NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 10, 2014

Catherine Lang, Commissioner
Nebraska Department of Labor
550 South 16th Street
Lincoln, Nebraska 68509-4600

Dear Ms. Lang:

We have audited the basic financial statements of the State of Nebraska (State) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and have issued our report thereon dated December 30, 2013. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the basic financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska Department of Labor (Agency) or other operational matters that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Agency'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the comment below to be a significant deficiency.

This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

Draft copies of this letter were furnished to the Agency to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. 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.

The following is our comment and recommendation for the year ended June 30, 2013.

Lack of Adequate Collateral for Deposits

Neb. Rev. Stat. § 77-2395(1) (Reissue 2009) states, in relevant part:

> *[T]he custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than one hundred two percent of the amount on deposit which is in excess of the amount so insured or guaranteed.*

A good internal control plan requires policies and procedures for the review of depository fund balances in excess of Federal Deposit Insurance Corporation (FDIC) limit to ensure they are properly collateralized.

During the audit, we requested documentation that the Agency's depository accounts were adequately collateralized for balances in excess of the FDIC limit ($250,000). We first requested documentation on October 16, 2013. Finally, on December 2, 2013, the Agency obtained monthly collateral reports from the depository bank and provided the reports to the auditors on December 4, 2013. The Agency never provided documentation to support that it monitored the balances during the year to ensure the ongoing sufficiency of the collateralization.

Our review of the monthly reports revealed inadequate collateral coverage for the months of January and April 2013 in the amounts of $4,915,710 and $41,918,711, respectively.

Month	Month End Bank Balance	FDIC Coverage	Balance In Excess of FDIC Coverage	Market Value of Pledged Collateral	Percent Collateralized (102% Required)
January	$ 14,844,247	$ 250,000	$ 14,594,247	$ 9,678,537	66.32%
April	$ 56,750,778	$ 250,000	$ 56,500,778	$ 14,582,067	25.81%

When bank balances are not adequately collateralized, the Agency increases the risk of loss of funds and is not in compliance with State statute.

> We recommend the Agency establish policies and procedures for the regular monitoring of bank balances to ensure adequate pledged collateral is established to protect the Agency's funds in accordance with State statute.

Agency Response: Management agrees with the finding. The issue which causes this situation is the bank files are not processed in time for the bank to be notified there is an additional need for pledged collateral. The files are often not processed until 2-4 pm, all pledged collateral requests must be to the bank prior to that. These funds are not available till after the close of business, and therefore the funds cannot be moved nor can additional pledged collateral be obtained until the next business day. In all cases, the pledged is sufficient on the following business day.

NDOL will work with internal parties, to develop the best method to get the information processed in a timely manner. NDOL will also work with the State Treasurer's office to obtain guidance on the best way to calculate the pledged collateral on a daily basis in order to notify the bank.

* * * * *

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 the Agency.

This communication is intended solely for the information and use of management, the Governor and State Legislature, and others within the Agency and is not intended to be, and should not be, used by anyone other than these specified parties. However, this communication is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

Pat Reding, CPA, CFE
Assistant Deputy Auditor