 2004." These studies established documentation to support the estimated total cost of these programs for the State. In addition, Risk Management Division contracted and obtained a "Cost Allocation report for fiscal year ended June 30, 2006, and June 30, 2007." This report provides documentation on how to bill an equitable share of the total costs to each State agency. This information will be used to support the billing rates for fiscal years ending June 30, 2006, and June 30, 2007.

Good internal control requires documentation be maintained to support rates used for billing services.

Without proper documentation to support rates used for billing purposes, it is more difficult to support the rates used are reasonable and equitably charged to user agencies.

This was a comment in our fiscal year ended June 30, 2000 audit report.

We believe the studies noted above provide a sound foundation to support rates billed to State agencies and provides documentation that those rates are reasonable and equitable. In order to maintain this sound foundation of support for billing rates we recommend similar studies and reports be obtained in the future.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

21. Rate Documentation (Concluded)

Agency Response: Based on the above, the agency does not need any further corrective action. The agency certainly does intend to continue to obtain the above-mentioned actuarial studies and reports.

22. Building Values and Depreciation Assessments for LB 530

The Task Force Division of DAS bills agencies for depreciation charges to be used in the maintenance of State buildings in accordance with State Statute. Neb. Rev. Stat. Section 81-1108.17(4) states, "The system of charges for state buildings and facilities shall include an amount sufficient to . . . fund building renewal projects under the Deferred Building Renewal Act and renovation, remodeling, and repair projects beyond the scope of the act. The proceeds received . . . shall be remitted to the State Treasurer for credit to the State Building Renewal Assessment Fund." Good internal control requires supporting documentation be readily available for building values, from which assessments are made.

During our receipts detail testing of the Task Force Division, we noted the five quarterly payments tested did not trace to readily available supporting documentation verifying the building value was correct. We could trace the building values to a list given to us; however, the historical building values could not be traced to further documentation as there was no central file supporting these values. As a result, we could not verify if the building values were accurate. Also, we noted that this list was from 1998. There have been additions and deletions to some of the buildings since then, creating changes in the building values and the billable square footage. These changes were reflected in some of the additional documentation we received but it was difficult to follow. There was no common report showing the historical values and the changes made.

When documentation of values used in the calculation of assessments is not easily obtainable and in a central location there is greater risk values may not be accurate and, as a result, billing to State agencies for the assessment may not be correct.

We recommend the Task Force Division maintain supporting documentation of buildings historical values in one centralized location. This documentation should include support for how the historical values were determined. Any additions increasing the buildings' value or size should be supported by copies of actual invoices or similar documentation. There should also be documentation for any deletions decreasing the buildings' value or size. Further, we recommend the

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

22. Building Values and Depreciation Assessments for LB 530 (Concluded)

building values list be updated. One comprehensive list should be maintained showing historical values and changes made over time that can easily be traced to supporting documentation. One comprehensive list will make it easier to support how the assessments were calculated.

Agency Response: The documentation as to the historical values used that is being requested by the Auditors was the building values as of 1997-1998. An audit was performed in 2000. The paper copies of the building inventory records (from the NAS system) from 1997-1998 are no longer available.

DAS made a determination that the building values from 1997-98 used for the LB530 and LB1100 base assessments (not including additions or deletions/demolitions) would be updated on a periodic basis, but not more often than once every 8 to 10 years. DAS will revisit this issue during the next budget cycle.

23. Internal Control Over Receipts

There is only one person opening the mail containing cash receipts at the following divisions: Building, Materiel, Communications, and Transportation Services Bureau. We consider these divisions to be critical areas based on the types of receipts received, and the possibility the mail opener would not record all cash receipts received. In addition, in the Materiel Division, the same individual opens the mail on occasion, also prepares the Accounts Receivable invoice, and applies cash received to the invoice. DAS does not require any division to have two people present when opening mail, and claims they do not have staff for this, nor are aware of any requirement for this. The cash receipts are almost all checks, although some amounts received are cash. In addition, some of the cash receipts are the type where the receipt is not expected; that is some receipts received are not billed. This generally was identified in the Building Division. Thus there is a greater risk these receipts could be misappropriated and go undetected.

The amount of cash receipts recorded in the accounting system for the fiscal year ended June 30, 2004, for the Building, Materiel, Communications, and Transportation Services Bureau Divisions was \$450,000, \$57,613, \$56,599, and \$50,886, respectively.

Good internal control requires two people to be involved simultaneously when opening mail containing cash receipts. This would provide more assurance that all cash receipts are properly recorded and accounted for. Good internal control also requires an adequate segregation of duties so no one individual is in a position to both perpetrate and conceal errors or irregularities.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

23. Internal Control Over Receipts (Continued)

When only one individual is present when mail is opened containing cash receipts, or when an adequate segregation of duties does not exist between opening the mail (actually handling of the asset), and recording the cash received to the accounts receivable invoice, there is an increased risk in misappropriation of State funds.

We recommend DAS review their controls over cash receipts at each of these divisions and consider the cost/benefit of having two people present at each division when mail is opened.

Agency Response: The agency has no plans to have two individuals present when opening mail at any DAS division, including Central Finance. As discussed previously with the auditors, we are not aware of an internal control criteria, State Accounting policy, or other such precedent which would require this, nor do we believe this would be a proper or efficient use of State funds. In addition, since the formation of DAS Central Finance, the individuals opening mail at the above mentioned divisions, do not prepare deposit documents or track accounts receivable for the agency. Those functions are performed by staff at DAS Central Finance. Therefore, there is in fact a segregation of duties for this process.

As to each specific division identified above, we present the following additional information as to compensating controls related to cash and checks received at the divisions:

Building Division

Cash and checks received are for such items as outside leases, parking for employees not in pay status or non-employees parking in state parking facilities, lost parking access cards or tags, or sales of vacant land or buildings.

The amounts due the agency for outside leases are tracked independently by the Building division Leasing Coordinator, who is independent of the mail process. This person is responsible for determining that all outside lease funds due the agency are in fact received. Any uncollected outside leases would be followed up on with the lessee. This would prevent the Staff Assistant in Building division from misappropriation of these funds.

The amounts received for parking, or lost parking tags are also tracked independently by the Building division Parking Coordinator, who is physically located at a separate building from where the checks are received. Tags or permits are not issued by the Parking Coordinator until she has verified that the funds have been collected. Therefore, the Building division Staff Assistant could not misappropriate these funds.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

23. Internal Control Over Receipts (Continued)

Agency Response, Continued:

Sales of vacant land or buildings require approval from the Vacant Building Committee, comprised of the DAS Director, the Building division Administrator and the 309 Task Force Administrator. Approved sales of land or buildings are noted in the Committee meeting minutes, which are forwarded to Kate Morris, Central Finance Liaison for the Building division. Kate Morris in turn verifies receipt and deposit of these funds in conjunction with the budget review process.

Materiel Division

During FY2004 Materiel division received checks in the mail from two primary sources, shredding and recycling. The Recycling Coordinator was responsible for monitoring and tracking the receipt and deposit of these funds. In addition the Central Finance Liaison also monitored fund balances and receipts and disbursements of these funds. Checks were received in the mail by the Materiel receptionist, logged and forwarded to Central Finance for deposit. There was clearly a segregation of duties for these checks. The only funds available to manage the recycling fund come from these sources. If the checks received for recycling and shredding were not receipted and deposited, the recycling manager and Finance Liaison would follow-up in order to keep the program operating. Subsequent to this audit, Materiel changed procedures for Recycling. The two checks for Recycling are now being mailed directly to Central Finance for deposit. A copy of the check and the backup documentation are sent to the Recycling Coordinator for review and verification.

TSB Division

TSB division receives refund checks from vendors due to overpayments and checks from Insurance companies related to damages incurred by TSB fleet vehicles. Overpayments due from vendors are tracked by DAS Central Finance. These checks could not be misappropriated by the TSB Administrative Assistant without knowledge of Central Finance. Proceeds from Insurance companies related to vehicle damage are tracked by the TSB Shop Supervisor. The Shop Supervisor would follow-up and investigate any expected insurance proceeds not received and deposited in the division's funds. There is clearly segregation of duties over these receipts. TSB does receive occasional small amounts of cash due to employees charging unallowed expenses to voyager cards (soda, etc.). In these cases, agencies may forward cash from the respective employee to TSB to pay back the unallowable charge. These cash receipts are very rare and certainly immaterial to the division and to the agency.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

23. Internal Control Over Receipts (Concluded)

Agency Response, Concluded:

Communications Division

DOC cash receipts primarily consist of rebate or refund checks. These receipts are generally vendor initiated. These checks are mailed directly to DAS Central Finance. At Central Finance, the checks are received in the mail, logged and then routed to the Accounts Receivable section for depositing. These receipts are no longer received in the mail at Communications division. Clearly there is a segregation of duties over these receipts. The remaining cash or checks received directly by the Communication division consist of sales of State Phone Directories. When checks or cash are received for phone directories, DOC issues a receipt to the purchaser. The checks and cash are logged, and a copy of the log and the receipt is forwarded to Central Finance for deposit. Again, there is a clear segregation of duties related to all non-invoiced funds received for the Division of Communications.

As a general agency response to the above, the agency feels there is a clear segregation of duties related to all of the above mentioned cash/check receipts. There are compensating controls in place to ensure the receipts and deposits of those funds owed to the agency, regardless of how many individuals are present to open the mail. We would reiterate we do not believe there are standards which would require or even recommend that more than one person be present when opening mail. The agency believes this finding should be dropped from this audit report.

APA's Response: The controls you mentioned appear to be good controls, some of which we verified. The focus of the comment was to get a good initial control over receipts. If we have two people involved in processing the mail upon receipt of the mail you have more assurance of that initial control. Add to that the control of recording all receipts (cash or checks) received on a log or similar record with both initialing off on that log or similar record and you have a strong initial control of all receipts received in the agency. We believe we have a responsibility to communicate improvements that management should consider to improve internal controls over the receipting process. We also believe this is a reasonable control for management to consider. If management chooses not to follow this recommendation we do believe strong compensating controls should be implemented. In addition, we would emphasize that these compensating controls need to be in place, monitored and documented.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

24. Surplus Property Controls

A lack of segregation of duties exists at the Surplus Property operations of the DAS Materiel Division related to the surplus property function. One employee is responsible for opening the mail, establishing initial control over checks, maintaining control over pending receipt files, and preparing the deposit document. All three employees can perform these functions, except prepare the deposit. In addition, all three of the employees had access to the computer database containing all items that have been surplus. They also can make changes to the database, the database does not track changes made, and it is not password protected. What this means is one employee could delete or change information in error or by design, regarding receipts or a surplus item and there appears to be little control to detect these changes.

During our review of the database table with items surplus and destroyed, we asked whether there were any written criteria established for determining when a surplus item should be destroyed. We noted there were no written criteria at this time. The final judgment on whether to destroy an item was up to the Surplus Property Manager. The manager stated he basically reviewed items age, when they were purchased, their useful life, as well as past experience with items that could not be sold at other auctions. Based on these general criteria, the condition of the asset, and his personal judgment, he determines if the item should be destroyed or put on the auction for sale.

Good internal control requires adequate segregation of duties over the receipting process and surplus property records to ensure no one individual can handle a transaction from beginning to end. Good internal control also requires written policies and procedures to ensure they are being applied consistently.

A lack of segregation of duties increases the risk of loss or misuse of State funds.

We recommend Surplus Property operations of DAS Materiel Division implement an adequate segregation of duties over the receipting process and surplus property records. We understand the lack of staff and the current surplus property database may make it difficult to have an adequate segregation of duties. However, we consider it imperative some control procedures be implemented and documented. We recommend the DAS Materiel Division consider the following:

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Continued)

24. Surplus Property Controls (Continued)

- The type of reports (perhaps detailed reports) that could be generated from the database which would help detect errors and irregularities. These reports should be reviewed by management.
- Develop written procedures and criteria for determining when an asset should be destroyed.
- We believe an independent review of the records, on a test basis, should be considered. This might entail review of the receipt records, and the surplus property inventory records. Additional procedures might include reviewing sales and performing an inventory count of items and comparing the count to the inventory records.
- Finally, additional procedures, such as analytical review procedures might be considered by management. For example comparing month to month or year to year sales and receipt activity and determining if that information is reasonable and meets managements expectations.

Agency Response:

Segregation of Duties:

Surplus property will institute the following changes regarding the above. This will be a change from present procedures and will be implemented immediately. All materials, including checks, will be date stamped and checks will be stamped "for deposit only" immediately upon receipt/opening. The checks will then be given to one person to enter into the "check log" electronic file kept by surplus property. This file will only be kept on one individual's PC and will not be accessible by others at surplus property. The checks will then be put into the safe for safekeeping. Twice a week deposits are and will continue to be made. The check log will be printed out of the electronic file and the deposit will be prepared by another individual. Again, once the NIS deposit document is printed, it will be verified with the printed check log information. In addition to the check file being on one person's PC and accessible only there, it will be a password protected file.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS (Concluded)

24. Surplus Property Controls (Concluded)

Agency Response, Concluded:

Regarding the surplus database where all individuals had access, procedures are being implemented to change this process. The staff at surplus property has already been informed of the changes of responsibility regarding their roles in the process. The database will be password protected for the two individuals other than the manager. Each of these individuals will only have access to the functionality that pertains to their role in the process. One individual will only be able to enter items into the system and will not be able to delete/remove items. The other individual will not be able to enter items into the system or remove items from the system. This person's role will be limited to updating information regarding sales of property in the system only and generating reports of transactions generated in the system. Again, the security within Microsoft Access will allow us to correct and limit these individual's roles. The manager will maintain oversight control over the process. We do believe the other manual processes in place within the surplus property office of tracking items from arrival, to sale, and removal are adequate.

Written criteria for destruction of surplus items:

Guidelines will be developed within the next 30 days and published to all agencies regarding recommendations and more specific information regarding whether an item should be surplus or destroyed. Obviously, it would be impossible to detail every specific instance about every specific type of equipment. General guidelines will be given with some responsibility and recommendations given to the agency for subjectively determining in their internal process whether the items warrant destruction or surplus for sale. Surplus property will consider reasonable measures to personally view any equipment that may be in question as to the appropriate process; this could be via photos or in person.

Independent review of surplus records:

DAS Materiel division has set up a process where the Materiel Administrator will at periodic and unannounced intervals check to verify records of property currently on hand. Records of these visits will be documented and filed with the current auction cycle records. A report can/could be generated upon demand at any point.

Additional surplus procedures:

Surplus property currently tracks and has available for review auction and non-auction statistics for any period starting in Jan 03 to the present time. In addition, this information can easily be generated into graph form and viewed by any management representative.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Nebraska Department of Administrative Services
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Administrative Services (DAS) for the fiscal year ended June 30, 2004. DAS's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Administrative Services for the fiscal year ended June 30, 2004, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Perry Pirsch, JD, MPA
Legal Counsel
ppirsch@mail.state.ne.us

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2005, on our consideration of the Nebraska Department of Administrative Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of DAS and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Don Dunlap CPA". The signature is written in a cursive style with a large initial "D".

Assistant Deputy Auditor

April 14, 2005

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	<u>General Fund</u>	<u>Cash Funds</u>		
	General Fund 10000	Capitol Restoration Funds 26500-3	Building Renewal 309 Task Force Fund 26520	Telecomm Cash Fund 26530
REVENUES:				
Appropriations	\$ 7,953,115	\$ -	\$ -	\$ -
Taxes	-	-	9,163,271	-
Intergovernmental	-	-	-	-
Sales & Charges	82	1,095	-	1,330,419
Miscellaneous	(2,352)	(848)	551,720	6,050
TOTAL REVENUES	<u>7,950,845</u>	<u>247</u>	<u>9,714,991</u>	<u>1,336,469</u>
EXPENDITURES:				
Personal Services	3,973,676	-	155,399	199,370
Operating	3,921,872	944	8,681,508	1,064,665
Travel	27,596	-	292	1,845
Capital Outlay	29,971	-	8,078	4,328
Government Aid	-	-	-	-
TOTAL EXPENDITURES	<u>7,953,115</u>	<u>944</u>	<u>8,845,277</u>	<u>1,270,208</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,270)</u>	<u>(697)</u>	<u>869,714</u>	<u>66,261</u>
OTHER FINANCING SOURCES (USES):				
Sales of Assets	2,270	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,270</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	-	(697)	869,714	66,261
FUND BALANCES, JULY 1, 2003	<u>10,888</u>	<u>66,694</u>	<u>13,784,161</u>	<u>277,682</u>
FUND BALANCES, JUNE 30, 2004	<u>\$ 10,888</u>	<u>\$ 65,997</u>	<u>\$ 14,653,875</u>	<u>\$ 343,943</u>
FUND BALANCES CONSIST OF:				
General Cash	\$ -	\$ 59,951	\$ 14,725,635	\$ 213,368
Petty Cash	50	-	-	-
NSF Items	-	-	-	-
Deposits with Vendors	10,838	6	-	437
Machinery & Equipment	-	9,448	-	-
Accounts Receivable Invoiced	-	-	-	151,706
Due From Other Funds	-	-	-	-
Due From Other Government	-	-	-	-
Due to Vendors	-	6,303	(71,760)	(21,568)
Deposits	-	-	-	-
Due to Fund	-	(9,711)	-	-
Due to Government	-	-	-	-
TOTAL FUND BALANCES	<u>\$ 10,888</u>	<u>\$ 65,997</u>	<u>\$ 14,653,875</u>	<u>\$ 343,943</u>

The accompanying notes are an integral part of the schedule.

Cash Funds (Continued)

Resource Recycling Fund 26540	Vacant Building Fund 26560	Mansion Landscaping Fund 26570	Metro Class Development Fund 26630	Primary Class Development Fund 26640	Info Tech Infrastructure Funds 26650-5	State Building Renewal Assessment Funds 26670-1	Univ Build Renewal Assessment Fund 26680
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	1,500,000	1,000,000	141,986	-	-
-	-	-	-	-	-	-	-
17,125	-	-	-	-	-	-	-
32,567	68,896	39	11,226	7,484	73,896	7,170,629	204,769
49,692	68,896	39	1,511,226	1,007,484	215,882	7,170,629	204,769
3,387	-	-	-	-	74,714	136,561	44,341
2,654	106,907	-	-	-	603,123	3,719,047	-
44	-	-	-	-	3,146	13,429	-
-	-	-	-	-	3,906	-	-
-	-	-	1,500,000	1,000,000	5,887	-	-
6,085	106,907	-	1,500,000	1,000,000	690,776	3,869,037	44,341
43,607	(38,011)	39	11,226	7,484	(474,894)	3,301,592	160,428
-	1,862,053	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	(1,088,472)	-	-
-	1,862,053	-	-	-	(1,088,472)	-	-
43,607	1,824,042	39	11,226	7,484	(1,563,366)	3,301,592	160,428
64,358	356,577	347	21,000	14,000	3,030,393	10,268,761	5,039,190
\$ 107,965	\$ 2,180,619	\$ 386	\$ 32,226	\$ 21,484	\$ 1,467,027	\$ 13,570,353	\$ 5,199,618
\$ 107,895	\$ 2,175,619	\$ 386	\$ 407,226	\$ 271,484	\$ 1,472,914	\$ 13,766,943	\$ 5,199,618
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	5,000	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	(5,887)	(196,590)	-
-	-	-	-	-	-	-	-
60	-	-	-	-	-	-	-
-	-	-	(375,000)	(250,000)	-	-	-
\$ 107,965	\$ 2,180,619	\$ 386	\$ 32,226	\$ 21,484	\$ 1,467,027	\$ 13,570,353	\$ 5,199,618

(Continued)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

Cash Funds (Continued)

	State Col Build Renewal Assessment Fund 26690	Health & Life Benefit Administration Fund 28010	Tort Claims Fund 28910	Miscellaneous Claims Fund 28920	Total Cash Funds (Memorandum Only)
REVENUES:					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	11,805,257
Intergovernmental	-	-	-	-	-
Sales & Charges	-	5,988	(300)	-	1,354,327
Miscellaneous	31,564	27,138	18,415	490	8,204,035
TOTAL REVENUES	31,564	33,126	18,115	490	21,363,619
EXPENDITURES:					
Personal Services	6,456	237,568	-	-	857,796
Operating	-	187,021	5,031,883	-	19,397,752
Travel	-	2,024	-	-	20,780
Capital Outlay	-	-	-	-	16,312
Government Aid	-	-	-	-	2,505,887
TOTAL EXPENDITURES	6,456	426,613	5,031,883	-	22,798,527
Excess (Deficiency) of Revenues Over (Under) Expenditures	25,108	(393,487)	(5,013,768)	490	(1,434,908)
OTHER FINANCING SOURCES (USES):					
Sales of Assets	-	-	-	-	1,862,053
Operating Transfers In	-	227,465	5,108,240	-	5,335,705
Operating Transfers Out	-	-	-	-	(1,088,472)
TOTAL OTHER FINANCING SOURCES (USES)	-	227,465	5,108,240	-	6,109,286
Net Change in Fund Balances	25,108	(166,022)	94,472	490	4,674,378
FUND BALANCES, JULY 1, 2003	776,766	380,145	25,288	116	34,105,478
FUND BALANCES, JUNE 30, 2004	\$ 801,874	\$ 214,123	\$ 119,760	\$ 606	\$ 38,779,856
FUND BALANCES CONSIST OF:					
General Cash	\$ 801,874	\$ 225,017	\$ 119,760	\$ 606	\$ 39,548,296
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	-	-
Deposits with Vendors	-	-	-	-	453
Machinery & Equipment	-	-	-	-	9,448
Accounts Receivable Invoiced	-	-	-	-	151,706
Due From Other Funds	-	-	-	-	5,000
Due From Other Government	-	-	-	-	-
Due to Vendors	-	(10,894)	-	-	(300,396)
Deposits	-	-	-	-	-
Due to Fund	-	-	-	-	(9,651)
Due to Government	-	-	-	-	(625,000)
TOTAL FUND BALANCES	\$ 801,874	\$ 214,123	\$ 119,760	\$ 606	\$ 38,779,856

The accompanying notes are an integral part of the schedule.

Capital Construction Funds		
State Fair Building Fund 32020	State Building Fund 33000	Total Capital Construction Funds (Memorandum Only)
\$ -	\$ 3,568,273	\$ 3,568,273
-	-	-
-	-	-
-	-	-
98	-	98
<u>98</u>	<u>3,568,273</u>	<u>3,568,371</u>
-	-	-
-	375,237	375,237
-	294	294
-	3,192,742	3,192,742
-	-	-
<u>-</u>	<u>3,568,273</u>	<u>3,568,273</u>
98	-	98
-	-	-
-	-	-
-	-	-
98	-	98
2,421	-	2,421
<u>\$ 2,519</u>	<u>\$ -</u>	<u>\$ 2,519</u>
\$ 2,519	\$ -	\$ 2,519
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>\$ 2,519</u>	<u>\$ -</u>	<u>\$ 2,519</u>

Federal Funds		
DAS Federal NEMA Reimbursement Fund 46510	Building Division Federal Fund 46530	Total Federal Funds (Memorandum Only)
\$ -	\$ -	\$ -
-	-	-
52,748	320,155	372,903
-	-	-
-	-	-
<u>52,748</u>	<u>320,155</u>	<u>372,903</u>
-	-	-
13,527	-	13,527
-	-	-
20,929	320,155	341,084
-	-	-
<u>34,456</u>	<u>320,155</u>	<u>354,611</u>
18,292	-	18,292
-	-	-
-	-	-
-	-	-
18,292	-	18,292
-	-	-
<u>\$ 18,292</u>	<u>\$ -</u>	<u>\$ 18,292</u>
\$ 18,292	\$ -	\$ 18,292
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>\$ 18,292</u>	<u>\$ -</u>	<u>\$ 18,292</u>

(Continued)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	Revolving Funds			
	Administration Revolving Fund 51650	State Building Revolving Fund 56500	Materiel and Purchasing Revolving Funds 56510-5	Intergovernment Data Communication Fund 56520
REVENUES:				
Appropriations	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-
Intergovernmental	-	-	-	45,395
Sales & Charges	490,731	677,931	13,460,486	2,726,116
Miscellaneous	11,287	24,059,780	111,919	35,655
TOTAL REVENUES	502,018	24,737,711	13,572,405	2,807,166
EXPENDITURES:				
Personal Services	504,547	4,008,712	2,279,263	156,983
Operating	70,447	17,661,507	9,428,852	2,050,723
Travel	4,946	41,337	19,652	3,851
Capital Outlay	44,792	1,206,178	1,141,396	695,016
Government Aid	-	-	-	-
TOTAL EXPENDITURES	624,732	22,917,734	12,869,163	2,906,573
Excess (Deficiency) of Revenues Over (Under) Expenditures	(122,714)	1,819,977	703,242	(99,407)
OTHER FINANCING SOURCES (USES):				
Sales of Assets	69	6,496	2,916	(2,852)
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	69	6,496	2,916	(2,852)
Net Change in Fund Balances	(122,645)	1,826,473	706,158	(102,259)
FUND BALANCES, JULY 1, 2003	382,013	5,472,213	2,051,161	1,022,904
FUND BALANCES, JUNE 30, 2004	\$ 259,368	\$ 7,298,686	\$ 2,757,319	\$ 920,645
FUND BALANCES CONSIST OF:				
General Cash	\$ 302,368	\$ 7,422,737	\$ 3,238,226	\$ 612,465
Petty Cash	-	-	-	-
NSF Items	-	-	-	-
Deposits with Vendors	-	398	175,247	54
Machinery & Equipment	-	-	-	-
Accounts Receivable Invoiced	-	14,189	137,067	311,728
Due From Other Funds	-	5,000	-	-
Due From Other Government	-	-	-	-
Due to Vendors	(43,000)	(143,922)	(121,630)	(3,602)
Deposits	-	-	(671,591)	-
Due to Fund	-	284	-	-
Due to Government	-	-	-	-
TOTAL FUND BALANCES	\$ 259,368	\$ 7,298,686	\$ 2,757,319	\$ 920,645

The accompanying notes are an integral part of the schedule.

Revolving Funds (Continued)

Telecomm Revolving Fund 56530	Central Stores Revolving Funds 56540-1	Parking Revolving Funds 56550-1	IM Services Revolving Fund 56560	Transportation Services Revolving Funds 56570-2	Surplus Property Revolving Fund 56580
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
16,760,992	2,781,602	3,268	52,107,845	140,803	179,166
133,035	38,188	1,293,186	375,398	5,014,674	45,118
<u>16,894,027</u>	<u>2,819,790</u>	<u>1,296,454</u>	<u>52,483,243</u>	<u>5,155,477</u>	<u>224,284</u>
1,032,756	158,167	19,280	15,128,444	521,987	169,250
16,855,616	3,002,057	1,050,894	32,436,786	2,545,175	63,524
8,721	1,299	-	56,023	905	-
302,309	-	323,304	1,377,143	2,212,359	1,060
-	-	690	-	-	-
<u>18,199,402</u>	<u>3,161,523</u>	<u>1,394,168</u>	<u>48,998,396</u>	<u>5,280,426</u>	<u>233,834</u>
<u>(1,305,375)</u>	<u>(341,733)</u>	<u>(97,714)</u>	<u>3,484,847</u>	<u>(124,949)</u>	<u>(9,550)</u>
2,065	-	-	332	714,537	226
-	-	-	-	-	-
-	-	-	-	-	-
<u>2,065</u>	<u>-</u>	<u>-</u>	<u>332</u>	<u>714,537</u>	<u>226</u>
<u>(1,303,310)</u>	<u>(341,733)</u>	<u>(97,714)</u>	<u>3,485,179</u>	<u>589,588</u>	<u>(9,324)</u>
<u>4,873,228</u>	<u>1,087,325</u>	<u>2,216,641</u>	<u>9,040,003</u>	<u>2,527,316</u>	<u>211,714</u>
<u>\$ 3,569,918</u>	<u>\$ 745,592</u>	<u>\$ 2,118,927</u>	<u>\$ 12,525,182</u>	<u>\$ 3,116,904</u>	<u>\$ 202,390</u>
\$ 2,802,505	\$ 752,553	\$ 2,118,700	\$ 13,095,799	\$ 3,003,473	\$ 1,332,667
-	-	30	-	-	-
-	-	-	-	-	-
1,547	1,463	-	801	170	352
-	-	-	-	-	-
1,066,985	576	293	74,846	127,515	-
-	-	-	-	-	-
-	(20)	-	-	-	-
(301,119)	(8,671)	(96)	(646,264)	(14,254)	(6,107)
-	-	-	-	-	-
-	(309)	-	-	-	(1,124,522)
-	-	-	-	-	-
<u>\$ 3,569,918</u>	<u>\$ 745,592</u>	<u>\$ 2,118,927</u>	<u>\$ 12,525,182</u>	<u>\$ 3,116,904</u>	<u>\$ 202,390</u>

(Continued)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

Revolving Funds (Continued)

	Accounting Division Revolving Fund 56650	Temporary Employee Pool Revolving Fund 58010	Training Revolving Fund 58030	Personnel Revolving Fund 58040
REVENUES:				
Appropriations	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-
Intergovernmental	-	-	-	-
Sales & Charges	2,832,645	4,225,323	6,633	60,188
Miscellaneous	167,783	3,835	2,546	2,222
TOTAL REVENUES	3,000,428	4,229,158	9,179	62,410
EXPENDITURES:				
Personal Services	1,296,812	4,283,173	-	-
Operating	1,656,463	51,213	6,196	22,591
Travel	11,656	552	110	2,097
Capital Outlay	125,639	-	-	-
Government Aid	-	-	-	-
TOTAL EXPENDITURES	3,090,570	4,334,938	6,306	24,688
Excess (Deficiency) of Revenues Over (Under) Expenditures	(90,142)	(105,780)	2,873	37,722
OTHER FINANCING SOURCES (USES):				
Sales of Assets	980	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	980	-	-	-
Net Change in Fund Balances	(89,162)	(105,780)	2,873	37,722
FUND BALANCES, JULY 1, 2003	394,065	284,844	63,287	57,402
FUND BALANCES, JUNE 30, 2004	<u>\$ 304,903</u>	<u>\$ 179,064</u>	<u>\$ 66,160</u>	<u>\$ 95,124</u>
FUND BALANCES CONSIST OF:				
General Cash	\$ 368,693	\$ 61,541	\$ 64,675	\$ 95,557
Petty Cash	-	-	-	-
NSF Items	5,061	-	-	-
Deposits with Vendors	505	-	-	-
Machinery & Equipment	-	-	-	-
Accounts Receivable Invoiced	-	118,392	1,485	-
Due From Other Funds	-	-	-	-
Due From Other Government	-	(869)	-	-
Due to Vendors	(69,356)	-	-	(433)
Deposits	-	-	-	-
Due to Fund	-	-	-	-
Due to Government	-	-	-	-
TOTAL FUND BALANCES	\$ 304,903	\$ 179,064	\$ 66,160	\$ 95,124

The accompanying notes are an integral part of the schedule.

Revolving Funds (Continued)

State Insurance Revolving Fund 58910	Workers Comp Claims Revolving Fund 58920	Total Revolving Funds (Memorandum Only)	TOTAL OPERATING FUNDS (Memorandum Only)
\$ -	\$ -	\$ -	\$ 11,521,388
-	-	-	11,805,257
-	-	45,395	418,298
4,454,432	13,223,642	114,131,803	115,486,212
47,616	143,342	31,485,584	39,687,365
<u>4,502,048</u>	<u>13,366,984</u>	<u>145,662,782</u>	<u>178,918,520</u>
116,871	19,189	29,695,434	34,526,906
3,530,276	11,317,410	101,749,730	125,458,118
1,009	1,027	153,185	201,855
-	-	7,429,196	11,009,305
-	-	690	2,506,577
<u>3,648,156</u>	<u>11,337,626</u>	<u>139,028,235</u>	<u>173,702,761</u>
853,892	2,029,358	6,634,547	5,215,759
-	-	724,769	2,589,092
-	-	-	5,335,705
-	-	-	(1,088,472)
<u>-</u>	<u>-</u>	<u>724,769</u>	<u>6,836,325</u>
853,892	2,029,358	7,359,316	12,052,084
278,690	1,902,688	31,865,494	65,984,281
<u>\$ 1,132,582</u>	<u>\$ 3,932,046</u>	<u>\$ 39,224,810</u>	<u>\$ 78,036,365</u>
\$ 1,094,102	\$ 3,109,636	\$ 39,475,697	\$ 79,044,804
-	-	30	80
-	-	5,061	5,061
-	820,000	1,000,537	1,011,828
-	-	-	9,448
38,480	2,410	1,893,966	2,045,672
-	-	5,000	10,000
-	-	(889)	(889)
-	-	(1,358,454)	(1,658,850)
-	-	(671,591)	(671,591)
-	-	(1,124,547)	(1,134,198)
-	-	-	(625,000)
<u>\$ 1,132,582</u>	<u>\$ 3,932,046</u>	<u>\$ 39,224,810</u>	<u>\$ 78,036,365</u>

(Continued)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	Trust Funds			
	Joslyn Castle Trust Fund 66520	Master Lease Trust Fund 66510 and Funds 66530-5	Flexible Spending Trust Funds 68010-6	J. J. Soukup Trust Fund 68910
REVENUES:				
Appropriations	\$ -	\$ -	\$ -	\$ -
Taxes	-	1,924,397	-	-
Intergovernmental	-	-	-	-
Sales & Charges	-	-	-	-
Miscellaneous	1	265,646	4,796,834	(6,830)
TOTAL REVENUES	1	2,190,043	4,796,834	(6,830)
EXPENDITURES:				
Personal Services	-	1,946,465	-	-
Operating	-	-	4,696,484	14,268
Travel	-	-	-	-
Capital Outlay	-	-	-	-
Government Aid	-	-	-	-
Other Agency Disbursements	-	-	-	-
TOTAL EXPENDITURES	-	1,946,465	4,696,484	14,268
Excess (Deficiency) of Revenues Over (Under) Expenditures	1	243,578	100,350	(21,098)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	(208,800)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(208,800)	-
Net Change in Fund Balances	1	243,578	(108,450)	(21,098)
FUND BALANCES, JULY 1, 2003	32	3,612,879	568,173	258,066
FUND BALANCES, JUNE 30, 2004	\$ 33	\$ 3,856,457	\$ 459,723	\$ 236,968
FUND BALANCES CONSIST OF:				
General Cash	\$ 33	\$ 10,571,902	\$ 476,610	\$ -
NSF Items	-	-	-	-
Deposits with Vendors	-	-	25,000	-
Accounts Receivable Invoiced	-	-	-	-
Due From Other Government	-	-	-	-
Long-Term Investments	-	-	-	236,968
Due to Vendors	-	(6,715,445)	(38,286)	-
Due to Employees	-	-	(3,460)	-
Due to Fund	-	-	(141)	-
Due to Government	-	-	-	-
TOTAL FUND BALANCES	\$ 33	\$ 3,856,457	\$ 459,723	\$ 236,968

The accompanying notes are an integral part of the schedule.

Trust Funds (Continued)			Distributive Funds		Federal Draws for Other Agencies Federal Letter of Credit Fund 40000
State Employees Insurance Trust Funds 68920-2	Insurance Trust Funds 68930-9	Total Trust Funds (Memorandum Only)	Imprest Payroll Funds 76550-1	State Employee Assistance Fund 78010	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,924,397	-	-	-
-	-	-	-	-	1,694,552,691
-	-	-	-	-	-
434,653	113,957,479	119,447,783	-	-	-
<u>434,653</u>	<u>113,957,479</u>	<u>121,372,180</u>	<u>-</u>	<u>-</u>	<u>1,694,552,691</u>
-	-	1,946,465	-	-	-
174,343	118,582,624	123,467,719	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,686,358,790
<u>174,343</u>	<u>118,582,624</u>	<u>125,414,184</u>	<u>-</u>	<u>-</u>	<u>1,686,358,790</u>
<u>260,310</u>	<u>(4,625,145)</u>	<u>(4,042,004)</u>	<u>-</u>	<u>-</u>	<u>8,193,901</u>
-	5,150,000	5,150,000	-	-	-
(168,665)	(5,000,000)	(5,377,465)	-	-	-
<u>(168,665)</u>	<u>150,000</u>	<u>(227,465)</u>	<u>-</u>	<u>-</u>	<u>-</u>
91,645	(4,475,145)	(4,269,469)	-	-	8,193,901
<u>10,711,345</u>	<u>15,657,962</u>	<u>30,808,457</u>	<u>-</u>	<u>-</u>	<u>(21,451,601)</u>
<u>\$ 10,802,990</u>	<u>\$ 11,182,817</u>	<u>\$ 26,538,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,257,700)</u>
\$ 10,953,250	\$ 11,298,803	\$ 33,300,598	\$ 29,758,094	\$ 3,313	\$ (13,507,847)
-	252	252	-	-	-
-	-	25,000	-	-	-
-	18,072	18,072	-	-	-
-	-	-	-	-	1,088,748
-	-	236,968	-	-	-
-	-	(6,753,731)	(9,009,869)	-	(838,601)
-	-	(3,460)	(93,262)	-	-
(150,260)	(134,310)	(284,711)	(6,062,102)	(3,313)	-
-	-	-	(14,592,861)	-	-
<u>\$ 10,802,990</u>	<u>\$ 11,182,817</u>	<u>\$ 26,538,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13,257,700)</u>

(Concluded)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2004

1. Accounting Policies - Criteria

The accounting policies of the Nebraska Department of Administrative Services are based on accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS), State Accounting Division.

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the duties of the State of Nebraska's Director of Administrative Services include "The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes." Per Neb. Rev. Stat. Section 81-1111(1) R.R.S. 1999, the State Accounting Administrator, subject to the supervision of the Director, "shall have the authority to prescribe the system of accounts and accounting to be maintained by the state and its departments and agencies, develop necessary accounting policies and procedures, coordinate and approve all proposed financial systems, and manage all accounting matters of the state's central system."

The Nebraska Information System (NIS) is the official accounting system prescribed by the State Accounting Division for the State of Nebraska. Policies and procedures are detailed in NIS manuals and the State Accounting Manual published by State Accounting, and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for DAS was obtained directly from NIS. Appropriate reclassifications and adjustments were made to such accounts. Accounts receivable and accounts payable are recorded into NIS as transactions occur. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability as of June 30, 2004 includes only those payables posted to NIS before June 30, 2004 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2004 **does not** include amounts for goods and services received before June 30, 2004, which had not been posted to NIS as of June 30, 2004.

DAS also records other liabilities in accounts titled Due to Vendors, Deposits, Due to Employees, Due to Fund, and Due to Government. The assets of DAS (chiefly cash) will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. DAS does not include liabilities for accrued payroll and compensated absences; however, accrued payroll was encumbered at June 30, 2004, but was not recorded in this schedule.

The fund types established by State Accounting that are used by DAS are:

10000 – General Fund – accounts for all financial resources not required to be accounted for in another fund.

NOTES TO THE SCHEDULE

(Continued)

1. Accounting Policies - Criteria (Continued)

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

30000 – Construction Funds – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

40000 – Federal Funds – account for all Federal grants and contracts received by the State. Expenditures must be made in accordance with applicable Federal requirements.

50000 – Revolving Funds – account for the operation of State agencies that provide goods and services to other departments or agencies within State government.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

The major revenue object account groupings established by State Accounting and used by DAS are:

Appropriations – appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

Taxes – compulsory charges levied by a government for the purpose of financing services performed for the common benefit. The amount of \$13,729,654 reported on the Schedule represents cigarette taxes statutorily allocated to DAS for construction, the NIS project, and infrastructure and technology projects in Omaha and Lincoln.

Intergovernmental – revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements. For more information see Note 9.

Sales & Charges – income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – revenue from sources not covered by other major categories. For detail see Note 6.

NOTES TO THE SCHEDULE

(Continued)

1. Accounting Policies - Criteria (Concluded)

The major expenditure object account groupings established by State Accounting and used by DAS are:

Personal Services – salaries, wages, and related employee benefits provided for all persons employed by DAS.

Operating – expenditures directly related to a program's primary service activities.

Travel – all travel expenses for any State officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay – expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – payment of Federal and/or State money to governmental subdivisions, cities, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

2. State Agency

The Nebraska Department of Administrative Services (DAS) is a State agency established under and governed by the laws of the State of Nebraska. As such, DAS is exempt from State and Federal income taxes. The schedule includes all funds of DAS.

DAS is part of the primary government for the State of Nebraska.

3. Totals

The Totals "Memorandum Only" columns represent an aggregation of individual account balances. The columns are presented for overview informational purposes and do not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. Investments

Neb. Rev. Stat. Section 72-1246 R.R.S. 2003 authorizes the State Investment Officer to invest the State's funds in accordance with the prudent person rule, subject to the direction of the Nebraska Investment Council. The State's investments are categorized to give an indication of the level of custodial risk assumed by the State at year-end. Category 1 includes investments that are insured

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

(Continued)

4. Investments (Concluded)

or registered or for which the securities are held by the State or its agent in the State’s name. The investments of DAS (which are entirely held in the J.J. Soukup trust fund) are either categorized as Category 1 or not Categorized as required by Governmental Accounting Standards Statement Number 3.

INVESTMENTS CATEGORY	TOTAL FAIR VALUE
Corporate Bonds (Category 1)	\$ 187,081
Uncategorized	49,887
Total Investments	<u>\$ 236,968</u>

5. Capital Assets

Under the State’s method of reporting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant and equipment would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR).

Buildings actually owned by DAS or any other buildings going through the vacant building process are included on DAS’s listing of capital assets, which are not reflected in this Schedule. DAS values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. In addition, any item deemed significant but valued at less than \$1,500 is capitalized. Substantially all initial building costs, land and land improvements costing in excess of \$100,000 are capitalized. Building improvements and renovations in excess of \$100,000 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Buildings and Equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 Years
Equipment	3 - 10 Years

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

(Continued)

5. Capital Assets (Concluded)

Capital asset activity of DAS for the fiscal year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Buildings	\$ 69,722,210	\$ -	\$ 30,856	\$ 69,691,354
Equipment	67,336,745	27,357,381	4,152,892	90,541,234
Land	2,754,578	-	2	2,754,576
Construction in Progress	21,831,685	4,116,031	-	25,947,716
Total	<u>\$ 161,645,218</u>	<u>\$ 31,473,412</u>	<u>\$ 4,183,750</u>	<u>\$ 188,934,880</u>
Less accumulated depreciation for:				
Buildings				\$ 43,434,633
Equipment				51,603,534
Total Depreciation				<u>95,038,167</u>
Total capital assets, net of depreciation				<u>\$ 93,896,713</u>

6. Miscellaneous Revenue

DAS had \$159,135,148 of miscellaneous revenue reported on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Following is a summary of the significant miscellaneous revenue for DAS:

Fund Number	Amount	Description
26670-1	\$ 6,673,647	Fee assessed agencies for building maintenance
56500	23,796,468	Building and space rental receipts
56550-1	1,203,463	Parking rental receipts
56570-2	4,912,213	Rental receipts for vehicle use
	3,101,574	Other Operating-which includes interest income and other miscellaneous receipts
All Funds	<u>39,687,365</u>	Total Miscellaneous Revenue for Operating Funds
Total	\$ 39,687,365	Contributions from all State employees for flexible spending plan (See Note 7)
68010-6	4,780,175	Contributions from all State employees and the State for insurance premiums (See Note 7)
68930-9	113,239,214	Other Miscellaneous Revenue-which includes interest income and other miscellaneous receipts belonging to all State agencies
	1,428,394	
All Funds	<u>159,135,148</u>	Total Miscellaneous Revenue
Total	<u>\$ 159,135,148</u>	

NOTES TO THE SCHEDULE

(Continued)

7. State-Wide Responsibilities

DAS has been entrusted with many state-wide responsibilities that do not and should not flow through any of the operating funds of DAS. These transactions are kept within the trust and distributive funds of DAS and are NOT shown on the financial schedule. Specifically, these responsibilities include (1) the processing of state-wide payroll and related employee and employer costs of fringe benefits, employee deductions, and payroll tax payments, (2) the processing of master lease transactions, and (3) the accounting of surplus property transactions.

Payroll costs for all agencies (including DAS) are expensed on the various agencies' books. However, such funds are then transferred to State Accounting's imprest funds (a distributive fund) and distributed (a) to the employees (\$1,062,768,290), (b) to taxing authorities for tax withholdings and the State's FICA match (\$413,290,748), and (c) to other entities related to payroll deductions for distribution to savings accounts, credit unions, retirement accounts, child support recipients, insurance companies, and other outside vendors (\$844,866,449). None of the above transactions are shown on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Two of the "other entities" paid are the State's Insurance Trust Funds, created for employees' payments into the flexible spending plans (\$4,780,175) and for the State and employees' share of insurance premiums (\$113,239,214). The activity for these Insurance Trust Funds (shown on this Schedule as Funds 68010-6 and 68930-9) ARE reflected in the Schedule.

Additionally, State Accounting administers the state-wide master lease program and, as a result, collects monthly payments from all participating agencies (including DAS). It then remits semi-annual principal and interest payments to the trustees. Total payments to the trustees on behalf of the agencies totaled \$10,329,359. This activity is not shown on the Schedule.

Finally, the Materiel Division of DAS is responsible for collecting surplus property, selling/auctioning off such property, and returning the proceeds of such sales to the owner agency less a commission. In fiscal year 2004 the Surplus Property unit returned \$6,980,984 of such sales to various agencies. This activity is not shown on the Schedule.

8. Transfers

DAS had Operating Transfers In of \$10,485,705 and Operating Transfers Out of \$6,465,937. The Operating Transfers In and Out were not equal because certain transfer transactions were transactions between DAS and other State agencies. Generally, transfers are authorized by State Statute. A \$5,000,000 transfer In and Out of Fund 68933 (Insurance Trust Fund) reflects a temporary transfer between two health insurance plans, HMO and PPO, which are sub-funds of that Fund. This transfer was administratively approved. The following schedule summarizes the transfers recorded by DAS:

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

(Continued)

8. Transfers (Concluded)

Fund Number	In	Out
26650-5	\$ -	\$ (1,088,472)
28010	227,465	-
28910	5,108,240	-
68010-6	-	(208,800)
68920-2	-	(168,665)
68930-9	5,150,000	(5,000,000)
Total	<u>\$ 10,485,705</u>	<u>\$ (6,465,937)</u>

9. Federal Letter of Credit Fund (Fund 40000)

This fund is used by the State Accounting Division to drawdown funds from the Federal government for all State agencies. State Accounting is responsible for the drawdown of these funds from the Federal government as requested by State agencies; however, DAS does not disburse these funds. Disbursements through this fund are recorded in the records of the agencies requesting the drawdown. DAS's Schedule for this fund reflects their responsibility only by recording the drawdown amount (\$1,694,552,691 in fiscal year 2004) and the agency disbursements of \$1,686,358,790. The negative fund balance of \$(13,257,700) is due to the delay between the time funds are disbursed by the various State agencies and the time the reimbursement is received from the Federal government through the Federal Letter of Credit Fund. The negative fund balance will be funded by future drawdowns from the Federal government.

10. Bonds Payable

The State created the Nebraska State Building Corporation (NSBC) to finance the purchase of a building used by the State (and DAS) for its data processing and general services operations. In September 1987, the NSBC issued \$7,700,000 of lease revenue bonds to finance the purchase of the building. In June 1992, the NSBC issued \$7,645,000 of lease revenue bonds to refund the 1987 bonds. In June 2002, the NSBC issued \$4,155,000 of lease revenue bonds to refund the 1992 bonds. The NSBC is not subject to State constitutional restrictions on the incurrence of debt, which may apply to the State itself. The obligations outstanding at June 30, 2004, were collateralized by the revenues of the NSBC, which consisted primarily of building rental paid by the State. Outstanding bonds payable under GAAP would be reported on DAS's financial statements. For the State's method of reporting, this long term payable is not reported on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

Bond Payable	Date Issued	Maturity Dates	Interest Rates	Balance June 30, 2004
NSBC Issue	2002	2002-2009	1.50%-3.85%	\$ 3,140,000

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

(Continued)

10. Bonds Payable (Concluded)

Debt Service Requirements To Maturity

Year	Principal	Interest	Total
2005	\$ 520,000	\$ 99,701	\$ 619,701
2006	535,000	85,956	620,956
2007	555,000	69,884	624,884
2008	575,000	51,536	626,536
2009	955,000	30,794	985,794
Total	<u>\$ 3,140,000</u>	<u>\$ 337,871</u>	<u>\$ 3,477,871</u>

Change of Bonds Payable for the Year Ended June 30, 2004

Balance at July 1, 2003	\$ 3,650,000
Bonds Retired	(510,000)
Balance at June 30, 2004	<u>\$ 3,140,000</u>

11. Lease Commitments

Capital and Operating Leases. DAS leased office facilities and equipment under both capital and operating leases. The following schedules for capital leases and operating leases includes all leases for DAS. For the capital leases, DAS utilizes the State's Master Lease program operated by State Accounting. Although the lease terms may vary, all leases are subject to annual appropriation by the Legislature.

The minimum annual lease payments and the present value of future minimum payments for capital leases for DAS as of June 30, 2004, were as follows:

Year	Amount
2005	\$ 6,043,959
2006	5,644,819
2007	5,437,235
2008	4,152,005
2009	4,088,375
2010-2014	3,924,545
2015-2019	1,880,797
Total Minimum Payments	<u>31,171,735</u>
Less: Interest and Executory Costs	<u>4,146,957</u>
Present Value of Net Minimum Payments	<u>\$ 27,024,778</u>

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

(Continued)

11. Lease Commitments (Concluded)

The minimum annual lease payments for operating leases as of June 30, 2004 are as follows:

Year	Amount
2005	\$ 4,475,196
2006	1,733,442
2007	1,099,072
2008	872,826
2009	804,337
2010-2014	3,606,550
Total	<u>\$ 12,591,423</u>

DAS's operating lease payments for the year ended June 30, 2004 totaled \$9,297,639.

12. Lessor Transactions

DAS also is a lessor of building property primarily to other State agencies. DAS (the State) owns some buildings and contracts for other space and bills user agencies for this building space. The rental income recorded by DAS, and recorded as Miscellaneous Revenue (See Note 6), for the fiscal year ended June 30, 2004, was \$23,796,468.

13. Contractual Commitment – Thermal Service Agreement

DAS Building Division entered into a Thermal Service Agreement with District Energy Corporation (DEC) on August 4, 1998. This agreement provided for thermal steam services for the Nebraska State Capitol, the State Office Building, and the Nebraska Governor's Mansion. Related to this agreement was an annual payment of \$346,000 to provide for the payment of debt service and coverage on DEC indebtedness for the project. This payment was billable annually and payable on July 15 in each year during the term of the agreement. The agreement remains in effect for a period of 20 years from its date or until all debt associated with the facility has been paid, whichever is longer.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

(Continued)

14. Audit Adjustments

The following net adjustments were made to the financial schedule compared to amounts recorded on NIS to properly report certain balances as of June 30, 2004:

Fund	Account Title	Amount Recorded on NIS	Net Adjustment	Adjusted Amount
Imprest Payroll				
Funds 76550-1	Clearing Account	\$ 50,431,150	\$ (50,431,150)	\$ -
	Cash	31,914,031	(2,155,937)	29,758,094
	A/R Invoiced	(38,291)	38,291	-
	Due to Vendors	(8,169,727)	(840,142)	(9,009,869)
	Deposits	(22,652)	22,652	-
	Due to Employees	26,392,061	(26,485,323)	(93,262)
	Due to Fund	38,147,184	(44,209,286)	(6,062,102)
	Due to Government	(35,635,519)	21,042,658	(14,592,861)
Master Lease Trust				
Funds 66530-5	Cash	12,094,894	(3,253,091)	8,841,803
	Due to Vendors	(6,298,104)	1,312,758	(4,985,346)
State Building				
Revolving Fund	Miscellaneous			
56500	Revenue	38,079	(38,079)	-
State Building				
Renewal				
Assessment Funds	Miscellaneous			
26670	Revenue	-	38,079	38,079

15. Adjustments to Fund Balance

DAS had one material adjustment to beginning fund balance. In Master Lease Trust Funds 66530-5, DAS made an adjustment of \$2,883,523. This was due to a conversion of transactions from NAS (the State's old accounting system) to NIS (the State's new accounting system.)

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
EXAMINATION OF THE SCHEDULE OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Nebraska Department of Administrative Services
Lincoln, Nebraska

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Administrative Services for the fiscal year ended June 30, 2004, and have issued our report thereon dated April 14, 2005. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Perry Pirsch, JD, MPA
Legal Counsel
ppirsch@mail.state.ne.us

In planning and performing our examination, we considered the Nebraska Department of Administrative Services' internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Department of Administrative Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Nebraska Information System and Accounting Procedures).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Administrative Services' schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional items that we reported to management of the Nebraska Department of Administrative Services in the Comments Section of this report as follows: Comment Number 2 (Nebraska Information System Security), Comment Number 3 (Master Lease Purchase Program), Comment Number 4 (Monitoring of Claims Paid), Comment Number 5 (Contract Bid Evaluation Documentation), Comment Number 6 (Contract Procedures), Comment Number 7 (Imprest Payroll Fund), Comment Number 8 (Fixed Assets), Comment Number 9 (Accounting Division Head), Comment Number 10 (Timesheets), Comment Number 11 (Procedures for Terminations), Comment Number 12 (Inadequate Personnel Files), Comment Number 13 (Adjusted Service Dates), Comment Number 14 (Leave Balances Transferred for NEIS to NIS), Comment Number 15 (Incorrect Pay Rate Used for Overtime Compensation), Comment Number 16 (Supporting Documentation for Payroll Allocation), Comment Number 17 (Travel-State Employees), Comment Number 18 (Travel-Contractual), Comment Number 19 (Blue Cross and Blue Shield of Nebraska (BCBS) Rates), Comment Number 20 (Documentation and Controls Over Billing Rates), Comment Number 21 (Rate Documentation), Comment Number 22 (Building Values and Depreciation Assessments for LB 530), Comment Number 23 (Internal Control Over Receipts), and Comment Number 24 (Surplus Property Controls).

This report is intended solely for the information and use of DAS and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.



Assistant Deputy Auditor

April 14, 2005