

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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March 8, 2006

Deann Haeffner, CPA
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Fernando Lecuona III, Office of the Commissioner
Nebraska Department of Labor
550 South 16th Street
Lincoln, Nebraska 68509

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Dear Mr. Lecuona:

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2005, and have issued our report thereon dated December 19, 2005. We have also audited the State's compliance with requirements applicable to major Federal award programs and have issued our report thereon dated February 2, 2006. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the Federal Office of Management and Budget (OMB) Circular A-133 (the Single Audit); and not to provide assurance on internal control. We have not considered internal control since the date of our report.

Tim Channer, CPA
Asst. Deputy Auditor
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Mary Avery
SAE/Finance Manager
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In connection with our audit described above, we noted certain internal control matters related to the activities of the Nebraska Department of Labor (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Agency's management, are intended to improve internal control or result in other operating efficiencies.

Dennis Meyer, CGFM
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Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Perry Pirsch, JD, MPA
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Our comments and recommendations for the year ended June 30, 2005, are shown on the following pages.

COMMENT RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Unemployment Compensation Outstanding Check Balance

The Agency tracked Unemployment Compensation outstanding checks in two places, their monthly ledger (manually prepared excel spreadsheet) and the Benefit Payment System (BPS). The Agency performed a reconciliation between these two records on a monthly basis. Before September 2005, this reconciliation was not being performed successfully because there was an issue with the amount of outstanding checks that were being recorded on the monthly ledger.

In December 2003, the daily child support payment went from being paid by check to being electronically paid. Before child support payments were electronically paid, a check was issued, and this amount was included in the total amount of checks issued. When the payments started being electronically paid the Agency did not subtract the child support amount from the total checks issued and the amount was entered into the monthly ledger. Since no check was actually issued, these checks never went through the bank and the outstanding check balance on the monthly ledger continued to increase. The bank balance continued to increase as well, because the child support amount was drawn down twice since the child support amount was added to the total benefits paid twice (once as a check and once as an electronic payment), causing an increased benefits paid expense and an increased drawdown. This caused the account balance to be understated by the amount of child support paid out and benefits paid out were overstated by this amount.

The total amount of child support recorded and drawn down twice was \$5,369,187, as of June 30, 2005. Of this amount, \$3,076,662 was applicable to fiscal year 2005 and the remaining \$2,292,525 was applicable to fiscal year 2004.

The Agency found this error after June and is correcting the problem by reducing their monthly drawdowns by \$500,000 every month. This will decrease the actual bank balance by \$500,000 each month.

As a result, the Agency has been understating their bank balance and has increased the risk of loss or misuse of State funds.

We recommend the Agency continue their corrective action (reducing drawdowns by \$500,000 each month), as well as continue to reconcile the BPS to their monthly ledger.

COMMENT RELATED TO THE SINGLE AUDIT

1. Program: 17.258, 17.259, & 17.260 - Workforce Investment Act Cluster - Eligibility

Federal Grantor Agency: U.S. Department of Labor

Criteria: No participant may be in violation of Section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under the Act (29 USC 2939(h)). Title 50a, 453 Proc. No. 4771 1-105 states, “Persons born on or after January 1, 1963, shall present themselves for registration on the day they attain the 18th anniversary of their birth or on any day within the period of 60 days beginning 30 days before such date . . .”

Condition: 1 of 45 participants selected for testing was not eligible for benefits at the time benefits were provided.

Questioned Costs: \$200 known.

Context: One individual born March 1987 should have been registered with the Military Selective Service no later than April 20, 2005. The client began intensive services as of June 23, 2005, and had not yet complied with the Selective Service Act. The participant did not sign the registration form until November 15, 2005. Benefits paid for the period that were not eligible totaled \$200. Testing was performed on 17 of 436 total participants in the Youth Program administered by Greater Nebraska. Total aid distributed by Greater Nebraska for the Youth Program for fiscal year 2005 was \$286,139.

Cause: Unknown

Effect: Increased risk that funds are expended for ineligible clients.

Recommendation: We recommend the Agency review its policies to ensure benefits are not provided to individuals before they become eligible.

Management Response: The Audit Report noted that 1 of 45 participants selected for testing was not eligible for benefits at the time benefits were provided. During the Audit Exit Interview, Dennis Lacquement, Service Contract Administrator, reviewed the facts of the event. It was determined that staff members involved in the event were aware of the policies and regulations relevant to Selective Service Registration and the eligibility for benefits. The staff members encountered difficulties when registering the client with the Selective Service during the appropriate time period. The staff members determined that, since the client was in the process of registering, this would be sufficient to document compliance with the Selective Service requirement.

Corrective Action Plan: The Audit Report recommended the Department of Labor review its policies to ensure benefits are not provided to individuals before they become eligible. The Department of Labor developed a corrective action plan to address the finding and implement procedures to prevent the event from occurring again. To address the file cited in the finding, the Department of Labor reviewed the policy with the involved staff members and reaffirmed that a client must have completed the Selective Service Registration process prior to receiving benefits. The Department of Labor further clarified that the initiation of the registration process with Selective Service would not suffice for eligibility purposes. To prevent future occurrences of this event, the Department of Labor will add language to the Selective Service Registration policy that further emphasizes this statement and present this new language to all Department of Labor Workforce Investment Act staff at their next staff training in January 2006.

Contact: Dennis Lacquement

Anticipated Completion Date: January 15, 2006

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to you.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this report is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.

Sincerely,

Pat Reding, CPA

Pat Reding
Assistant Deputy Auditor

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor