

STATE OF NEBRASKA  
Auditor of Public Accounts



Mike Foley  
State Auditor  
Mike.Foley@apa.ne.gov

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

March 7, 2007

Mr. Fernando Lecuona III, Commissioner  
Nebraska Department of Labor  
550 South 16<sup>th</sup> Street  
Lincoln, Nebraska 68509-4600

Dear Mr. Lecuona:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 6, 2007. 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-1 33 (the Single Audit) and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted a certain internal control matter related to the activities of the Department of Labor (Department) or other operational matters that is presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Department's management, is intended to improve internal control or result in other operating efficiencies.

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.

Draft copies of this letter were furnished to the Department to provide them an opportunity to review the letter and to respond to the comment and recommendation included in this letter. The Department declined to respond.

Our comment and recommendation for the year ended June 30, 2006, is shown on the following pages.

## **COMMENT RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS**

### **1. Unemployment Compensation Outstanding Check Balance**

Sound accounting practices require accounting records be maintained accurately in order to reflect actual amounts on the financial statements and the accounting records be reconciled to the assets held by banks.

As part of the Department's bank reconciliation process, Unemployment Compensation outstanding checks were tracked in two places, the monthly ledger (manually prepared Excel spreadsheet) and the Benefit Payment System (BPS). The Department performed reconciliations between these two records on a monthly basis. Our review of this reconciliation noted the following:

- Though the Department was performing monthly reconciliations, unexplained variances remained each month ranging from a negative \$330,383 to \$718,748.
- Some months' reconciliations seem to be inadequate or incomplete. The last reliable reconciliation was performed in January 2003 and still had an unexplained variance of \$233.
- In December 2003, the daily child support payment went from being paid by check to being paid electronically. Before child support payments were paid electronically, a check was issued and this amount was included in the total amount of checks issued. When the payment started being made electronically the Department did not subtract the child support amount from the total checks issued and the amount was entered into the monthly ledgers. 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 benefits paid twice (once as a check amount and once as a electronic payment amount), causing an increased benefits paid expense and an increased drawdown. As of June 30, 2006, this caused the bank balance to be understated by \$1,233,840 and the outstanding checks amount to be overstated by the same.

The total amount of child support recorded and drawn down twice was \$5,778,826 as of September 2005 when the problem was discovered. Applicable to fiscal year 2006 was \$409,639, \$3,076,662 was applicable to fiscal year 2005, and the remaining \$2,292,525 was applicable to fiscal year 2004. The Department implemented a plan to resolve the issue in October 2005. The plan included reducing their monthly drawdowns by \$500,000 each month and reducing their balance of outstanding checks on the monthly ledger by \$500,000 each month.

Management indicated the problem developed due to the following factors. First, there was concern about the integrity of the information on the BPS system. Second, during 2003 there was a transition from the former Supervisor to an interim Supervisor and then to the current Supervisor. Third, management has focused on other priorities in the Department to the detriment of this one.

As a result, the Department's bank balance was not properly recorded on the financial statements. In addition, without an adequate reconciliation process, there is an increased risk of loss or misuse of State funds.

We recommend the Department take adequate steps to complete the monthly reconciliation of the BPS system to their monthly ledger. The reconciliation process should include having adequate explanation of any variances.

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

This report is intended solely for the information and use of the Department, 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 Department employees for the courtesy and cooperation extended to us during our audit.



Pat Reding  
Assistant Deputy Auditor



Don Dunlap  
Assistant Deputy Auditor