

STATE OF NEBRASKA
Auditor of Public Accounts



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March 7, 2007

Mr. Shane Osborn
Nebraska State Treasurer
State Capitol, Room 2003
Lincoln, Nebraska 68509-4788

Dear Mr. Osborn:

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-133 (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 certain internal control matters related to the activities of the State Treasurer's Office (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.

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

Our comments and recommendations for the year ended June 30, 2006, are shown on the following pages.

COMMENTS RELATED TO THE SINGLE AUDIT

Finding #06-12-01

Program: CFDA 93.563 Child Support Enforcement - Special Tests and Provisions

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: Title 45 CFR 92.20 requires accurate, current, and complete disclosure of financial results and accounting records which adequately identify the source and application of funds. Effective control and accountability must be maintained for all grant cash and assets. Good internal control requires procedures to ensure bank records agree to NIS, the State's accounting system.

Summary: The IV-D Support Payment Distributive – SDU Fund (Fund 72640) is under the authority of the Nebraska Health and Human Services System (HHSS) and is used by the State Disbursement Unit (SDU) and HHSS to administer the process of collecting and distributing child support payments. The SDU's reconciliation between the NIS Fund 72640 balance and the bank balance have a variance of \$1,592,201 at June 30, 2006, with the bank being short compared to NIS. SDU staff have gone back to the beginning of the SDU in December 2001 and explained the entire variance noted. This work was completed in December 2006. State Accounting had not completed its review of the SDU reconciliation to determine the effect on the overall State reconciliation as of December 2006, and as such we have not reviewed the SDU reconciliation in detail.

Management Response:

Corrective Action Plan: The Treasurer's Office, with the assistance of State Accounting, has now completed the bank-to-NIS reconciliation from inception to June 30, 2006. With the reconciliation complete, the Treasurer's Office is working closely with State Accounting to determine the final resolution of any variance and reconciling items that will need to be adjusted.

Contact: Char Scott

Anticipated Completion Date: June 1, 2007

Finding #06-12-02

Program: CFDA 93.563 Child Support Enforcement - Special Tests and Provisions

Grant Number & Year: Various

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-133 section 300 requires the auditee to maintain internal control over Federal programs. Good internal control requires the Agency ensure computer systems cannot be accessed by outside parties.

Condition: In June 2006, a computer hacker was able to access the Agency's child support payment center server (KidCARE).

Questioned Costs: N/A

Context: Per investigation, the hacker did not disrupt or use any of the information maintained on KidCARE. The Agency has contracted with an outside firm to review their internet security. This review was performed subsequent to the fiscal year.

Cause: Unknown.

Effect: By not ensuring all computer systems cannot be accessed by outside parties, there is an increased risk of loss or misuse of Federal funds.

Recommendation: We recommend the Agency review security on a periodic basis to prevent system access by outside parties.

Management Response:

Corrective Action Plan: The Agency has worked closely with the Office of the CIO to make certain our servers are adequately protected on the State's network. As stated above, a third party company performed an external and internal scan on the network. The Agency has addressed all of the findings of the external report and nearly all of the critical findings of the internal report. We will continue to address these issues until they have been resolved. To date, there has been no verified case of fraud relating to the backup server breach.

Contact: Charles Luginbill

Anticipated Completion Date: Complete.

Finding #06-26-26

Program: CFDA 93.563 Child Support Enforcement - Allowability

Grant Number & Year: #0G0504NE4004, FFY 2005; #0G0604NE4004, FFY 2006

Federal Grantor Agency: U.S. Department of Health and Human Services

Criteria: OMB Circular A-87, Attachment B, Section 8(h)(4) states, "where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation ... or other substitute system has been approved by the cognizant Federal agency."

Condition: For 1 of 8 employees tested, there was no written approval from the cognizant Federal agency for the substitute system used for the allocation of payroll costs for the Federal program. In addition, it was noted an additional employee did not have written approval for the allocation of payroll costs for the Federal program.

Questioned Costs: \$51,005

Context: These individuals worked on multiple programs (Treasury Management, State Disbursement Unit, College Savings Plan, and Unclaimed Property), but did not record the actual hours worked on each program on timesheets. The salaries of these employees were allocated based on the number of employees in each of the programs rather than actual time worked. Total Federal payroll charges for the two employees were \$51,005.

Cause: The Agency was unaware the allocation method used for these employees was improper.

Effect: Without proper documentation of the actual hours worked on the Federal program or written approval from the cognizant Federal agency to use a substitute system, the Agency is in noncompliance with OMB Circular A-87.

Recommendation: We recommend the Agency allocate salaries based on actual activity reports or obtain written approval from the cognizant Federal agency for the system in use.

Management Response: (Treasurer) The Treasurer is a contractor of HHSS for the operation of the SDU. As a contractor, the Treasurer submits a reimbursement request to HHSS for eligible funds spent in the operation of the SDU. Upon HHSS's review and approval of the reimbursement request, HHSS releases federal grant monies to the Treasurer to offset operating costs. HHSS has approved the SDU's allocation approach. Any written approval from the cognizant Federal Agency for the substitute system currently in place to allocate the salaries of the Business Manager and the IT Manager should be requested by HHSS from the cognizant Federal Agency.

Corrective Action Plan: HHSS is in the process of contacting the Federal Office to see if a substitute system for allocating salaries and wages to this Federal grant may be used in place of activity reports for employees working multiple State Treasurer activities.

Contact: John Kwiatek

Anticipated Completion Date: June 30, 2007

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.



Pat Reding
Assistant Deputy Auditor



Don Dunlap
Assistant Deputy Auditor