



Attestation Report of the Nebraska Department of Administrative Services July 1, 2003 through June 30, 2004

**KATE WITEK, AUDITOR OF PUBLIC ACCOUNTS
STATE CAPITOL, SUITE 2303
LINCOLN, NEBRASKA 68509 (402)471-2111**

Report Highlights

Issued June 2005

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 includes:

- (1) Providing for the development and maintenance of a modern system of budgetary, inventory, and financial accounting;
- (2) Providing 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;
- (3) Providing for centralized direction of services and service agencies;
- (4) Assuring 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
- (5) Focusing 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.

Our report included 24 Comments and Recommendations, below is a Summary of Comments:

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. There is a security system controlled by DAS to limit access to 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 unrestricted 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 inadequate.

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: 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.

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 period.

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 upon termination, three of five employees tested did not have their NIS access removed in a timely manner, 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: 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.

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.

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 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: a non-reimbursable airline ticket of \$347, 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 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.

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 admin. 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. After FY2004, DAS Risk Management Division took 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.

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.

The report in its entirety can be found on the Auditor of Public Accounts website: www.auditors.state.ne.us.