ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF LABOR

JANUARY 1, 2012, THROUGH DECEMBER 31, 2012

Issued on January 3, 2014

*The **Nebraska Auditor of Public Accounts Office** was created by the first territorial Legislature in 1855. The Auditor was the general accountant and revenue officer of the territory. Those duties have expanded and evolved over the decades, as modern accounting theory has been implemented. The office of the Auditor of Public Accounts is one of six offices making up the executive branch of Nebraska State Government. Mike Foley was elected November 2006 and re-elected November 2010 as the Nebraska Auditor of Public Accounts. He was sworn into office on January 4, 2007, as Nebraska's 24th State Auditor.*

The mission of the Nebraska Auditor of Public Accounts' office is to provide independent, accurate, and timely audits, reviews, or investigations of the financial operations of Nebraska State and local governments.

We will provide this information, as required by statute, to all policymakers and taxpayers through written reports and our Internet-based Budget and Audit databases.

We will maintain a professionally prepared staff, utilizing up-to-date technology, and following current Government Auditing Standards.

Audit Staff Working On This Examination

Krista Davis – Audit Manager
Phil Olsen, CPA, CISA – Audit Manager
Stephanie Todd, CPA, CFE – Auditor-In-Charge
Tom Goeschel, Jr. – Auditor-In-Charge
Acacia Crist, CFE, CISA, ACDA – Auditor-In-Charge
Diane Holtorf, CPA – Auditor II
Dan Baldwin – Auditor II
Jennifer Van Hove – Auditor
Lindy Patterson – Auditor

Our reports can be found electronically at: **http://www.auditors.nebraska.gov**

Additionally, you may request them by contacting us at:

Nebraska Auditor of Public Accounts
State Capitol, Suite 2303
P.O. Box 98917
Lincoln, Nebraska 68509
Phone: 402-471-2111

NEBRASKA DEPARTMENT OF LABOR

TABLE OF CONTENTS

BACKGROUND

The Nebraska Department of Labor (Department) is charged with strengthening Nebraska's economy by supporting the economic stability of its employers and the quality of its workforce. The Department prepares Nebraskans to prosper through responsive workforce services that connect high-growth, high-demand industries to educated and skilled workers through a service delivery network of public and private partners.

The Department is organized into eight divisions: the Commissioner of Labor; General Counsel; Administrative Services; Financial Services; Employment and Training; Unemployment Insurance; Labor Market Information; and Safety. The Department delivers services through one administrative office in Lincoln and career centers in Alliance, Beatrice, Columbus, Fremont, Grand Island, Hastings, Lexington, Lincoln, Nebraska City, Norfolk, North Platte, Omaha, Scottsbluff, and York.

The Department works to: cultivate quality workers in quality workplaces through dynamic and collaborative partnerships with employment services, training, education, temporary income continuation, safety-related programs, and labor market information; spur Nebraska's involvement in workforce, education and economic community development activities; promote and encourage high-growth and high-wage employment opportunities; and implement all programs and services with integrity, efficiency, and consistency.

The Department provides the framework for a workforce system that: meets the needs of businesses by creating a comprehensive, community-based system of building a highly skilled workforce and a competitive State economy; coordinates workforce development efforts to maximize the effectiveness of programs through workforce investment boards, advisory councils, and partnerships with education, private-sector business, and local governmental agencies; matches eligible workers with jobs and provides support services to assist citizens in finding and retaining gainful employment; administers employment tax and compensation programs; provides universal access to an integrated array of labor market information and employment and training services; assists employers, employees, and the general public through labor standards programs; conducts inspections, as required by law, through various safety programs; and provides administrative support to all programs delivered by the Department.

Office of Commissioner

The Commissioner of Labor is the chief executive officer for the Department, appointed by the Governor and confirmed by the Legislature. The Commissioner is responsible for oversight of all Department activities. In addition to the duties prescribed by statute, the Commissioner serves on boards, commissions, and task force entities, as determined by the Governor.

Office of General Counsel

The Office of General Counsel provides legal and legislative services to the Commissioner, Department divisions, and agency boards, including: legal services for all programs of the Department; hearings on unemployment benefits and tax appeals; the Benefit Accuracy Measurement (BAM) program, which reviews the payment and denial of unemployment benefits; programs relating to labor law, contractor registration, and employee classification; and the Workforce Investment Act monitoring program.

BACKGROUND
(Continued)

Office of Administrative Services
The Office of Administrative Services coordinates and administers the following divisions: Public Information; Information Technology; Human Resources; Procurement; and Facilities and Buildings.

Office of Financial Services
The Office of Financial Services provides services to programs administering numerous Federal grants, in addition to cash-funded programs and General Fund appropriations. The Office of Financial Services: supports, operates, and maintains Department financial management systems; oversees budget preparation, financial reporting, coordination of long-term Department financial needs, and preparation and oversight of the Cost Allocation Plan; administers accounts payable, contracts, and grant management; prepares fiscal impact statements, coordinates and resolves audit procedures and issues; completes Unemployment Insurance accounting and preparation of the Schedule of Federal Expenditures; and monitors for compliance with Federal grants, State statutes, and agency rules and regulations, as well as compliance with generally accepted accounting principles.

Office of Employment and Training
The Office of Employment and Training provides direct services to employers and job seekers statewide through One-Stop Career Centers. The office also has grant management and reporting responsibilities for a variety of Federal employment and training grants, including: Wagner-Peyser Employment and Re-employment services; Workforce Investment Act statewide administrative activities; Rapid Response programs and WARN (Worker Adjustment and Retraining Notification Act) notices; Trade Adjustment Act programs; Worker Opportunity Tax Credit and Foreign Labor Certification; Nebraska Worker Training Program; State Energy Sector Partnership Grant; Greater Nebraska Workforce Investment Act program; Jobs for Veterans Act programs; and other discretionary grants awarded through the Employment and Training Administration.

Office of Unemployment Insurance
The Office of Unemployment Insurance-Benefits Division is responsible for administering unemployment insurance benefits operations in accordance with Nebraska Employment Security Law. Responsibilities include processing and payment of benefits to unemployed workers. Located within the benefits operation are several integrity-related programs, including the Benefit Payment Control Unit, which detects and collects both non-fraud and fraudulent overpayments. The unit establishes overpayment and collects by offsetting payable benefits, negotiating repayment agreements, court restitution, or State income tax intercepts.

The Office of Unemployment Insurance-Tax Division is responsible for administering the tax and wage systems, as described in the Nebraska Employment Security Law. The office's duties include: determining new employer liability and processing transfers of unemployment insurance

BACKGROUND
(Continued)

accounts; collecting and processing employer tax and wage reports and delinquent payments of combined tax; auditing employers to ensure compliance; investigating allegations of system abuse and enforcing compliance; and resolving employment issues that prevent benefit claim processing.

Office of Labor Market Information

The Office of Labor Market Information provides a variety of information products and manages various Federal grants. The office delivers labor market information, which is the applied science of collecting, analyzing, reporting, and publishing economic activities to describe and predict the relationship between labor demand and supply. This data is used to describe a local area's economic picture, which impacts: social, fiscal, technological, and economic policies; employer hiring and other business decisions; allocation of funds by policy makers; individual career choices; educational programs; and the amount of government assistance individuals receive.

Office of Safety

The Office of Safety administers inspection programs for elevators, amusement rides, and boilers. The office also administers the OSHA2ID program, which encourages businesses to provide safe work environments through collaboration between Department inspection staff and business owners and managers.

EXIT CONFERENCE

An exit conference was held November 6, 2013, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Labor were:

NAME	TITLE
Catherine Lang	Commissioner of Labor
John Albin	General Counsel
Debbie Kay Ward	Director of Financial Services
Doug Thomas	Compliance and Monitoring Supervisor

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Labor (Department), we noted certain deficiencies and other operational matters that are presented here.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Unemployment Insurance Field Representative Travel:*** Three unemployment insurance field representatives had questionable mileage reimbursements totaling $8,999. There was also a potential payroll overpayment of $1,818 for the month tested – based on the conclusion that, if the field representatives were not performing visits in the field, they may not have been working.

2. ***Conflict of Interest for Federal Awards:*** A Department employee responsible for administering a Federal grant also worked for a grant recipient. The grant recipient was paid $45,750 during the calendar year.

3. ***Limitation on Engagement Procedures:*** The Department placed limitations on procedures performed by the Auditor of Public Accounts (APA) during an attempted surprise cash count.

4. ***Inaccurate and Delayed Preparation of Financial Data:*** The Department was unable to provide accurate financial information for the Unemployment Compensation Fund in a timely manner.

5. ***Incorrect Coding of Transactions:*** Many transactions recorded by the Department in the accounting system were not accurately coded, and several required adjustment for the proper presentation of the financial schedule.

6. ***Lack of Segregation of Duties Over Revenues and Other Issues:*** There was a lack of segregation of duties over revenues. Additionally, there were problems with untimely deposits, improper fees charged, inaccurate record keeping, and untimely inspections in several of the Department's divisions. One division replaced all cash received with personal checks, which increases the risk of theft.

7. ***Unallowable Use of Federal Funds:*** Two transactions tested transferred funds between Federal programs. Those transactions, which totaled $8,809 and $426,000, were not allowable per Federal regulations.

8. ***Unknown Balance in Federal Fund:*** A fund balance of $746,330 appeared to include money acquired through the sale of real property. The Department was unable to provide support for the source of the money and whether it belonged to the Federal government.

9. ***Independent Retirement Plan:*** There was a lack of monitoring of the Department's independent retirement plan. Additionally, the Plan's definition of compensation was unclear.

SUMMARY OF COMMENTS
(Continued)

10. ***Workforce Investment Act:*** There was a lack of supporting documentation for participant payments; participant budgets included unreasonable expenses; and subrecipient monitoring was inadequate.

11. ***State Energy Sector Partnership and Training Grants:*** Two participants were overpaid $395 for supportive service reimbursements, and there was a lack of supporting documentation that training provided resulted in a degree or certification.

12. ***Penalty Waivers:*** The UI system allowed penalties to be waived with no audit trail. The Department also did not adhere to policies regarding the process for waiving penalties.

13. ***Payroll Issues:*** There was a lack of segregation of duties, errors in the accounting system for taxes, and an unsigned timesheet. Additionally, the Department improperly calculated the payroll encumbrance at June 30, 2012.

14. ***Capital Asset Issues:*** There was a lack of segregation of duties and improper recording of capital assets in the accounting system.

15. ***Unreasonable Travel Expenditures:*** There was a lack of supporting documentation for meal and mileage travel reimbursements; unreasonable meals were reimbursed; incomplete expense documents were allowed; and expenses were coded improperly in the accounting system.

16. ***Allocation Issues:*** The Department did not adhere to its cost allocation plan; expenses were outside of the Federal grants period of availability; there were circular allocations; and expenditures were improperly coded.

17. ***Reemployment Trade Adjustment Assistance Eligibility:*** There was a lack of documentation to support participants' eligibility for the program.

18. ***Unemployment Insurance Report Variances:*** The Department did not perform procedures to identify the cause of variances noted between two reports from the Benefit Payment System (BPS).

19. ***Information Technology Separation of Duties Issues:*** 277 unemployment insurance claims were filed and adjudicated by the same individual, and there was no documentation for the level of access each UIConnect role was granted.

20. ***User Access:*** Terminated users still had access to BPS, the Tax Management System (TMS), and NEWorks computer systems. Other individuals were also granted access to those systems – although such access was not necessary for their job responsibilities. A contract employee had super user access to EnterpriseOne, the State's accounting system, which was not necessary or reasonable for him to have.

SUMMARY OF COMMENTS
(Continued)

21. ***Application Security:*** BPS, TMS, and NEWorks computer systems did not have proper password settings.

22. ***Lack of Support for Transactions:*** The Department did not perform adequate grant reconciliation procedures; there was a lack of documentation to support three transactions recorded in the accounting system; and late fees of $89 were paid.

23. ***Credit Union:*** There was a lack of authority for the Department to pay the rent and utility expenses of the credit union.

24. ***Untimely Fund Transfers and Invoicing:*** One fund transfer was not performed timely, in accordance with State law, and two invoices tested were not billed timely for reimbursement.

25. ***No Reporting of FFATA:*** The Department did not complete reports required by the Federal Funding Accountability and Transparency Act (FFATA) for the Workforce Investment Act Cluster of programs.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Nebraska Department of Labor.

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

COMMENTS AND RECOMMENDATIONS

1. Unemployment Insurance Field Representative Travel

A good internal control plan requires policies and procedures for a thorough review of mileage reimbursements to ensure travel expenses are reasonable and proper. The Department should also have adequate monitoring procedures in place to ensure employees are performing the duties assigned to them and properly recording their work time.

Within the Department, the Unemployment Insurance Tax Division is responsible for collecting and processing employer tax and wage reports and pursuing delinquent payments of employer taxes. During calendar year 2012, the Division had 18 Unemployment Insurance Field Representatives on staff. In addition to performing duties in their offices, these field representatives were also required to travel frequently to employers' places of business around the State to carry out specified on-site procedures, such as auditing employers and following up on delinquent taxes.

Field representatives used their personal vehicles for business travel and were subsequently reimbursed for the mileage claimed. During calendar year 2012, the 18 field representatives were reimbursed a total of $87,345 for their combined claimed mileage.

Field Representative (Field Rep)	Mileage Reimbursements Calendar Year 2012
Field Rep 1	$18,414
Field Rep 2	$12,139
Field Rep 3	$9,026
Field Rep 4	$7,991
Field Rep 5	$6,025
Field Rep 6	$5,127
Field Rep 7	$5,123
Field Rep 8	$4,071
Field Rep 9	$3,894
Field Rep 10	$3,030
Field Rep 11	$2,606
Field Rep 12	$2,290
Field Rep 13	$2,031
Field Rep 14	$1,988
Field Rep 15	$1,407
Field Rep 16	$1,252
Field Rep 17	$803
Field Rep 18	$128
TOTAL	**$87,345**

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Unemployment Insurance Field Representative Travel</u> (Continued)

<u>Field Rep 2 Testing</u>

During testing of mileage reimbursements, the Auditor of Public Accounts (APA) noted inconsistencies with the places of travel claimed by Field Representative 2 (Field Rep 2).

The APA selected four days on Field Rep 2's November 2012 mileage reimbursement and called a total of 14 employers who were listed as having been visited during that time. As a result of those reported visits, Field Rep 2 claimed an "assignment completed" status on the corresponding cases. According to the Department, an "assignment completed" designation indicated the field representative visited the employer and obtained the necessary information to complete that particular task.

The APA's inquiry revealed that the employers listed were either not visited by Field Rep 2 or unsure whether any such visit had occurred, as set out in the table below:

Days Tested November 2012 - Field Rep 2	Number Employers APA Called	Number Employers Confirmed Field Rep 2 Did Not Visit	Number Employers Unsure Of Field Rep 2 Visit	Number Employers Confirmed Field Rep 2 Visit
11/19/2012	4	3	1	-
11/20/2012	4	3	1	-
11/28/2012	4	4	-	-
11/30/2012	2	2	-	-
TOTAL	**14**	**12**	**2**	**-**

See **Exhibit A** for detailed notes of the APA's conversation with each employer.

Because the mileage claimed appeared unreasonable based on the locations noted in his travel logs, the APA contacted Field Rep 2 to obtain additional supporting documentation and information. This was necessary to determine the exact locations visited, as the travel logs maintained by Field Rep 2 were insufficiently documented to allow for an independent recalculation of the actual mileage incurred. The APA's request for additional documentation and information occurred prior to calling any employers.

Field Rep 2 was aware the APA was questioning the legitimacy of his mileage reimbursement. When the APA later contacted the employers regarding the specifics Field Rep 2 had provided, they disagreed with the information – in particular, the two visits documented on November 30^{th}.

> For one of those visits, Field Rep 2 indicated he met with one of the owners in the Menards' parking lot in Norfolk, Nebraska. This was not the employer's place of business. When the APA called the employers to ask if they had met with the field representative as claimed, they both denied any such meeting. Moreover, neither remembered having ever met with the field representative.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Unemployment Insurance Field Representative Travel</u> (Continued)

<u>Field Rep 2 Testing</u> (Continued)

For the other of those visits, Field Rep 2 indicated he met with the employer's certified public accountant (CPA) at the CPA's home. The APA spoke with the employer to obtain contact information for the CPA; however, the employer stated that he did not have a CPA by the name Field Rep 2 provided. The employer said also that he had never met with Field Rep 2. The APA was unable to locate a CPA with the name claimed by Field Rep 2.

Due to the number of inconsistencies noted, the APA reviewed the April 2013 mileage reimbursements for Field Rep 2 and several other field representatives. The APA called 90 employers from 7 field representatives' logs. We noted that the travel logs maintained by Field Rep 2, Field Rep 4, and Field Rep 14 contained similar discrepancies. In all, 26 employers indicated the field representatives had not met with them or visited their place of business.

Field Rep Tested for April 2013	Number Employers APA Called Note 1	Number Employers Confirmed Field Rep Did Not Visit	Number Employers Confirmed Field Rep Visit
Field Rep 1	7	-	7
Field Rep 2 (Note 2)	23	17	6
Field Rep 4 (Note 2)	21	5	16
Field Rep 5	9	-	9
Field Rep 6	9	-	9
Field Rep 9	8	-	8
Field Rep 14	13	4	9
TOTAL	**90**	**26**	**64**

Note 1: The APA initially selected four to five days from each field representative's travel logs and called all employers listed as visited. However, when an employer denied being visited, the APA expanded testing for that field representative, calling all employers for the entire month of April 2013. See **Exhibit A** for detailed notes of the APA's conversations with each employer.
Note 2: The number of employers called included two who were documented as having been visited by the field representatives on two separate days during the month tested. The APA included each occurrence separately in the count.

Due to the discrepancies noted, the APA calculated the mileage variance by removing mileage claimed for employers who denied Field Rep 2 had visited them.

Based on the days tested by the APA in November 2012 and April 2013, a total of 484 miles reimbursed were either unconfirmed or over-claimed by Field Rep 2. The APA recalculated the mileage claimed for the businesses documented but was unable to determine why there were variances. This unconfirmed and over-claimed mileage accounted for $273, as shown below.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Unemployment Insurance Field Representative Travel (Continued)

Field Rep 2 Testing (Continued)

Furthermore, Field Rep 2 claimed mileage for visits to employers with whom he was unable to make contact because, allegedly, the employer was not at the place of business. The APA did not call these employers, as Field Rep 2 indicated contact had not been made. However, the APA questions the validity of any mileage claimed for days on which all the employers denied having met with the field representative. Therefore, the APA calculated an additional questionable reimbursement of 759 miles or $426. This results in questionable mileage reimbursements totaling 1,243 (484 + 759) miles or $699 for the days tested by the APA.

Date	Mileage Claimed by Field Rep 2	APA Mileage Calculation Note 3	Mileage Over Claimed and Reimbursed	Amount Over Claimed and Reimbursed Note 5	Remaining Questionable Mileage	Questionable Mileage Amount Note 5	Total Over Claimed and Questionable Note 5
11/19/2012	120	102	18	$10	102	$57	$67
11/20/2012	38	10	28	$16	10	$5	$21
11/28/2012	127	94	33	$18	94	$52	$70
11/30/2012	20	4	16	$9	4	$2	$11
4/2/2013	147	142	5	$3	142	$80	$83
4/3/2013	78	68	10	$6	68	$38	$44
4/4/2013	37	9	28	$16	9	$5	$21
4/8/2013	114	108	6	$3	Note 4	$0	$3
4/9/2013	23	11	12	$7	11	$6	$13
4/15/2013	74	3	71	$40	3	$2	$42
4/17/2013	108	95	13	$7	95	$54	$61
4/18/2013	22	5	17	$10	5	$2	$12
4/19/2013	24	10	14	$8	10	$6	$14
4/23/2013	193	188	5	$3	188	$106	$109
4/24/2013	107	95	12	$7	0	$0	$7
4/25/2013	21	8	13	$7	8	$5	$12
4/29/2013	174	0	174	$98	0	$0	$98
4/30/2013	19	10	9	$5	10	$6	$11
TOTALS	**1,446**	**962**	**484**	**$273**	**759**	**$426**	**$699**

Note 3: Mileage calculated by the APA after removing employers who did not meet with Field Rep 2.
Note 4: For April 8, 2013, one employer confirmed having met with the field representative. The APA questioned only mileage for those employers who confirmed no visit.
Note 5: Mileage Rates for calculations were: (November 2012: $0.555/mile) (April 2013: $0.565/mile).
Note 6: For three days tested, the APA noted discrepancies when attempting to recalculate mileage claimed based on the businesses documented on Field Rep 2's log. For two days (4/9/2013 and 4/17/2013), the APA did not call employers because the employers were allegedly not contacted by Field Rep 2. For one day (4/24/2013), all employers confirmed Field Rep 2 visited their places of business; however, the APA was unable to resolve mileage calculation variances based on these locations.

Based on the limited testing performed, the APA believes that additional testing would have produced similar results – which necessarily brings into question the majority of Field Rep 2's mileage claimed for reimbursement. Extrapolating upon the conclusion that 73% of the mileage tested was over-claimed or unsupported, it is possible that the Department may have overpaid $8,861 ($12,139 * 73%) for mileage reimbursements during the calendar year.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Unemployment Insurance Field Representative Travel</u> (Continued)

<u>Field Rep 2 Testing</u> (Continued)

Additionally, 29 of the 37 employers contacted during testing for November 2012 and April 2013 indicated Field Rep 2 had not visited their places of business. According to Department records, moreover, Field Rep 2 appears not to have been in the office or using leave when he was supposed to have been making those visits. Therefore, we concluded the actual time worked was not accurately recorded.

It is reasonable to assume that Field Rep 2 was not performing any work-related activities on the days tested, as such activities could not be documented or supported. Thus, the APA also questions certain payroll expenditures for Field Rep 2. The calculations below address questionable Field Rep 2 payroll costs for the days on which employers denied being visited.

Date	Hours Paid Note 7	Hours Documented In Office Note 8	Hours Documented Out of Office Note 8	Hourly Rate Note 7	Calculated Questionable Payroll for Hours Out of Office
11/19/2012	8	2	6	$25.428	$153
11/20/2012	8	2.5	5.5	$25.428	$140
11/28/2012	8	1.5	6.5	$25.428	$165
11/30/2012	8	4	4	$25.428	$102
4/2/2013	8	2	6	$25.428	$153
4/3/2013	8	3.5	4.5	$25.428	$114
4/4/2013	8	3	5	$25.428	$127
4/15/2013	8	3.5	4.5	$25.428	$114
4/18/2013	8	4.5	3.5	$25.428	$89
4/19/2013	8	4	4	$25.428	$102
4/23/2013	8	1	7	$25.428	$178
4/25/2013	8	3	5	$25.428	$127
4/29/2013	8	1	7	$25.428	$178
4/30/2013	8	5	3	$25.428	$76
TOTAL	**112**	**40.5**	**71.5**	**$25.428**	**$1,818**

Note 7: Hours paid and the hourly rate were obtained from the State's accounting system (EnterpriseOne).
Note 8: Hours documented in office and out of office were obtained from Field Rep 2's daily travel logs.

Based on the limited testing performed, the APA believes that additional testing would have produced similar results – which necessarily brings into question Field Rep 2's payroll for days on which mileage was claimed for reimbursement.

The APA had planned to interview Field Rep 2 further about the travel log discrepancies and related payroll issues; however, to our surprise, he retired on July 31, 2013, which was soon after the APA expanded testing for the month of April 2013. Even though both the Department and Field Rep 2 were well aware of the APA's ongoing examination of questionable travel reimbursements, neither informed us of the retirement.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Unemployment Insurance Field Representative Travel (Continued)

Field Rep 2 Testing (Concluded)

Therefore, while attempting to make the necessary arrangements for a follow-up interview, the APA was unaware that Field Rep 2 had already retired and left State employment. By the time the APA learned of this development, it was too late to carry out the interview.

Field Rep 4 Testing

Five of 21 employers contacted by the APA stated they had not met with Field Rep 4. Two remembered having phone conversations with Field Rep 4; however, they denied having met with her. See **Exhibit A** for detailed notes of the APA's conversations with each employer.

Due to the discrepancies noted, the APA calculated the mileage variance by removing employers who denied having been visited by Field Rep 4. For the month of April 2013, reimbursements were made for 86 miles of travel apparently not performed, which amounted to $49.

Date	Mileage Claimed by Field Rep 4	APA Mileage Calculation Note 1	Mileage Over Reimbursed	Amount Over Reimbursed ($0.565/mile)
4/3/2013	249	177	72	$41
4/16/2013	175	161	14	$8
TOTALS	**424**	**338**	**86**	**$49**

Note 1: Mileage calculated by the APA after removing employers who did not meet with Field Rep 4.

Furthermore, for one day tested, on which all employers confirmed having been visited by Field Rep 4, the APA noted discrepancies in the mileage claimed. Despite recalculating the mileage based upon the businesses listed, we were unable to determine the cause of the variance. The unexplained variance amounted to 16 miles, or a reimbursement of $9, in addition to the questionable mileage reimbursements noted above.

The APA discussed with Field Rep 4 the mileage and reimbursement issues addressed herein, including the employers who claimed not to have been visited. However, Field Rep 4 was unable to provide either an explanation for the employers' responses or any additional documentation as support that the claimed visit or travel was actually performed.

Field Rep 14 Testing

Four of the thirteen employers contacted by the APA denied having ever met with Field Rep 14. See **Exhibit A** for detailed notes of the APA's conversations with each employer.

Due to the discrepancies noted, the APA calculated the mileage variance by removing employers who denied having been visited by Field Rep 14. For the month of April 2013, reimbursements were made for 30 miles of travel apparently not performed, which amounted to $17.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Unemployment Insurance Field Representative Travel</u> (Continued)

<u>Field Rep 14 Testing</u> (Concluded)

Date	Mileage Claimed by Field Rep 14	APA Mileage Calculation Note 1	Mileage Over Reimbursed	Amount Over Reimbursed ($0.565/mile)
4/1/2013	9	0	9	$5
4/3/2013	12	0	12	$7
4/16/2013	9	0	9	$5
Totals	**30**	**0**	**30**	**$17**

Note 1: Mileage calculated by the APA after removing employers that did not meet with Field Rep 14.

Furthermore, for nine days tested, where all employers confirmed having been visited by Field Rep 14, the APA noted discrepancies in the mileage claimed. Despite recalculating the mileage based upon the businesses listed, we were unable to determine the cause of the variances. This unexplained variance amounted to 112 miles, or a reimbursement of $63.

Date	Mileage Claimed by Field Rep 14	APA Mileage Calculation	Mileage Variance	Dollar Variance ($0.565/mile)
4/2/2013	21	13	8	$4
4/5/2013	10	1	9	$5
4/9/2013	36	19	17	$10
4/10/2013	82	59	23	$13
4/12/2013	95	74	21	$12
4/18/2013	13	9	4	$2
4/23/2013	16	6	10	$6
4/24/2013	21	8	13	$7
4/30/2013	15	8	7	$4
TOTALS	**309**	**197**	**112**	**$63**

The APA discussed with Field Rep 14 the mileage and reimbursement issues addressed herein, including the employers who claimed not to have been visited. However, Field Rep 14 was unable to provide an explanation for either the employers' responses or the variances noted, lacking any documentation to support the claimed travel or visits.

When the APA questioned one Department supervisor about the review procedures performed to substantiate the accuracy of mileage reimbursements, that supervisor explained that the daily travel logs were designed to make all field representatives accountable for their time. Moreover, the supervisor claimed to know how long it takes to complete assignments in the field and to drive to the various destinations. The supervisor claimed also to review the logs every day and, if something appeared inconsistent, he would contact the field representative for clarification.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Unemployment Insurance Field Representative Travel</u> (Continued)

The supervisor did not confirm with each employer listed on the travel logs that the claimed visits had actually taken place. Nevertheless, he stated, all field representatives know that anything listed on the travel logs are verifiable and, if something cannot be verified, disciplinary action would be forthcoming.

Despite the supervisor's assertions, the APA was unable to verify that the Department examined the field representative travel logs in detail or that any reviews were performed to ensure the validity of mileage claimed and reimbursed. Therefore, based upon the issues noted, the APA concluded that adequate supervisor monitoring was not conducted.

Without policies and procedures for the review of mileage reimbursements by immediate supervisors, there is an increased risk that field representative travel reimbursements will be excessive and/or fraudulent. Furthermore, because this lack of oversight has resulted in the likelihood that travel claimed by field representatives was not performed, there is also an increased risk of excessive payroll expenses for time not worked on Federal programs – which could have a decidedly detrimental impact on the Department's eligibility for future grants of Federal funds.

Finally, it should be noted that some of the activity noted herein involving Field Rep 2 gives rise to concerns regarding possible violations of the law, including provisions of both the Nebraska Criminal Code (Code) and the Nebraska Political Accountability and Disclosure Act (Act). To start, Neb. Rev. Stat. § 28-512 (Reissue 2008), which is part of the Code, states, in relevant part:

> *A person commits theft if he obtains property of another by deception. A person deceives if he intentionally:*
>
> *(1) Creates or reinforces a false impression, including false impressions as to law, value, intention, or other state of mind . . . .*

Additionally, Neb. Rev. Stat. § 49-14,101.01(1) (Reissue 2010), which is found in the Act, provides, as is relevant:

> *A public official or public employee shall not use or authorize the use of his or her public office or any confidential information received through the holding of a public office to obtain financial gain, other than compensation provided by law, for himself or herself, a member of his or her immediate family, or a business with which the individual is associated.*

Because the information herein regarding Field Rep 2 pertains to the possible theft of funds by deception, as well as the potential misuse of public office for personal financial gain, the APA is forwarding this report to both the Attorney General and the Nebraska Accountability and Disclosure Commission for further review and investigation.

> We recommend the Department establish adequate monitoring and supervisory procedures to ensure that all employees are appropriately performing, as well as reporting upon, their assigned duties both in the office and while travelling in the field. These procedures should include steps for determining that employees are

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Unemployment Insurance Field Representative Travel</u> (Continued)

paid only for time actually worked or leave used. The Department should also establish policies and procedures for the review of mileage reimbursements, which would include recalculating mileage based on destinations traveled and subsequent procedures to verify that the travel was actually performed. The issues noted regarding Field Rep 2 will be reported to both the Attorney General and the Accountability and Disclosure Commission for any action they deem appropriate.

Department's Response: The Nebraska Department of Labor (NDOL) does not agree with the finding. The APA states that the field representatives had questionable mileage reimbursement. The practice has been to use odometer readings, a recognized accountable plan by the IRS for mileage reimbursements. The APA chose to utilize Map Quest for their review. While both methods produce mileage information, the use of Map Quest does not confirm or disprove the odometer readings. Labor believes that there is a substantial difference between inadequately documented mileage reimbursements and the theft of state funds. Collections of past due taxes from the businesses contacted by the APA indicate that the employers in questions were in fact contacted even if the person contacted by the APA does not recall the visit. The mileage logs in question were prepared and reviewed in accordance with standard practices applicable to field representative travel reimbursements. Daily logs and travel reimbursement requests do not routinely contain the name of the actual person contacted at the employer's place of business or the number of visits to a particular business on a single day. The Department believes that the lack of this additional information and the fact that employers were only contacted by the APA months after the actual contact is primarily responsible for the alleged discrepancy rather than any misconduct. Management intends to review the current procedures and documentation requirements for the field representatives. Part of this review will include making modifications to the daily reports so that the mileage reimbursement requests will be better documented. The Tax Field Manager will enhance the monitoring of daily field activities reported including mileage reimbursements. Proper completion of the daily report will be included in field trainings.

APA Response: Odometer readings alone are incapable of substantiating where a field representative has traveled or whether he or she was performing State business during such excursions. The individuals in question used their own vehicles for both personal and business travel; therefore, odometer readings would prove useless, making no distinction between the two types of mileage incurred. Realizing this, the APA utilized MapQuest in accordance with DAS-suggested practice for reviewing and recalculating mileage reimbursements. Unlike the Department, the APA took the time to differentiate between inadequately documented mileage and mileage claims that, due to compelling circumstances, should be questioned as possible theft. In doing so, the APA never suggested that the employers had not been contacted; rather, based upon the responses to our inquiries, we questioned whether specific field representatives had actually visited the employers as claimed. The APA interviewed several individuals associated with the businesses, such as owners, bookkeepers, CPAs, etc., to ensure that anyone who could have

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Unemployment Insurance Field Representative Travel (Concluded)

APA Response, Concluded:
met with the field representative was questioned. Additionally, to increase the likelihood that the visits would be remembered, the APA selected the April 2013 travel logs for review and contacted employers in June 2013, only two months after the visits had supposedly been made – effectively negating the Department's claims regarding delayed inquiries. Thus, the APA is confident in the results of those inquiries. That the Department appears willing to dismiss those results in such a cavalier fashion is indicative of serious, systemic problems with its employee oversight and accountability.

2. Conflict of Interest for Federal Awards

29 CFR § 95.42 (July 1, 2012) states, in relevant part:

> *The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts*.

That same Federal regulation says also:

> *No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.*

Additionally, Title 273 NAC 17-001 of the State Classified System Personnel Rules and Regulations says:

> *An employee with a potential conflict of interest shall notify in writing his or her immediate supervisor and the Nebraska Accountability and Disclosure Commission. The written notification shall describe the potential conflict of interest.*

Title 273 NAC 17-001.01 adds:

> *An employee has a potential conflict of interest if he or she is faced with taking an official action or making an official decision which could result in a financial benefit or detriment to the employee, a member of his or her immediate family, or a business or other organization with which he or she is associated.*

Title 273 NAC 17-001.02 directs:

> *An employee who has an actual conflict of interest as determined by the Nebraska Accountability and Disclosure Commission shall take such steps as the Commission shall prescribe to remove himself or herself from the situation in which there is a conflict.*

Finally, Title 273 NAC 17-001.03 provides:

> *Employees failing to resolve a conflict of interest, as prescribed in the procedures outlined by the Accountability and Disclosure Commission, shall be subject to disciplinary action.*

During the present review of the State Energy Sector Partnership (SESP) and Training Grants, the APA found that a Department employee responsible for administering Federal grant funds also worked for a grant recipient.

2. Conflict of Interest for Federal Awards (Continued)

Lorena Hernandez was employed part-time by the Department as a Workforce Services Administrator, as well as the administrator of the SESP and Training Grants, from March 2012 through February 2013. During much of that same period, Ms. Hernandez also worked full time as the office manager for the International Brotherhood of Electrical Workers (IBEW) Local Union 22.

Ms. Hernandez's duties at the Department included administering contracts – by both confirming grant participant eligibility and approving fund dispersals – supported by SESP and Training Grant monies made available under the American Recovery and Reinvestment Act of 2009. During the period of her dual employment, Ms. Hernandez approved Department disbursements of those Federal grant funds to the IBEW totaling $45,750 – one payment of $39,750 in May 2012 and another for $6,000 in August 2012. Ms. Hernandez approved both payments without any documented secondary review.

Ms. Hernandez's competing activities resulted in an "apparent conflict of interest," as described in 29 CFR § 95.42; however, the Department failed to take any corrective action. Likewise, despite the possibility of realizing a financial benefit through her official action, as specified by 273 NAC 17-001.01, neither Ms. Hernandez nor the Department informed the Nebraska Accountability and Disclosure Commission (NADC) of that "potential conflict of interest," which 273 NAC 17-001 requires. Consequently, the NADC was unable to determine whether an "actual conflict of interest" existed and, if necessary, prescribe the appropriate remedial procedures to be followed, as provided under 273 NAC 17-001.02 and 273 NAC 17-001.03.

It is important to note also that 29 CFR § 95.42 directs the Department to utilize "written standards of conduct governing the performance of its employees engaged in the award and administration of contracts." When asked, the Department was unable to provide the APA with a copy of those standards.

In addition to giving rise to the underlying concerns regarding lack of compliance with both Federal and State regulations, the conflict of interest noted herein increases the risk of misuse or theft of Federal grant monies.

> We recommend the Department ensure its employees are free of any conflicts of interest, especially when they participate in the selection, award, or administration of contracts supported by Federal funds. Should an employee conflict of interest be found to exist, we recommend further that the Department take immediate corrective action, which includes complying with 273 NAC 17-001. Finally, we recommend that the Department comply with 29 CFR § 95.42 by maintaining, as well as adhering strictly to, the required written standards of conduct for employees engaged in the award and administration of contracts involving Federal funds.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. <u>Conflict of Interest for Federal Awards</u> (Concluded)

Department's Response: The Nebraska Department of Labor does not agree with the finding. The decision by the SESP charter group to designate the IBEW as an approved Training Provider took place prior to Ms. Hernandez going to work at the IBEW. Designation as an Approved Training provider was in no way a contract or guarantee of funds. It simply meant that eligible individuals looking for training could consider the IBEW as a potential training site. Payment to the IBEW could not be made without the enrollment of a qualified training participant. The enrollment of qualified training participants was a responsibility of either the local Workforce Coordinator or the Administrative Workforce Coordinator. Ms. Hernandez was not directly responsible for the enrollment of qualified training participants. For incumbent worker trainings, the recruitment and referral of individuals seeking training was the responsibility of the employers and trade unions conducting the trainings. This process was in place prior to Ms. Hernandez's employment with IBEW. While it is true Ms. Hernandez did approve fund dispersals, it is also true the NDOL Finance Department conducted a secondary review on all payment requests before processing. Ms. Hernandez did not approve the processing of a payment. The written standards of conduct governing employees engaged in the award and administration of contracts are clearly outlined in State Law 49-1499.02 and 49-14126 and Chapter 17 of the State Personnel Regulations. Both rules apply and are adhered to by the NDOL. NDOL management will continue to make sure employees are free of any conflicts of interest especially as they relate to grant selection, awards or administration of contracts. When an employee conflict of interest is found NDOL will comply immediately with State Law and State Personnel Rules.

APA Response: By her own admission, Lorena created the file and approved participant eligibility whenever a reverse referral was received – meaning that the trainer (IBEW) referred a trainee to the Department. Additionally, the documentation in the training participant files contained only Lorena's approval. This is important because the Department was responsible for the determination of participant eligibility, not the employers. Furthermore, as the Department is well aware, the "secondary review" referenced above is performed by the Finance Department for coding purposes in the accounting system. Having nothing whatsoever to do with eligibility requirements, that review is wholly irrelevant to addressing, much less attempting to alleviate, the issues noted. Moreover, despite the state statutes cited by the Department, the fact remains that, by allowing Lorena to retain her position, the Department violated an important governing federal regulation, 29 CFR § 95.42, which expressly prohibits an agency employee from participating in the administration of "a contract supported by Federal funds" when that employee "has a financial or other interest in the firm selected for an award." Such an interest certainly includes being employed by the recipient firm, as was the case with Lorena.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Limitation on Engagement Procedures

American Institute of Certified Public Accountants, AT § 101.73 states:

> *Restrictions on the scope of an engagement, whether imposed by the client or by such other circumstances as the timing of the work or the inability to obtain sufficient evidence, may require the practitioner to qualify the assurance provided, to disclaim any assurance, or to withdraw from the engagement.*

U.S. Auditing Standards, AU-C § 240.04 states:

> *The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behavior, which can be reinforced by active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process….*

Furthermore, the Appendix Examples of Fraud Risk Factors (.A75) to AU-C § 240 warns auditors against the following:

> *Restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance….*
>
> *Domineering management behavior in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance of personnel assigned to or consulted on the audit engagement….*

During this engagement, the APA was told by Department staff that management directed them to obtain approval from the Director of Financial Services for all audit requests prior to responding to the auditors. Consequently, when the APA attempted to conduct a surprise cash count on June 27, 2013, the Unemployment Insurance (UI) tax area denied the APA access to the records until the request was approved. A "surprise cash count" is not effective unless performed at the unannounced time chosen by the auditors. Thus, the limitations imposed by the Department's management decreased the effectiveness of the intended auditing procedures. Although the APA was later allowed to count the cash, and a subsequent surprise cash count of the UI tax area was performed, the initial attempt – which, due to its unexpected nature, was of utmost importance – was blocked.

When auditors are prevented from conducting procedures, there is an inherent risk of fraud or abuse. Management should encourage – within the parameters of applicable State and Federal laws and regulations – unconditional staff cooperation with all auditing procedures to prevent any limitations or delays that could result in scope limitations.

> We recommend the Department direct its staff to cooperate fully with all audit requests. We also recommend that, in order to facilitate such unrestricted compliance, management set the proper example by refraining from issuing directives that impose limitations upon audit procedures.

3. <u>Limitation on Engagement Procedures</u> (Concluded)

Department's Response: The Director of Financial Services is the liaison to the APA and in such role is often sought out to answer questions and in some cases translate what information the auditor is requesting. On this occasion as the Tax Administrator had not had a similar request in her tenure under other audits performed by the APA, she asked the Director of Financial Services a clarifying question, which was answered within minutes. APA staff were not denied from performing a surprise cash count but delayed a few minutes. When APA staff arrived to conduct the surprise cash count the Accountant III notified the UI Tax Administrator. APA staff was advised by the UI Tax Administrator the Department would comply with the surprise cash count pending notification of the Director of Financial Services. The Tax Administrator contacted the Director of Financial Services and then advised the APA staff to complete the cash count. APA staff remained in the Tax Unit the few minutes that it took to contact the Director of Financial Services. At this time the information was in a pristine state as it would have been when the APA auditors arrived. The Director had asked how does the attestation differ from the other two annual audits, and the answer was given it impacted more areas. UI is always part of the CAFR annual audit and so the expectation is the procedures would be similar. Management will work with the APA in meeting the requirements for surprise audit procedures.

APA Response: The APA never requested a liaison or an individual to translate information needed for the attestation. Rather, for the sake of ensuring optimum testing procedures, the APA would have preferred unrestricted access to Department records and personnel. When the APA attempted to perform the surprise cash count, the Tax Administrator asked if permission to do so had been obtained from the Director of Financial Services. The APA was then informed that this standard audit procedure could not be carried out until such permission was granted. Contrary to what the Department implies, the APA did not remain in the tax unit at that time. Instead, the auditors returned at a later time to complete what was originally intended to be an unanticipated audit procedure. Needless, to say, by interfering with the procedure at that time, the planned surprise cash count was rendered ineffective. Therefore, despite the Department's protestations to the contrary, the APA was, in fact, prevented from performing the cash count when requested. Moreover, the Department's unsubstantiated assurances regarding the supposedly "pristine" state of the funds in question are meaningless. For, it remains unknown if the funds had been altered in any way prior to the APA being allowed to return in order to perform the procedure. Finally, the APA did not tell the Director that the attestation impacted more areas. Rather, the Director was informed that different procedures are performed for the attestation, and the auditors would not discuss them in advance.

4. <u>Inaccurate and Delayed Preparation of Financial Data</u>

Preparing the financial schedule is management's responsibility. The auditor is responsible for expressing an opinion on the accuracy and reliability of that schedule. Management bears the responsibility of adopting sound accounting policies and for establishing and maintaining internal controls over transactions consistent with management's assertions embodied in the

4. Inaccurate and Delayed Preparation of Financial Data (Continued)

financial schedule. The Department's transactions and the related balances are subject to the direct knowledge and control of management. The auditor's knowledge of these matters and internal control is limited to that acquired through the engagement. Thus, the fair presentation of the financial schedule is an implicit part of management's responsibility.

A good internal control plan and sound accounting practice require management to have the knowledge, as well as the established policies and procedures, to generate accurate financial data.

The Department was informed during the entrance meeting, on February 27, 2013, that it would need to provide the APA with financial data for the Unemployment Compensation Fund – due to the fact that such financial data was not recorded in the State's accounting system (EnterpriseOne). The auditors also met with the Department's accounting staff weekly to discuss items still needed, including the Unemployment Compensation financial data. Nevertheless, the final financial data was not received until August 12, 2013, over five months from the date the Department was first informed of the need for it. Furthermore, the financial data finally provided was not complete and accurate.

The following events transpired during the five months that the Department delayed providing the APA with the requested financial data:

- On March 11, 2013, the auditors provided the Department with a preliminary financial schedule for all the funds contained within EnterpriseOne. This did not include the Unemployment Compensation Fund, as that financial data was pending from the Department. The Department maintained the accounting records on QuickBooks for the calendar year tested.

- On May 30, 2013, Department accounting staff informed the APA that they did not have time to provide the financial data for the fund. The APA informed the Department the financial data was necessary in order to have an unqualified opinion on the financial schedule.

- On July 10, 2013, the Department provided financial data for the fund from QuickBooks; however, that data was incomplete, as several adjustments had not been included. On July 24, 2013, the APA informed the Department of the needed adjustments and provided the necessary format for the financial data.

    - Two types of Federal aid were receipted and paid out of the UI Administration fund in EnterpriseOne. The same activity was also receipted and recorded as a payment in the Unemployment Compensation Fund. Therefore, adjustments needed to be made for the doubling of revenues and expenditures, totaling $1,383,771.

4. **Inaccurate and Delayed Preparation of Financial Data** (Continued)

  - o One type of Federal aid was receipted and paid out of the UI Administration Fund in EnterpriseOne; however, because it was aid rather than administrative expenses, an adjustment needed to be made to remove the activity from the administrative fund and record it in the Unemployment Compensation Fund. The adjustment totaled $1,434,244.

  - o State Unemployment Insurance Tax (SUIT) was also recorded as a revenue and expenditure in the Unemployment Compensation Fund and in the State Unemployment Insurance Trust Fund on EnterpriseOne, totaling $554,328. Therefore, further adjustments were necessary.

- On August 2, 2013, the APA followed up with the accounting staff to determine when the revised financial data would be provided.

- On August 6, 2013, the APA met with the accounting staff to discuss the awaited financial data but could not obtain an expected date of completion.

- On August 7, 2013, the APA communicated to the Commissioner the delays encountered with the financial information. The APA requested the Department's final and accurate financial data by the following week.

- On August 12, 2013, the Department provided its final financial data. However, several adjustments lacked supporting documentation, and two adjustments were not provided by the Department. The omitted adjustments caused transfers out of the Unemployment Compensation Fund to be understated by $1,951,271. Furthermore, revenues were also overstated by this same amount in the financial schedule, as revenues were recorded in both the Unemployment Compensation Fund and in EnterpriseOne funds.

  If the Department had reconciled the ending balance for the Unemployment Compensation Fund, the omissions noted would have been identified. The fund financial data provided by the Department had an ending balance of approximately $338 million; however, the balance should have been $336 million.

The APA also performed reconciliation procedures for contributions and benefits recorded in the Unemployment Compensation Fund and noted the following:

- In accordance with Neb. Rev. Stat. § 48-649 (Reissue 2010), the Department calculates the SUIT rate for each calendar year. Funds collected are deposited in the State Unemployment Insurance Trust Fund. For calendar year 2011, the rate was set at three percent. During testing, we noted the October, November, and December 2011 taxes, due during calendar 2012, had an error occur within the Tax Management System (TMS), and the three percent split did not properly record as SUIT. The APA questioned the Department about this discrepancy. Though aware of it, the Department had neglected to inform the APA about the error. The corrections in QuickBooks and the final transfer in EnterpriseOne for $372,036 were not performed until June 2013.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Inaccurate and Delayed Preparation of Financial Data (Continued)

- The APA requested that the Department provide a reconciliation of benefit payments recorded in QuickBooks to the Benefit Payment System (BPS), through which benefit payments are processed and paid. The Department provided an inaccurate and incomplete reconciliation. The Department included reconciling items totaling \$20,057,117 that should not have been included and did not include \$16,782,322 that should have been included. The APA was able to reconcile the records.

- The Department had three separate bank accounts for the Unemployment Compensation Fund. Two were used primarily to receipt taxes, and the third was used to disburse benefits. The Department provided its bank reconciliations for December 31, 2012, and the APA noted the two tax accounts were combined. Furthermore, the Department did not include one reconciling item; therefore, its reconciliation did not agree to the book balance. It is unknown why the error was not identified. Regardless, combining reconciliations for two separate accounts could have caused the oversight. The reconciling item was a deposit in-transit for \$45,709.

- The Department provided a QuickBooks trial balance report to the APA on March 4, 2013. However, on March 5, 2013, the Department made a backdated entry totaling \$540 and did not inform the APA of the change. Upon becoming aware of the change, the APA questioned the Director of Financial Services, who was unaware of what the entry was for or if it was accurate and necessary.

When management is not knowledgeable of the financial records, there is an increased risk of misstatement of financial schedules. Additionally, when the accounting systems used lack controls to ensure changes are not made to financial records, and reconciliations are incomplete, there is an increased risk for inaccurate financial data.

> We recommend the Department begin utilizing the State's accounting system for the Unemployment Compensation Fund to ensure transactions between funds are consistent and proper. This would ensure controls are in place for the proper review and approval of entries and prohibit the backdating of activity. We recommend also that the Department improve procedures to ensure accurate and complete financial data is prepared, and reconciliations are performed in a timely manner. The Department should be aware of the activity within the funds and should be knowledgeable of necessary adjustments for the proper presentation of financial data.

Department's Response: Management has already alerted APA of the plan to use EnterpriseOne. Management also had spoken to the auditors of the need for eliminating entries. The error in providing QuickBooks instead of going back to source systems was due to a brand new employee. Management had already in March of this year decided to use the 2112 and tie back to source systems which is what the CAFR was based on last year and the current year.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Inaccurate and Delayed Preparation of Financial Data (Continued)

Department's Response, Concluded:
Management further notified the need for eliminating entries to be able to get correct financial statements. Management reported the need of these entries back in May, when explaining that there were items that flowed between the two independent stand-alone systems. Also at no time did management ever report admin as equaling EnterpriseOne. However since most of the expenses for UI for admin are in EnterpriseOne, it was easier to remove the program charges from those totals, EnterpriseOne accurately characterized expenses as program aid not administrative costs. The eliminating entries were the reason it was extremely difficult to merge the data of the three systems, to produce financial data on the date chosen from the APA office. Our reports and review procedures are set to be compliant with the State fiscal year. Many of the prior period adjustments which are being reported, could not have been done as there was no notification of the fact that the books needed to close on the random date selected by APA, until Feb 19th, six weeks after the entries would have to be entered. As far as Management was aware in the months of July and August, they were working with APA, to meet the commitment of the financial information that met APA requests.

The APA also states there was a reconcilement done by NDOL staff, which management stated over and over was not performed between QuickBooks and BPS on benefit payments, due to timing differences on the hundreds of thousands of payments, totaling $225,000,000 to 58,000 participants in the calendar year. What was given to the auditors was a cursory review of the variance they highlighted up above, at no time was it represented as a completed reconciliation. This document was prepared in reference to an email from the auditors stating they were off from the 1099 to QuickBooks. After looking into it at a cursory review the document the numbers were less than 2%. Management did not further attempt to provide a complete reconcilement as the same resources were used preparing the financial statements.

While it is advisable and management intends to move to a more robust system, there is no federal or state statute which would mandate the accounting system needed to properly account for transactions. The benefit payments are captured in BPS and the tax payments are captured in TMS, the source records.

APA Response: Given that she had actually hand delivered the trial balances to the APA, the Director of Financial Services (Director) was certainly aware that QuickBooks information was being provided. Therefore, contrary to what the Department states, the delivery of that information could not have been an error by a "brand new" employee. The APA first mentioned using the Federal 2112 reports to the Director on May 31. This was done in response to her comment that the Department would not be providing a financial schedule for UI. At that time, the Director then replied, "This is the first you mentioned the 2112, we certainly have those." The APA responded that, because the Department had used the 2112 reports annually for the State's CAFR, the auditors thought it unnecessary to instruct agency personnel how to put the financial schedule together. The Department showed no intention of using the 2112 reports or providing any financials until the APA mentioned the possibility of a qualified report resulting from such disregard. The Department then provided incomplete adjustments for expenditures alone, which not only

4. Inaccurate and Delayed Preparation of Financial Data (Concluded)

APA Response, Concluded:
were inaccurate but also contained no adjustments for revenues. The APA did not report any findings for information that was properly recorded in the State's fiscal year.

The APA requested information from the Department in order to reconcile the financial statements to the benefit system to ensure that the financials were materially correct. Additionally, the APA requested information on reconciling items; however, the Department was unable to provide accurate reconciling items, and the APA had to complete the reconciliation.

We agree that the source records are contained within BPS and TMS; however, the Department uses accounting software that lacks adequate controls to ensure that information is accurate and complete. Therefore, we recommend the Department utilize EnterpriseOne.

5. Incorrect Coding of Transactions

A good internal control plan and sound accounting practice require transactions to be properly recorded in the accounting system to ensure financial reporting is complete and accurate.

During testing, we noted several transactions were improperly recorded in the accounting system. Adjustments were performed for the financial schedule as necessary.

- The Department performed several journal entries to correct activity recorded in prior fiscal years. The Nebraska State Accounting Manual requires prior year corrections to be recorded in the Miscellaneous Adjustments account (486500). The Department did not use this account for five documents tested, totaling $1,541,400.

- The Department recorded benefit payments to recipients of the Trade Readjustment Assistance - Federal Unemployment Benefit and Allowance (TRAFUBA) program in the Unemployment Compensation Fund maintained in QuickBooks. When the draws were recorded from the Federal government, they were recorded as intergovernmental revenue in the Unemployment Insurance Administration Fund in EnterpriseOne. To move the revenues to the Unemployment Compensation Fund, the Department recorded them as operating expenses, and the receipt of monies into the Unemployment Compensation Fund was recorded as revenues. This caused revenues and expenditures to be overstated because they were recorded in both of the funds. The Department stated that the revenues should be reflected in the Unemployment Compensation Fund; therefore, the Department should have performed accurate entries to ensure revenues and expenditures were only recorded once. Similar accounting was also noted for the Disaster Unemployment Assistance (DUA) program. A total of $685,716 was recorded as revenues, and $698,055 was recorded as expenditures in EnterpriseOne for TRAFUBA and DUA.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. <u>Incorrect Coding of Transactions</u> (Continued)

- The SUIT monies received were recorded in the Unemployment Compensation Fund as revenues. Neb. Rev. Stat. § 48-622.01(1) (Cum. Supp. 2012) requires SUIT monies to be moved to the State Unemployment Insurance Trust Fund in EnterpriseOne. When the Department recorded the monies to EnterpriseOne, they were recorded as revenues again. This caused a doubling of revenues between the two funds. Therefore, SUIT should have been recorded as a transfer out of the Unemployment Compensation Fund and a transfer into the trust fund. SUIT transfers totaled $554,328 during calendar year 2012.

- Interest earned on SUIT is to be transferred to the Nebraska Training and Support Trust Fund (NTST) in accordance with § 48-622.01(1). The Department reversed the investment income revenues in the State Unemployment Insurance Trust Fund and recorded the monies as investment income in the NTST. However, the transaction should have been recorded as a transfer in and out in the funds. The SUIT transfer totaled $1,742,472.

- Two expenditure documents tested were not coded consistently with the revenues received.

  - The Department contracted with an entity for the use of the Beatrice Career Center's wireless network in exchange for a reimbursement of $99 each month. The reimbursement was recorded as revenues to the Wagner Peyser program. However, the payment for the wireless network was recorded to the Rent, Utilities, and Communications (RUC) allocation, which distributed the expenses across several funds and programs of the Department.

  - The Department charged employees $24 to $30 per month for the use of parking stalls maintained at one of the Department's buildings. The monies were recorded to the agency-wide allocation when they were collected from the employees' paychecks. However, maintenance expenses for the parking stalls were recorded to a different allocation. The revenues and expenditures should be recorded to the same allocation.

- One journal entry totaling $4,474, to reverse activity recorded in 2012, was erroneously reversed again by the Department. After the APA brought it to the Department's attention, the error was corrected.

- One subrecipient payment was improperly recorded as a laundry/uniform expense instead of aid. The Department corrected the $3,060 payment after the APA pointed out the error.

When transactions are not properly recorded in the accounting system, there is an increased risk of material misstatement of the financial schedule.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. <u>Incorrect Coding of Transactions</u> (Concluded)

> We recommend the Department ensure transactions are properly recorded in the accounting system, so financial information is properly presented.

Department's Response: Management understands the need for properly recorded transactions, however, NDOL does not have one book of record due to the complexity of the system calculation necessary. Although NDOL is aware of the budgetary reason to use the adjustment accounts, many of the reports NDOL uses to file its federal reports exempt 486500. These reports are the basis for our federal filings. These entries are offset with the reduction of expenses in the corresponding funds, which has a net impact of zero. NDOL maintains three systems one for calculating and tracking taxes, one for tracking and calculating benefit payments under UI, and the State's accounting system (EnterpriseOne). TRAFUBA and DUA are paid through EnterpriseOne and as such should be recorded as an expense. However when combining the two systems the transactions are eliminated. The SUIT transfers will be signed off by Director of Financial Services. Management will look into effective and efficient coding of the cross system expenditures and revenues, including documentation. Further preaudit training will be given to staff to ensure the State's preaudit process is followed, which should ensure errors are caught.

APA Response: If the Department had more accurate accounting for transactions entered in the system, there would be no need for the use of the miscellaneous adjustment account. When the Department adjusts prior year activity in different fiscal years, it creates inaccurate financial reporting for the State's CAFR and the attestation financial schedules. Therefore, the Department is wrong about the supposed zero net effect, especially when the accounting transactions cross fiscal years. TRAFUBA and DUA benefits were paid through the UI benefit system, not EnterpriseOne.

6. <u>Lack of Segregation of Duties Over Revenues and Other Issues</u>

The Department had multiple divisions that collected revenues during the calendar year, such as fees for services, taxes, penalties, interest, and grants. During testing, we noted a lack of segregation of duties, untimely depositing of monies, improper fees charged, inaccurate record keeping, and untimely inspections.

<u>Lack of Segregation of Duties</u>

A good internal control plan and sound business practice require adequate segregation of duties to ensure no one individual is in a position both to perpetrate and to conceal errors and irregularities.

The UI division received the majority of its revenue through taxes from employers. During testing, we noted the division lacked an adequate segregation of duties. Of particular concern was the fact that two individuals opened mail containing monies; however, an initial listing of those monies was not documented, and checks were not restrictively endorsed for deposit when opened.

6. <u>Lack of Segregation of Duties Over Revenues and Other Issues</u> (Continued)

<u>Lack of Segregation of Duties</u> (Continued)

Furthermore, during quarterly processing, when mail volume was high, several UI staff helped to open the mail. All individuals involved in the opening of mail also processed the tax forms and applied the payments in the system. In all, 15 individuals were able to enter monies collected and also to adjust wages, contribution amounts, interest, and fees within the system. Such broad access to the system could lead to the theft of funds. The UI division collected $175,011,659 in contributions during the calendar year.

The Mechanical Safety division consisted of elevator inspections and amusement park ride inspections. The division collected $639,788 during the calendar year. We noted the division lacked an adequate segregation of duties, as only one individual opened the mail, and an initial listing of monies received was not documented. We also noted the following:

<u>Elevator Inspections</u>
The individual who opened the mail also invoiced the businesses, applied the monies received, and could change amounts due in the system. Additionally, the division held checks instead of depositing them immediately. There was also a lack of controls for the safeguarding of certificates, including: 1) when a certificate needed to be reissued, a new number was assigned, but that number change was not documented in the system; 2) certificates were not stored in a secured location; 3) voided certificates were not retained for subsequent inspection; and 4) there was no documented reconciliation of certificates issued to those on hand.

<u>Amusement Park Ride Inspections</u>
The division did not have a comprehensive listing or database of inspections performed and permits issued. Furthermore, inspectors could receive cash in the field and were authorized to issue extra permits when they performed inspections; however, there was no reconciliation of cash received to permits issued to ensure all monies were accounted for. There was also no safeguarding of the permits.

During a surprise cash count, the APA determined the Program Manager for Contractor Registrations replaced all cash received with personal checks instead of recording the cash and depositing it with the Treasury Department. There was $1,765 in personal checks written from February 2012 through July 2013. The program manager had access to the mail and could apply cash received and change information within the contractor registration system. This gave rise to a risk that monies could be kept and that any such theft would go undetected. Due to the increased risk of theft of funds, the APA performed further reconciliation procedures for calendar year and noted that four payments were not recorded in the contractor registration system, one receipt was recorded incorrectly, and three payments, returned as non-sufficient funds (NSF) checks, were still recorded as paid in the system. Without both adequate controls to ensure the system is accurate and a sufficient segregation of duties, there is an increased risk for errors or abuse.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. <u>Lack of Segregation of Duties Over Revenues and Other Issues</u> (Continued)

<u>Lack of Segregation of Duties</u> (Continued)

For Contractor Registrations, we also noted only one individual opened the mail, and there was no initial listing of monies received. The same individual could also apply the cash received to the contractor system, checks were not restrictively endorsed for deposit when received, and checks were held and not deposited. Contractor registrations collected $514,966 during the calendar year.

Boiler Inspections did not have an adequate segregation of duties, as only one individual opened the mail, no initial listing of monies received was documented, and the same individual applied cash received to the boiler system. Boiler inspections collected $436,165 during the calendar year.

		Mechanical Safety			
	UI	Elevator Inspections	Amusement Park Inspections	Contractor Registration	Boiler Inspections
Two individuals open the mail	Yes	No	No	No	No
Initial listing of monies	No	No	No	No	No
Checks restrictively endorsed when received	No	Yes	Yes	No	Yes
Separation of individuals opening mail & entering into system	No	No	Note 2	No	No
Invoicing performed by separate individual from individual applying cash	Note 3	No	Note 3	Note 3	Yes
Holding of checks	No	Yes	No	Yes	No
Permits stored in secured area	Note 4	No	No	Note 5	Yes
Reconciliation of permits or licenses is performed	Note 4	No	No	Note 6	Note 6

Note 1: The items highlighted in blue are areas where there is an increased risk of theft of funds due to the Department's lack of procedures.
Note 2: This is not applicable; amusement park inspections do not have a separate system.
Note 3: This is not applicable; the division did not invoice.
Note 4: This is not applicable; the UI division did not issue permits.
Note 5: This is not necessary; the division's permits were issued from blank stock.
Note 6: This is not applicable; the division did not have pre-numbered permits or licenses.

When an adequate segregation of duties is lacking, and procedures are not performed to ensure that all monies received are deposited properly, there is an increased risk for errors or abuse to occur and go undetected, resulting in the loss or misuse of funds. A similar finding was noted in the prior attestation report.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Lack of Segregation of Duties Over Revenues and Other Issues (Continued)

Lack of Segregation of Duties (Concluded)

> We recommend the Department implement policies and procedures to ensure an adequate segregation of duties exists. Such policies should require two individuals to open the mail and prepare an initial listing of monies received, which can be compared to the final deposit to ensure its accuracy. We also recommend the Department separate the functions of opening the mail, entering the receipts into the systems, and invoicing. The Department should ensure all checks are restrictively endorsed when received, and personal checks should never be used to replace cash received.

Untimely Deposits

Neb. Rev. Stat. § 84-710 (Reissue 2008) requires all monies received to be deposited within three business days of receipt when the aggregate amount is five hundred dollars or more and within seven days of receipt when the aggregate amount is less than five hundred dollars.

During a surprise cash count performed in June 2013, along with the subsequent testing of receipts, we noted the Department did not deposit monies in timely accordance with § 84-710. Receipts tested, totaling $44,744, were deposited up to 99 days late.

Division	Receipt Date	Number of Receipts	Amount	Date Deposited	Number of Days Late
Elevator Inspections	7/9/2012	1	$3,050	7/31/2012	19
	7/19/2012	1	$1,000	7/31/2012	9
Amusement Park Ride Inspections	7/11/2012	1	$1,260	8/10/2012	25
	7/18/2012	1	$1,620	8/10/2012	18
Contractor Registration	1/11/2012	6	$265	1/20/2012	*3
	1/12/2012	54	$2,305	1/20/2012	2
	1/13/2012	36	$1,490	1/20/2012	1
	5/14/2012	4	$8,750	8/24/2012	99
	5/16/2012	1	$1,000	8/24/2012	95
	5/31/2012	4	$8,500	8/24/2012	80
	6/12/2012	1	$1,000	8/24/2012	70
	6/15/2012	1	$1,000	8/24/2012	65
	6/20/2012	1	$1,000	8/24/2012	60

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Lack of Segregation of Duties Over Revenues and Other Issues (Continued)

Untimely Deposits (Concluded)

Division	Receipt Date	Number of Receipts	Amount	Date Deposited	Calendar Days to Deposit
Contractor Registration (Concluded)	10/5/2012	21	$865	10/15/2012	4
	10/9/2012	19	$760	10/15/2012	3
	6/25/2013	1	$1,000	7/5/2013	7
Boiler Inspections	7/2/2012	25	$2,001	7/16/2012	10
	7/9/2012	43	$4,174	7/16/2012	4
	7/10/2012	8	$828	7/16/2012	3
	6/27/2013	12	$1,973	7/5/2013	3
	6/26/2013	11	$903	7/5/2013	4

** Note: This total was below the $500 threshold until combined with the next day's receipts. Therefore, on January 12, 2012, the total to be deposited was more than $500 and required to be deposited within three business days.*

When deposits are not made timely, or checks are held and not deposited, there is an increased risk of loss or misuse of funds, as well as noncompliance with State statute.

> We recommend the Department implement procedures to ensure monies received are deposited upon receipt, in compliance with State statute. We also recommend the Department deposit all checks upon receipt and issue refunds later if it is determined that a payment was not due.

Improper Collection and Recording of Fees

Testing of receipts collected during the calendar year revealed the following:

- Elevator inspections were not performed timely, and the Department was unable to provide an inspection report for one of its own elevators. According to Neb. Rev. Stat. § 48-2513(1) (Reissued 2010), elevators are to be inspected annually. However, the APA observed that the Nebraska State Office Building did not have current inspections as of August 30, 2013. Four of that building's elevators were last inspected on March 6, 2012, and one elevator was last inspected on February 10, 2011. According to the Department, inspections were not current due to inadequate staffing.

- The elevator system did not calculate the proper amount for new elevator inspections in buildings with more than five floors. The fee charged was supposed to be $100 plus $5 for each floor above five floors. However, the system did not add the additional $5 fee. The division knew of the system error, but no corrective action was taken. As a result, the inspection fee charged was insufficient.

6. <u>Lack of Segregation of Duties Over Revenues and Other Issues</u> (Concluded)

<u>Improper Collection and Recording of Fees</u> (Concluded)

- The Department charged a $250 fee for professional employer organization registration. However, there was no statutory basis for the fee. The $250 fee was not refunded to the business until after the issue was brought to the Department's attention during testing.

- One deposit tested contained $1,000 for Employee Classification Act violations. The fines were deposited in the Contractor Registration Cash Fund, but they should have been deposited into the Common School Fund. Although Neb. Rev. Stat. § 48-2114 (Reissue 2010) does not specify where those fines should be deposited, Article VII, § 5(1) of the Nebraska Constitution states, in relevant part:

  [A]ll fines, penalties, and license money arising under the general laws of the state . . . shall belong and be paid over to the counties respectively where the same may be levied or imposed . . . All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue . . . .

When inspections are not performed timely, and fees are not handled in accordance with applicable policies and laws, there is an increased risk for improper collections and misuse of funds.

> We recommend the Department implement policies and procedures to ensure fees are proper, inspections are performed timely, and proper documentation is maintained. We recommend also the Department ensure citations and fines are deposited into the Common School Fund in accordance with the Nebraska Constitution.

Department's Response: Management concurs with APA, and all options will be pursued to enhance our internal control procedures over receipts and the recording of those receipts in the different systems. NDOL believes its current cash payment processing needs improvement and a uniformity of process. NDOL has arranged to have an outside vendor, US Bank, review all agency cash receipts across all programs and make recommendations for improving NDOL cash receipt processes. The segregation of duties is inherently difficult in any of the departments where there are two or three persons responsible for the receipting and reconciling process. Management will develop a plan to look at all receipts across the agency and combine the processes to meet the needs of the disparate programs as well as the need for segregation of duties.

7. <u>Unallowable Use of Federal Funds</u>

OMB Circular A-87, Attachment A, § C(3)(a) states:

> *A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*

COMMENTS AND RECOMMENDATIONS
(Continued)

7. <u>Unallowable Use of Federal Funds</u> (Continued)

Additionally, OMB Circular A-87, Attachment A, § C(3)(c) says:

> *Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.*

A good internal control plan and sound accounting practices require adequate documentation to support all transactions performed.

The APA tested six transactions that transferred activity between funds and/or programs. One of those entries transferred monies between the Trade Adjustment Assistance program for different program years (fiscal years 2010 and 2009). Upon closer examination, the APA determined that the transfer in question involved Federal Reed Act funds – which, under Title IX of the Federal Social Security Act, were to be applied instead to the Department's UI program. In pursuing this matter further, the APA obtained authoritative confirmation that the expenditure of Reed Act funds for Trade Adjustment Assistance program activities is not authorized under the Social Security Act. Thus, the resulting costs were improperly charged to the incorrect Federal award in direct noncompliance with both OMB Circular A-87, Attachment A, § C(3)(a) and § C(3)(c). The transaction tested totaled $8,809.

While performing analytical procedures on the Department's fund transfers, the APA encountered a May 15, 2012, journal entry reversing an earlier entry made on December 28, 2011. The original entry had transferred $126,000 from the State Employment Security Administration Fund and $300,000 from the Employment Services Administration Fund to the Unemployment Insurance Administration Fund. When the APA questioned the original entry, the Department's Director of Financial Services responded that the transfers were needed to disperse the funds due to a change arising from the establishment of a new business unit. The Director was unable to explain, however, why a reversal of the transfers was necessary if the intent of the original entry was truly remedial in nature. Therefore, the actual purpose of the 2011 fund transfers remains unknown – leading to the conclusion that the original entry was either an error or the Department was borrowing between funds, which is impermissible under OMB Circular A-87, Attachment A, § C(3)(a) and § C(3)(c).

Without adequate documentation by the Department to support the transfer of funds, there is an increased risk of error, abuse, or fraud. There is also an increased risk of noncompliance with Federal requirements regarding the use of those funds.

> We recommend the Department develop policies and procedures to ensure that fund transfers are handled properly, are allowable under applicable Federal guidelines, and are adequately documented.

Department's Response: Management understands the needs to properly handle funds under applicable federal guidelines; however federal guidelines do not dictate the necessity of the accounting structure. For the entries in December 2011, allocations were not allowed to post

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Unallowable Use of Federal Funds (Concluded)

Department's Response, Concluded:
unless the monies were moved to partially reverse estimated allocations because the accounting structure was segregated in an effort to better the accounting to align with the bank accounts at the federal level. Since these business units were no longer in the funds who held the money for the allocable costs, the allocation entries could not post. However the reversal was not done in a timely manner, once allocations posted in 2012. The Director of financial services was out of the office at this time and did not have knowledge of this transaction.

The $8,809 of trade program costs which were paid for by using Reed Act monies in the massive payback of 6 million dollars; were incorrect as only Trade benefits would have been eligible. This has been reversed.

All Contingency account entries are to be signed off by the Director of Finance effect July 1, 2012. A policy is in place to ensure staff complies.

APA Response: For the second issue noted in the comment, the APA questioned the journal entry and was initially told it was necessary to break apart funds for new business units. Because this answer did not reflect what was actually occurring in the accounting system, the auditors asked again for an explanation and documentation. The Department then said the journal entry was due to allocations. The auditor requested further documentation to support that different answer, but nothing was provided. Therefore, the purpose of the journal entry remains unknown; however, as stated, we believe it could have been for borrowing between funds.

8. Unknown Balance in Federal Fund

Real property purchased with Federal grant money may only be disposed of in accordance with 29 CFR § 97.31(c), which states:

> *Disposition. When real property is no longer needed for the originally authorized purpose, the grantee or subgrantee will request disposition instructions from the awarding agency. The instructions will provide for one of the following alternatives:*
>
> *(1) Retention of title. Retain title after compensating the awarding agency. The amount paid to the awarding agency will be computed by applying the awarding agency's percentage of participation in the cost of the original purchase to the fair market value of the property. However, in those situations where a grantee or subgrantee is disposing of real property acquired with grant funds and acquiring replacement real property under the same program, the net proceeds from the disposition may be used as an offset to the cost of the replacement property.*
>
> *(2) Sale of property. Sell the property and compensate the awarding agency. The amount due to the awarding agency will be calculated by applying the awarding agency's percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and fixing-up expenses. If the grant is still active, the net proceeds from sale may be offset against the original cost of the property. When a grantee or subgrantee is directed to sell property, sales procedures shall be followed that provide for competition to the extent practicable and result in the highest possible return.*

COMMENTS AND RECOMMENDATIONS
(Continued)

8. <u>Unknown Balance in Federal Fund</u> (Continued)

(3) Transfer of title. Transfer title to the awarding agency or to a third-party designated/approved by the awarding agency. The grantee or subgrantee shall be paid an amount calculated by applying the grantee or subgrantee's percentage of participation in the purchase of the real property to the current fair market value of the property.

The Department maintains the Grand Island/Omaha Building Sale Fund, a subfund of the Employment Security Administration Fund, which apparently contains money acquired through the sale of real property. On December 31, 2012, this fund had a balance of $746,330. That balance included the following:

Date	Transaction Description In the Accounting System	Amount
6/30/2002	Transfer in Beginning Balance from previous accounting system	$383,218
2/25/2009	Transfer in from 42311, Employment Security Administration	79,317
6/15/2010	Transfer in for Fremont Sale	103,861
12/27/2010	Transfer in for Nebraska City Sale	85,613
Since 6/30/2002	Interest Income Earned	196,359
Since 6/30/2002	Expenditures from the Fund	102,038
	Fund Balance at December 31, 2012	**$746,330**

When questioned by the APA, Department staff was unable to provide support for the balance in the Grand Island/Omaha Building Sale Fund. Specifically, documentation indicating the source of those funds is absent.

Because of the lack of documentation for the source of fund monies, there is a risk that the fund balance consists of payments received from the sale or transfer of real property obtained with Federal grant funds. Such money should be supported by the disposition instructions required under 29 CFR § 97.31(c), which would indicate the amount of money permitted to be retained by the Department.

Without the documentation at issue, it is impossible to determine whether the Department has rightful possession of the money contained in the Grand Island/Omaha Building Sale Fund – or, alternatively, whether a portion of those funds was obtained through the sale or transfer of real property purchased with Federal grant money and should have been paid to the awarding agency, as provided by 29 CFR § 97.31(c).

> We recommend the Department document the source of the money in the Grand Island/Omaha Building Sale Fund. We recommend further that, in doing so, the Department determine whether such money has been retained in accordance with the provisions of 29 CFR § 97.31(c). If not, we recommend that the Department take immediate corrective action by returning the appropriate amount of money to the awarding agency.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. <u>Unknown Balance in Federal Fund</u> (Concluded)

Department's Response: The NDOL and USDOL discussed the need for determining the appropriate disposition of the funds resulting from the sale of buildings having federal equity and establishing federal equity in current NDOL buildings in early 2012 and it was an open area of conversation with USDOL prior to that time. It had been hoped that formal discussions with USDOL on these topics would have begun by now, but other federal issues have prevented USDOL from beginning the conversation. Such discussions will affect the disposition of the funds identified in this finding. To the extent that funds in this account represent Reed Act funds distributed pursuant to section 903 of the Social Security Act, those funds may be repurposed for other NDOL building needs related to Unemployment, Employment Services and Labor Market Information programs or be returned to the federal Unemployment Trust Fund (UIPL 39-97). To the extent that the identified funds are program funds then the funds will be returned to the appropriate programs in accordance with TEGL 03-07. Because of the lack of adequate record keeping prior to 2008 and extending to 1961, USDOL and NDOL will need to negotiate an agreement to credit funds in the appropriate amount to the appropriate programs. Acquire all acquisition and disposal information on all buildings in question. Validate, compute and obtain sign off on the federal portion if any, payback or distribute funds.

9. <u>Independent Retirement Plan</u>

<u>Retirement Plan Background</u>

Whereas most State employees are members of the State Employees Retirement Plan, which is administered by the Nebraska Public Employees Retirement Board, some employees of the Department participate in a separate retirement plan (Plan).

Begun on November 1, 1961, the Plan is a defined benefit plan under IRC 401(a). The Plan was initially set up for monthly employee contributions equaling 7% of their rate of pay. Because the Plan was fully funded in 1994, the decision was made to end employee contributions. A subsequent market downturn forced the Department to reinstate employee contributions at 4.8% in 2010.

The Commissioner oversees the Plan with the assistance of a third-party administrator, Principal Life Insurance (Principal), which serves also as the Plan's actuary. Approximately 40 active employees were contributing to the Plan, and approximately 200 retirees were receiving benefits, during calendar year 2012.

The Plan appears to be facing significant financial difficulties because its liabilities have surpassed its assets over the past few years. According to the actuarial valuation report for the plan year July 1, 2012 through June 30, 2013, the present value of projected benefits exceeded the market value of assets by $2,075,322. The primary causes of this shortfall include:

- The recent economic downturn, which had a detrimental impact on investment returns.
- The prior decision to discontinue employee contributions from 1994 to 2010.
- The lack of new participants, as new employees are required to join the State's retirement plan.

9. <u>Independent Retirement Plan</u> (Continued)

<u>Retirement Plan Background</u> (Concluded)

A significant indication of the Plan's resulting instability is the fact that the Department has resorted to funding the Plan with Federal Reed Act funds. 42 USC § 1103(c)(2) authorizes a state to use Federal money transferred under the Reed Act for "the payment of expenses incurred by it for the administration of its unemployment compensation law and public employment offices . . . ." As the following table reveals, the Department has deposited more than nine million dollars of Reed Act funds into the Plan during the last three years alone.

Payment Date	Payments from Reed Act funds for the Independent Retirement Plan
6/2/2010	$ 2,012,577
12/13/2010	3,673,978
2/16/2012	2,139,129
3/26/2013	1,390,228
Total:	**$ 9,215,912**

The Reed Act funds may be used to increase the balance in the State's Unemployment Compensation Fund, which could result in lower employer taxes. However, because the Department used these funds instead to supplement the Plan, employer taxes may have remained higher than necessary.

Additionally, in a further effort to ensure the Plan's continued solvency, the Department adjusted its policies in 2010, eliminating cost of living adjustments to retirees during any year in which plan liabilities exceed assets. Automatic cost of living adjustments had been provided under the Plan since its inception, more than fifty years earlier. However, after the implementation of the new policy, during which time liabilities have continually exceeded assets, no further cost of living adjustments have been granted.

The Department's decision to limit and, thereby, effectively forgo paying cost of living adjustments has given rise to past and present litigation. While three previous civil cases have been dismissed, one remains pending. In that current case (CI 11-869), which was filed in the Lancaster County District Court on March 8, 2011, five Department retirees represent all Plan members in contesting both the restrictions on cost of living adjustments and the possible termination of the Plan.

<u>Failure to Monitor Retirement Plan</u>

A good internal control plan and sound business practice require the Department to monitor the activities of the Plan's third-party administrator to ensure that contributions received and benefits paid are being properly recorded. The APA found numerous shortcomings with how the Department monitored Principal's administration of the Plan.

9. Independent Retirement Plan (Continued)

Failure to Monitor Retirement Plan (Concluded)

The Human Resource Department received biweekly reports from Principal for amounts contributed to the Plan. Monthly, the Department's Personnel Support Specialist reconciled the biweekly reports to a payroll benefit report run from EnterpriseOne.

After testing five months of biweekly plan reports from Principal, the APA found that the Department was missing a biweekly statement for a contribution in August 2012. Without that statement, the Department would have been unable to ensure the accuracy of the contributions recorded by Principal.

For October 2012, the APA found that the monthly report run by the Department did not agree to the biweekly statements from Principal. While the biweekly statements showed $30,248 in contributions, the monthly report reflected only $29,688 – a difference of $560. The Department was unable to explain the discrepancy. After further review, it was determined the difference was the result of an employee resignation. Because of how the Department ran the monthly report, that employee did not appear on it for the month of October; however, the employee had made contributions for that month.

In addition to the reconciliation issues discussed above, the APA noted the following shortcomings with the Department's monitoring of its retirement plan:

- The Department did not review the Plan's quarterly fund statements, which detail the activity for each fund in the Plan.
- The Department did not examine, for significant deficiencies, the Service Organization Control 1 (SOC 1) Report on Principal, which is essential to evaluating the appropriateness of the third-party plan administrator's controls over both its own financial reporting process and regulatory compliance.
- The Department did not document its review of the annual "Display of Benefits" issued by Principal, which showed the amount of benefits per participant.

In short, the Department did little in the way of monitoring the Plan to ensure proper administration by Principal.

Incomplete Wage Calculations

Section 1.02 of the current Retirement Plan Document (2008) states, in relevant part:

> *Average compensation means, on any given date, the average of an Employee's Monthly Compensation on those 36 consecutive monthly dates (all monthly dates if less than 36) which give the highest average out of all monthly dates.*

The prevailing language is similar to that found previously under section F(3) of the 1987 version of the same document, which explains:

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Independent Retirement Plan (Continued)

Incomplete Wage Calculations (Concluded)

> *Your [the employee's] monthly pay is the average of your fixed rates of monthly pay on the 36 consecutive monthly dates out of all monthly dates which give the highest average.*

The APA found that the Department's Personnel Support Specialist did not review employee earnings prior to 2002 when determining the highest consecutive 36 months of wages to be used for calculating a new retiree's average monthly salary.

This failure to review an employee's entire applicable earnings history when determining his or her highest monthly wages conflicts with both the past and present language of the Department's Plan document. By not reviewing all earnings, there is a risk a member may not receive the full retirement benefit to which he or she is entitled.

Imprecise Definition of Compensation

The definition of "compensation" found in the Department's Plan document (2008) was unclear. Specifically, the document provided inconsistent methods for calculating an employee's highest average salary for 36 consecutive months, making it uncertain whether that calculation was to be based upon fixed (calculated) or actual wages.

Section 1.02 of the Department Plan document states, in relevant part:

> *Compensation means, except for purposes of the BENEFIT LIMITATION SECTION of Article IV, an Employee's fixed rate of base pay on such date.*

However, that same section of the document also says:

> *Compensation for a specified period is the Compensation actually paid or made available . . . during such period.*

The Department Plan document made no effort to harmonize or explain away these two apparently inconsistent statements.

Section 4.03 of the same document complicates matters further by declaring, as relevant:

> *Compensation means wages, salaries, and fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment . . . .*

This final language appears to agree with the latter of the above two statements found in Section 1.02, indicating that the calculation at issue should be based upon the wages actually paid to the employee. Nevertheless, both the Department and Principal concurred that a fixed rate of base pay should be used in calculating the employee benefit.

Failure to monitor properly Principal's administration of both contributions made to and benefits paid from the Department's Plan increases the risk of inappropriate use and loss of State and

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Independent Retirement Plan (Continued)

Federal funds. The decision by the Personnel Support Specialist, moreover, to review only a partial employee earnings history increases the risk that the Department is using incorrect wage information in calculating the retiree's average monthly wage calculation, which is used to determine the retirement benefit amount. Finally, due to an ambiguity in terminology, there is also an increased risk of noncompliance with the Department's Plan document.

> We recommend the Department implement procedures for properly monitoring Principal's administration of the Plan. Such procedures should include: 1) documenting and reconciling any variances found between the biweekly member contributions reports received from Principal and the monthly payroll benefit reports run from EnterpriseOne; 2) examining for any significant deficiencies the SOC 1 report for Principal; and 3) reviewing for reasonableness and accuracy, both the Plan's quarterly fund statement and the annual "Display of Benefits" report issued by Principal. We recommend also that the Department review an employee's entire applicable earnings history to ensure that the highest consecutive 36 months of wages are used when calculating average compensation for purposes of determining the appropriate benefit amount. Lastly, we recommend the Department revise its Plan document to clarify the definition of compensation.

Department's Response:
Failure to Monitor the Retirement Plan - The Department currently reviews and reconciles the Plan's biweekly statements, quarterly fund statements, and the annual "Display of Benefits". The Department agrees that there are gaps in our current process that require improvement.

The SOC 1 report is only accessible on the Ernst & Young LLP website and per agreement with E&T, Principal Financial Group cannot provide the information directly to NDOL. The Department agrees it is important to review the report annually.

To ensure reviews are verified and documented, and variances that may be found are resolved and documented, the Department has established the following procedures:

1) *The Personnel Support Specialist will perform the initial review and reconciliation of the biweekly statements, quarterly fund statements, and annual "Display of Benefits";*
2) *The Director of Administrative Services and Human Resources Administrator will perform a second review, verifying and approving the reconciliations.*
3) *The Personnel Support Specialist will maintain all documentation pertaining to the review, reconciliation, resolution, and approval of biweekly, quarterly, and annual statements and reports.*

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Independent Retirement Plan (Concluded)

Department's Response, Concluded:

4) *The Department secured a user name and password to review the SOC 1 report. The report is available to be downloaded annually after September 30. Each year, the report will be downloaded after September 30 and examined for significant deficiencies by the Commissioner, General Counsel, and Director of Administrative Services. Documentation of the review will be completed and maintained by the Department Personnel Support Specialist.*

Incomplete Wage Calculations - The Department's process was based upon the fact that there are no remaining employees in the Plan with higher earnings prior to 2002. The Department agrees the above should be validated. The Department will complete a one-time review and certification of the 42 employees remaining on the Plan to ensure earnings prior to 2002 do not qualify for determination of the highest consecutive 36 months of wages to be used for calculating a retiree's average monthly salary. The one-time review and certification will be documented and approved by the Director of Administrative Services and Human Resources Administrator.

Imprecise Definition of Compensation - The Department disagrees with the finding. The Department has been advised by their outside legal counsel that they should not attempt any amendments to the Plan until resolution of the pending litigation. Two lawsuits regarding the IRP are scheduled for trial on January 4, 2014. It would be inappropriate for NDOL to make any comments on or changes to the IRP at this time pending the final resolution of this litigation. The Department will consider amendments to the Plan upon resolution of the pending litigation.

10. Workforce Investment Act

Lack of Documentation for Eligibility Determination and Unreasonable Participant Budgets

A good internal control plan requires procedures to review and verify that participants' budgeted expenditures are proper and reasonable. Additionally, a good internal control plan requires that documentation be on file to support participant eligibility.

The Department subawarded Federal funds to three local areas: Greater Omaha, Greater Lincoln, and Greater Nebraska. Those three local areas administered the Workforce Investment Act (WIA) for the Department. When someone applied for WIA assistance, a caseworker accumulated the information needed to determine the applicant's eligibility and amount of required assistance. A monthly budget was completed for the individual, including living expenses and total resources. The monthly budget was then compiled into the training budget, which determined the applicant's need for assistance.

During testing of nine WIA participants, we noted that the subrecipients did not obtain documentation to support the participants' self-attested budgets. Additionally, Greater Lincoln lacked procedures for a supervisory review of the training budgets to ensure the budgets were

COMMENTS AND RECOMMENDATIONS
(Continued)

10. Workforce Investment Act (Continued)

Lack of Documentation for Eligibility Determination and Unreasonable Participant Budgets (Continued)

completed accurately. Our testing revealed that one participant from Greater Lincoln did not have a properly completed training budget. Several errors were noted in the original training budget and, when the APA brought those errors to the attention of the case worker, the revised budgets still contained errors. The training budgets affect the assistance given to an individual; therefore, procedures should be in place to ensure the budgets are correct.

There were also questionable expenses (i.e., dining out, cigarettes, entertainment, and other incidentals) contained within eight of the nine participants' monthly budgets tested, totaling $1,464, as follows:

	Greater Nebraska		Greater Omaha				Greater Lincoln		Total - Monthly Budgets
Participant	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
TV/cable/Dish (Satellite)	$ 35	$ -	$ 77	$ 80	$ 60	$ 90	$ 130	$ 60	$ 532
Cigarettes	36	80	-	-	-	-	-	150	266
Gifts	-	-	-	-	-	-	133	50	183
Clothing	-	-	-	-	-	-	-	150	150
Spending Money	-	100	-	-	-	-	-	-	100
Dining out	-	-	-	-	-	-	-	40	40
Entertainment/Misc. Costs	-	-	-	-	-	-	50	50	100
Videos/DVDs/CDs	-	-	-	-	-	-	15	60	75
Newspapers/Magazines	18	-	-	-	-	-	-	-	18
Total Questionable Expenses	**$ 89**	**$ 180**	**$ 77**	**$ 80**	**$ 60**	**$ 90**	**$ 328**	**$ 560**	**$ 1,464**

Lastly, we noted that 5 of 11 Adult and Dislocated Workers did not have adequate documentation on file to support the eligibility criteria set out in Federal regulations, as follows:

- One individual did not have documentation that she was unlikely to return to a previous industry or occupation in accordance with 29 USC § 2801(9)(A)(iii).
- Two individuals did not have documentation that the training program selected was linked to employment opportunities either in the local area or in another area to which they would be willing to relocate in accordance with 20 CFR § 663.310(c) or that grants received could or could not be used towards the cost of their training, in accordance with 20 CFR § 663.320.
- One individual did not have documentation that she was unable to obtain or retain employment through intensive services in accordance with 20 CFR § 663.310(a).
- Two individuals did not have documentation that they were unable to obtain grant assistance from other sources in accordance with 20 CFR § 663.320(a).

10. <u>Workforce Investment Act</u> (Continued)

<u>Lack of Documentation for Eligibility Determination and Unreasonable Participant Budgets</u>
(Concluded)

Without adequate policies and procedures to ensure participant budgets are reviewed and verified, there is an increased risk for ineligible participation or improper calculation of need, which could lead to abuse and misuse of Federal funds. There is also an increased risk of misuse or loss of Federal funds when eligibility is not properly documented or when the determination of financial need and assistance is not prepared accurately.

> We recommend the Department implement policies and procedures for the review and verification of participant budgets to ensure only reasonable and allowable expenses are included. We also recommend that the Department ensure adequate supporting documentation is maintained for all eligibility requirements.

<u>Lack of Documentation for Expenditures for the On-The-Job Training Program</u>

A good internal control plan requires procedures to ensure reimbursements are reasonable and agree to supporting documentation.

The On-The-Job Training (OJT) program, which is part of the WIA grant, is set up to provide assistance to WIA participants or employers who provide training for WIA participants. An employer may be reimbursed between 50% to 90% of the participant's wage rate – depending upon the employer's size – to compensate for training costs. During testing, we noted:

- One of four OJT employer reimbursements did not contain adequate documentation to ensure the participant wages reimbursed were actually paid. The employer submitted an excel spreadsheet for wages paid for three pay periods. Actual paystubs were obtained for the other pay periods reimbursed. Therefore, it is unknown if the $1,145 in reimbursements paid for the undocumented pay periods was reasonable.

- One of four OJT employer reimbursements was over-calculated by $528. Because the maximum allowance – which was less than the variance noted – was paid, the miscalculation did not cause an overpayment. However, it is unknown if the Department would have caught the error, as there was no documentation for the review of the calculation.

The OJT National Emergency Grant (NEG) was set up to provide temporary funding for significant dislocation events, such as FEMA declared disasters, plant closures, and mass layoffs. For all three employers tested, who received OJT NEG reimbursements, we noted that the Department did not perform procedures to verify the accuracy of the employee counts reported by the employers. As pointed out above, the percentage of reimbursement to employers is based partly upon the number of individuals employed. The Department did not verify the employee count information with the Department's own Labor Market Information (LMI) division, which accumulated employee counts through employers' remittance of UI reports. The APA obtained the LMI data during testing and verified the accuracy of the three employers' reported counts.

10. <u>Workforce Investment Act</u> (Continued)

<u>Lack of Documentation for Expenditures for the On-The-Job Training Program</u> (Concluded)

Without adequate procedures to ensure reimbursements are proper and agree to supporting documentation, there is an increased risk of improper use of Federal funds due to abuse or error.

> We recommend the Department implement procedures to ensure payments are proper and adequately documented. We also recommend the Department verify the accuracy of employee counts with its own LMI division.

<u>Inadequate Subrecipient Monitoring</u>

OMB Circular A-87, Attachment A, § C(1)(j), provides, "To be allowable under Federal awards, costs must . . . [b]e adequately documented."

OMB Circular A-133 § ___.400(d)(3) states:

> *A pass-through entity shall . . . [m]onitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

A good internal control plan includes policies and procedures to monitor subrecipients, including reviewing and reconciling the claims submitted to the accounting records and supporting documentation – thereby, ensuring funds are used for allowable purposes.

The three subrecipients requested funds from the Department for expenditures to administer the WIA program. The Department drew the Federal funds directly from the Federal government and then paid the local areas. All three local areas were subject to monitoring procedures by the Department, including fiscal reviews. However, during the fiscal year ended June 30, 2012, Single Audit, we noted that procedures to monitor the financial activities of the Greater Lincoln area were inadequate.

Greater Lincoln submitted monthly requests for reimbursement of WIA expenditures to the Department and supported these requests for payment with fiscal reports and a disbursement journal. However, Greater Lincoln manually prepared the disbursement journal, and its information was not taken directly from the accounting system.

As part of its fiscal system review for Greater Lincoln, the Department tested a sample of the WIA expenditures for allowability. The Department selected this sample from a listing of expenditures from Greater Lincoln's accounting system and not from the disbursement journals submitted to the Department to support the payment request. Although the Department's reviewer traced selected expenditures from the accounting system to the disbursement journals, the disbursement journals did not agree directly to the accounting system reports that the Department used to select its sample of expenditures for testing. Additionally, the Department

COMMENTS AND RECOMMENDATIONS
(Continued)

10. <u>Workforce Investment Act</u> (Continued)

<u>Inadequate Subrecipient Monitoring</u> (Concluded)

did not trace expenditures from the disbursement journals to the accounting system reports or reconcile the disbursement journals to the accounting system reports to ensure all amounts claimed were subject to review.

During this attestation, we asked the Department whether its monitoring procedures had been amended. We were informed that no action had been taken to correct the shortcomings noted in this finding.

Without adequate monitoring procedures, there is an increased risk that Greater Lincoln could submit claims for payment that were never paid through its accounting system. There is also an increased risk that Federal awards could be used for unallowable costs.

> We recommend the Department improve its monitoring procedures to ensure monthly reports are accurate, supported by adequate documentation, and that subrecipient expenditures are in accordance with Federal regulations. The Department should ensure all amounts claimed are subject to review.

Department's Response:
*<u>Lack of Documentation for Eligibility Determination and Unreasonable Participant Budgets</u> - The NDOL does not agree with this finding. Eligibility for the WIA Adult, Youth and Dislocated Worker Programs is found in Sections 101, 134 and 189 of the Act and 20 CFR: Parts 663 and 664. The NDOL has long standing published policies on eligibility requirements for the WIA Adult, Youth and Dislocated Worker Programs. Establishing a participant budget is a good practice but is not a program eligibility requirement. The participant budget form is used as a planning tool during financial aid coordination for a participant's education and related living expenses. Regarding the citing of the five Adult and Dislocated Workers cases not having adequate documentation on file to support eligibility, it is not possible for NDOL to confirm without further file details. This finding regarding participant budgets has been cited in previous reviews. Corrective action taken to date includes: a) revised the state policy; PELL grants and other Financial Aid in August 2013. This revision specifically states under Section 5. required documentation includes "a list or budget of the participant's estimated essential monthly living expenses used to determine financial need, **excluding any costs associated with alcohol, cigarettes and entertainment**" b) Greater Nebraska WIA Program abandoned the budget document in question beginning July 1, 2013 and is utilizing the standardized budget available in the State's Case Management System, NEworks. The participant budget in NEworks does not include personal and private expenses.*

<u>Lack of Documentation for Expenditures for the On-the-Job Training Program</u> - NDOL agrees with the portion of the finding regarding adequate procedures to ensure proper OJT reimbursements is lacking. NDOL does not agree with the portion of the finding regarding

COMMENTS AND RECOMMENDATIONS
(Continued)

10. Workforce Investment Act (Concluded)

Department's Response, Concluded:
verification of employer size for OJT contracts. Utilizing Labor Market Information (LMI) is a source for verifying the accuracy; however, upon checking with Phil Baker, Labor Market Administrator, the LMI data may not be the single best source for employee counts since the LMI data which comes from employer UI reports is six to eight months in arrears. The current practice by Greater Nebraska of having the employer self-attest on the Pre Award form and on the OJT contract (both are signed by the employer) provides the most up to date and timely information when determining employee count. NDOL will revise the State On-the-Job Training Policy to include employee count as required criteria in the pre-award review process, reference the utilization of the most current LMI information as a source to assist in substantiating the employee count, and require the use of official payroll records when determining the reimbursement amount. NDOL will also revise the Greater Nebraska Operations Manual, OJT contract and pre-award review documents to reflect that only official payroll records will be used to document and determine reimbursement amounts.

APA Response: The budgets support the need for assistance and, therefore, are an important part of eligibility determination. Inaccurate budgets could lead to improperly high payments. In July of 2013, the APA discussed with Department staff the five cases reported. Thus, the Department had sufficient time to review the files.

11. State Energy Sector Partnership and Training Grants

OMB Circular A-87, Attachment A, § C(1)(j), provides, "To be allowable under Federal awards, costs must . . . [b]e adequately documented."

Similarly, a good internal control plan and good business practice require Department expenditures to be reasonable, necessary, and adequately documented.
The State Energy Sector Partnership (SESP) and Training Grants were funded through the American Recovery and Reinvestment Act of 2009. The grants awarded through the SESP and Training Grants were to be used for worker training and placement in energy-efficient and renewable energy industries.

SESP and Training Grants could also be used for supportive services of individuals that were eligible, such as transportation, child care, dependent care, and housing. Our testing revealed that mileage reimbursements for two of five recipients were not allowable. The mileage reimbursements were for training attended by the individuals, which ran from November 21, 2011, through March 8, 2012. However, both individuals requested mileage reimbursements for dates outside of the training dates. One individual also requested mileage for an erroneous date, November **31**, 2011.

COMMENTS AND RECOMMENDATIONS
(Continued)

11. **State Energy Sector Partnership and Training Grants** (Continued)

Due to the inaccurate dates provided, the two individuals were overpaid $242 and $153, respectively. The Department did not identify the discrepancies that produced these overpayments, and there was no documentation that the Department had requested the training schedule to verify the dates. Subsequently, the APA contacted the trainer to obtain the actual training dates. Based upon that information, the following reimbursements were determined to have been improper.

Participant 1	
Date	**Unallowable Reimbursement**
11/7/2011	$ 41
11/14/2011	41
11/15/2011	40
11/16/2011	40
11/17/2011	40
11/31/2011	40
TOTAL	**$ 242**

Participant 2	
Date	**Unallowable Reimbursement**
3/12/2012	$ 39
3/13/2012	38
3/14/2012	38
3/15/2012	38
TOTAL	**$ 153**

In addition to making improper mileage reimbursements, the Department failed to follow its own Technical Proposal submitted to the Federal government. That document states:

> *Training program options must include: classroom training, customized training, on-the-job training, and work experience programs. To the greatest degree possible, these training programs must result in a degree or certification.*

The Department received no documentation that the training completed by four participants tested resulted in a degree or certification. The APA contacted one trainer for two of the participants and was able to verify that certificates of completions were awarded. Regardless, the Department was not performing procedures to ensure this criteria was met.

Without adequate procedures to ensure that expenditures of Federal grant monies are properly documented, there is an increased risk of noncompliance with either OMB Circular A-87, Attachment A, § C(1)(j), or the Department's own Technical Proposal. Any such noncompliance could result in a loss or misuse of Federal funds.

> We recommend the Department implement policies and procedures to ensure mileage reimbursements are both proper and adequately documented. We also recommend the Department document participant completion of training courses.

Department's Response: NDOL management agrees with this finding. The State Energy Sector Partnership (SESP) grant expired June 30, 2013. This was a discretionary (one-time) grant funded through ARRA High Growth and Emerging Industries (HGEI) funds. Resolutions for the findings identified in relation to the SESP grant cannot be implemented moving forward, due to

11. **State Energy Sector Partnership and Training Grants** (Concluded)

Department's Response, Concluded:
the conclusion of the grant. However, management will implement policies and procedures per APA recommendations to be utilized for future discretionary worker training grants. NDOL Office of Employment and Training has developed procedures and guidance for future Discretionary Grants. This guidance is provided in 2 separate training documents:

- *Discretionary Grants: Program Participant Bill Paying Information and Guidance: addresses payment and reimbursement procedures to ensure that payments are properly made and adequately documented.*
- *Discretionary Grants: Degree/Certificate/Credential Attainment Information and Guidance: addresses documentation of participant completion of training courses and certificate attainment.*

These procedures will be implemented with new discretionary worker training grants where participant payments and/or training programs are involved.

12. **Penalty Waivers**

Best practices regarding audit record content, as described by the National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations, Auditing and Accountability Control AU-3, Content of Audit Records, states:

> *Control: The information system generates audit records containing information that establishes what type of event occurred, when the event occurred, where the event occurred, the source of the event, the outcome of the event, and the identity of any individuals or subjects associated with the event.*
>
> *Supplemental Guidance: Audit record content that may be necessary to satisfy the requirement of this control includes, for example, time stamps, source and destination addresses, user/process identifiers, event descriptions, success/fail indications, filenames involved, and access control or flow control rules invoked. Event outcomes can include indicators of event success or failure and event-specific results (e.g. the security state of the information system after the event occurred.)*

Good internal control requires computer systems to log actions taken by a user, especially those that alter the normal processes of the application through overrides and those that have a financial impact. These actions should be tracked and monitored to ensure their use is appropriate.

During our testing of UI field representatives' travel, we became aware of a process in TMS for cancelling penalties (CP) applied to employers' accounts in the system. The CP process allowed Department staff to override the penalty, leaving no audit trail in the system. The only documentation of the CP process was a "CP" notation handwritten by Department staff, scanned into a separate system (Papervision).

COMMENTS AND RECOMMENDATIONS
(Continued)

12. Penalty Waivers (Continued)

The APA attempted to determine how frequently the CP process was used; however, the Department was unable to provide a report, as the CP process was not tracked or monitored. Therefore, during testing of the UI field representatives' travel, as noted in Comment Number 1, we reviewed Papervision for each employer, for both calendar years 2012 and 2013, to identify all the CP processes documented. We found five CP codes requested by Field Rep 2, totaling $125. As field representatives are able to collect monies in the field, there is an increased risk a penalty will be collected, waived with no documentation in the system, and the monies not remitted to the Lincoln office for deposit.

Furthermore, for 20 of 21 penalty waivers tested, totaling $555, we noted the Department did not require employers to request the waiver in writing in accordance with Title 220 NAC 14-003, which states, in relevant part:

> *An employer may apply for waiver by providing specific reasons as to why the reporting infractions occurred. Such application must be provided to the Commissioner of Labor or his/her designee in writing.*

Instead, the field representative requested the waiver, and staff in the Lincoln office processed it.

Furthermore, the Department's policy was to send a letter to the employer after the penalty was waived to inform the employer of the waiver. This formal acknowledgement process, along with the written request requirement, serves to reduce the risk that a staff person could waive a penalty inappropriately and keep the money collected. Nevertheless, 20 of 21 penalty waivers tested did not have the letter to the employer.

We also tested two employers who were not properly charged penalties in accordance with Neb. Rev. Stat. § 48-656 (Reissue 2010), which provides, in relevant part:

> *Beginning with the first calendar quarter of 1990, any employer or any officer or agent of an employer who fails to file a required quarterly combined tax report and wage schedule by the tenth day of the second month following the end of the calendar quarter shall pay a penalty to the commissioner of one-tenth of one percent of the total wages paid during the quarter, except that the penalty shall not be less than twenty-five nor more than two hundred dollars.*

One employer did not file the 2012 quarter one, two, and three taxes until February 20, 2013; however, minimum penalties of $75 were not assessed. The taxes were due by May 10, 2012, August 10, 2012, and November 10, 2012, respectively. The penalties were not automatically calculated in the system because the Department had improperly recorded the employer's out-of-business date as December 31, 2011, instead of December 31, 2012.

When the Department realized that the out-of-business date was incorrect, the employer's account was reactivated – with a new effective date of January 2013. The improperly established date in TMS caused penalties not to be assessed on the late filings.

The second employer's 2012 quarter one taxes, which were due on May 10, 2012, were not filed until July 2, 2012. The minimum $25 penalty was not assessed because the first liable quarter

12. Penalty Waivers (Concluded)

was improperly entered in TMS as quarter two, causing taxes not to be due until August 10, 2012. The Department determined the first liable quarter based upon the employer's estimated wages. The Department did not have a policy to adjust the first liable quarter if it was later determined that the employer had not estimated properly and was, in fact, required to report earlier.

We recommend the Department:

- Evaluate the need for the CP process and examine users with access to this process to ensure access is necessary and appropriate.
- Implement procedures to track the use of the CP process and monitor the amount of penalties cancelled.
- Require all employers to submit penalty waiver requests in writing, as required by Title 220 NAC 14-003, and ensure that the Department responds with a letter to the employer acknowledging the waiver request.
- Review late filings to determine if penalties should be applied in compliance with State statute and make the necessary adjustments within the system to ensure employer accounts are properly recorded.

Department's Response: The NDOL agrees with the APA finding. Procedures will be developed to ensure that the provisions of Neb. Rev. Stat. §48-656 are complied with and documented if a penalty is waived pursuant to bisection (3) of 48-656.

13. Payroll Issues

A good internal control plan and sound business practice require adequate segregation of duties to ensure no one individual is in a position both to perpetrate and to conceal errors and irregularities. Furthermore, good internal controls and sound accounting practice require adequate policies and procedures to ensure payroll is processed properly, and supporting documentation is on file.

Lack of Segregation of Duties

The Department lacked an adequate segregation of duties for the processing of payroll. All individuals involved in the review of payroll reports had access to, as well as the ability to make changes within, the accounting system. Furthermore, there was no documented review that the information being input into the system agreed to the final payroll, such as comparing timesheets to the final payroll reports.

A similar finding was noted in the prior attestation report.

13. <u>Payroll Issues</u> (Continued)

<u>Errors in Processing Payroll Expenditures</u>

We selected 25 Department employees for payroll testing and noted that 3 of the 25 employees tested did not have a properly completed W-4 or I-9 form on file, and 3 of the 25 employees' elections from the W-4 forms were not properly entered in the accounting system.

The Nebraska Department of Revenue's 2011 Circular EN provides, "[State] withholding allowances are the same number as the employee claims on his or her Federal Forms W-4."

- One employee did not complete the status or the number of exemptions on the W-4 form. The Department withheld at a status of Single and zero in accordance with the form's instructions; however, the Department did not document having followed up with the employee to ensure these were the proper elections.

- One employee did not complete the W-4 form. Instead, he wrote a note to withhold at the same elections as his prior employment with a different agency. There was no documentation on file for the prior elections. Furthermore, the employee's State and Federal withholdings in the system did not agree. Federal was withheld at a Married status, and State was withheld at a Single status. The error caused the employee's taxes to be over-withheld by $13 on the paycheck tested.

- One employee did not have an employer-signed I-9 form on file. The form instructions required the form to be signed and dated by the employer. Furthermore, the employee's W-4 election for a status of Married was entered in the accounting system as Single for State withholdings. The error caused the individual's taxes to be over-withheld by $12 on the paycheck tested.

- Another employee elected a status of Married with one exemption on the W-4 form. The Department entered the Federal and State withholdings at a status of Single. The error caused the individual's taxes to be over-withheld by $53 on the paycheck tested.

One employee did not have a signed timesheet on file. The unsigned timesheet was completed and approved by a supervisor. However, in order for the employee's payroll to be charged to the Wagner Peyser grant, the employee was required to sign the timesheet in accordance with OMB Circular A-87, Attachment B, § 8(h)(1), which states:

> *Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.*

Additionally, OMB Circular A-87, Attachment B, § 8(h)(4), says:

> *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 . . . . (5) personnel activity reports or equivalent documentation must meet the following standards . . . (d) They* ***<u>must be signed by the employee</u>****.* (Emphasis added.)

COMMENTS AND RECOMMENDATIONS
(Continued)

13. Payroll Issues (Continued)

Errors in Processing Payroll Expenditures (Concluded)

The payroll expenses of three employees were recorded to grants outside of the period of availability. This is impermissible under 2 CFR § 215.28, which provides:

> *Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.*

The employees were paid for time worked in October 2012; however, two grants ended on September 30, 2012. The APA reviewed hours charged to the two grants for the payroll period tested and noted the Department made partial adjustments to remove the October hours. However, $3,791 was still recorded to the grants outside of the period of availability.

Moreover, there was no supporting documentation for two employees' bi-weekly benefit deductions. One employee had supplemental insurance amounting to $4 for the paycheck tested. The second employee had dependent life in the amount of $0.41 for the paycheck tested. The Department did not have election forms on file to support either the employees' insurance elections or the rates charged.

A similar finding was noted in the prior attestation report.

Improper Calculation of Payroll Encumbrances

The Department is responsible for determining encumbrances at the end of the fiscal year for financial obligations chargeable to a specific biennium's appropriation and for which part of that appropriation is reserved. The Department's payroll encumbrance at June 30, 2012, included health and life insurance costs of $99,849. Including this amount overstated the encumbrance, as such costs should be excluded in accordance with Nebraska State Accounting Manual, AM-005, General Policies, Section 11d, which states:

> *Agencies with bi-weekly payroll should encumber the portion of the July payroll related to June working dates. This encumbrance should include salaries as well as the state contributions for FICA and retirement. Health and Life & Accident insurance should not be encumbered since these amounts are considered July expenses.*

When a proper segregation of duties does not exist, secondary reviews are not performed, documentation is not on file to support transactions, or information is recorded improperly, there is an increased risk for misuse of funds and for employees' pay to be improper. Furthermore, the Department's failure to adhere to Federal requirements for payroll documentation increases the risk of loss of funding. By overstating encumbrances, moreover, appropriations are reserved that might otherwise have be used for different purposes in the next budgeted year.

> We recommend the Department establish policies and procedures for a proper segregation of duties, including a review of reports by an individual not involved in the payroll process. We also recommend the Department ensure information is properly entered

COMMENTS AND RECOMMENDATIONS
(Continued)

13. <u>Payroll Issues</u> (Concluded)

> in the accounting system, and documentation is retained to support transactions. Finally, we recommend action be taken to ensure that timesheets are signed in accordance with Federal regulations, and encumbrances are calculated as directed by State guidelines..

Department's Response: The Department agrees that there were some gaps in the process that shall be corrected. The Department's past practice was that new hire paperwork (W-4 and I-9) was primarily handled by the supervisor. It should be noted that the Department's current practice, effective August 1, 2013, is all new hire paperwork is a function of HR. The Department will continue the current practice of HR handling all new hire paperwork. A HR representative will meet with each new hire to verify I-9 and W-4 paperwork is completed and entered into the system accurately. Any requested changes will be fully documented and placed in the employee's file. As DAS moves forward with Work Day, W-4 and I-9 processing will become automated, thus eliminating the need for HR intervention.

With regard to the unsigned timesheet, the Department currently uses a time entry system that is not accessible outside of the Department's network. Therefore, if an employee is unable to submit a timesheet, the Department allows the supervisor to do so on their behalf. The supervisor knows which grant the employee is allowed to time charge to and approves employee time worked and leave time. The Department's Time Entry policy requires "after-the-fact time distribution to the proper time charge codes". The Department agrees that further documentation is required to validate unsigned timesheets or those submitted by the supervisor. The Department is in the process of moving from one time entry system to time entry in EnterpriseOne, which will allow an employee to access the system outside of the workplace to submit a timesheet, if necessary. Recognizing that there may be instances in which it is not possible for an employee to submit a timesheet electronically, the Department will allow the supervisor to submit one on behalf of the employee. Bi-weekly, prior to timesheet submission and approval, the HR Administrator will email all supervisors to remind them of the process required to ensure timesheets are validated by the employee and documented to HR. The process is also being incorporated into the Department's Time Entry Policy. A report will be pulled from the system to confirm which timesheets were supervisor-submitted. The report will be cross-matched to timesheets signed after-the-fact by employees to ensure all timesheets are signed, either electronically or manually.

14. <u>Capital Asset Issues</u>

A good internal control plan and sound business practice require an adequate segregation of duties to ensure that no one individual is in a position both to perpetrate and to conceal errors and irregularities. Furthermore, sound accounting practice requires the proper recording of capital assets in the Department's accounting system.

14. Capital Asset Issues (Continued)

Lack of an Adequate Segregation of Duties

The Department did not have an adequate segregation of duties over capital assets. One individual maintained the capital assets in the accounting system, added new assets, initiated the disposal of assets, and performed the physical inventory without any secondary review of system-generated reports. The capital asset Additions and Retirement report, which shows all assets added and deleted from the records, had not been reviewed since February 2011. The Department had $4,790,825 in capital assets at December 31, 2012.

Improper Recording of Capital Assets

Neb. Rev. Stat. § 81-161.04(2) (Reissue 2008) states, in relevant part:

> *Except as otherwise provided in the subsection, the proceeds of the sales [of personal property for which the agency no longer has any need or use] shall be deposited with the State Treasurer and credited to the General Fund unless the using agency certifies to the materiel division that the property was purchased in part or in total from either cash accounts or federal funds or from a percentage of such accounts or funds, in which case the proceeds of the sale to the extent shall be credited to the cash or federal account in the percentage used in originally purchasing the property.*

Six of fifteen capital asset additions tested did not have the proper fund recorded in the accounting system. If any of those assets were later sold, the proceeds would not return to the proper funds originally used to pay for the asset. Though purchased from the Unemployment Insurance Administration Fund, the assets were all recorded in the capital asset records to the Employment Security Administration Fund.

Furthermore, our examination of assets sold during the calendar year tested revealed that 3 of 13 sales of proceeds, totaling $65, were not deposited to the proper fund of origination. Two assets were purchased from the Employment Security Special Contingent Cash Fund, but were deposited in the Federal Employment Security Administration Fund. The third was purchased from the Reed Act fund, but was deposited in the Unemployment Insurance Administration Fund.

Additionally, the Passed Transaction Report shows expenditures recorded to capital outlay account codes in the accounting system with no corresponding inventory numbers assigned. During review of the Passed Transaction Report, we noted that one asset for $1,310 was not assigned an inventory tag number, for unknown reasons. When brought to the Department's attention, the asset was assigned an inventory tag number.

A similar finding was noted in the prior attestation report.

When a proper segregation of duties does not exist, there is an increased risk for theft of assets. Furthermore, when assets are not properly recorded in the accounting system, sale proceeds will not be returned to the proper funds, and inventory records will be inaccurate for financial reporting purposes.

14. Capital Asset Issues (Concluded)

> We recommend the Department establish policies and procedures for a proper segregation of duties, including a review of reports by an individual not involved in the capital asset process. Additionally, we recommend the Department ensure assets are properly recorded in the accounting system.

Department's Response: The Department partially agrees with the finding regarding capital assets and inventory and recognizes the need for additional controls. While one individual maintains the capital assets in the accounting system, as well as the addition and disposal of assets, since June 2013 the Department performs a secondary review of system generated reports. The secondary review of system generated reports is done at a minimum quarterly and whenever a change occurs, which can be more frequently. The Director of Administrative Services reviews and approves capital asset changes and signs off on the system-generated report. Prior to June 2013, the report was typically reviewed annually, but the Department agrees that the report was not reviewed in June 2012.

Since the State started scanning capital assets, the inventory process is completed by IT who utilizes the scanning device to complete the inventory statewide. At the same time, IT performs required infrastructure upgrades or modifications in the field, so as to not incur the expense of additional field visits for this purpose. All inventories are reviewed and validated by applicable management. In addition, the inventory is further reviewed by the individual who maintains the capital assets in the accounting system who does a comparison to what is in the system and what was inventoried the prior year.

The Department agrees with the finding regarding properly recording assets in the accounting system. It should be noted that corrective action has been taken to ensure proceeds from assets sold are applied to the correct fund.

The Department will continue the procedures put in place since June 2013 to ensure all capital asset reports are reviewed and validated by the Director of Administrative Services. The Department will continue the procedures put in place regarding inventory, which provide a secondary review and validation of the inventory process. The Department retains procurement records onsite for the current and prior year. The Department pulled the procurement records, went back into the system and recorded purchasing information to ensure assets are properly recorded in the system so that upon sale, the proceeds will be returned to the proper funds originally used to pay for the asset. This will be our procedure going forward.

15. Unreasonable Travel Expenditures

A good internal control plan requires procedures to ensure that reimbursements for travel expenses are reasonable and necessary. In order to accomplish this, adequate supporting documentation must be maintained.

COMMENTS AND RECOMMENDATIONS
(Continued)

15. Unreasonable Travel Expenditures (Continued)

During testing of reimbursements for employee and contractor travel, we noted a lack of supporting documentation for meals and mileage reimbursed, unreasonable meals reimbursed, incomplete expense documents, and improper coding of expenses in the accounting system.

- The Department lacked adequate procedures to review consultant travel reimbursements. For four consultants tested, we noted the reimbursements lacked supporting documentation, itemized receipts, exceeded U.S. General Services Administration (GSA) rates, and included reimbursement for the purchase of alcohol.

    - For one consultant's reimbursement, receipts totaling $3,131 were submitted; however, the consultant requested a reimbursement of only $2,165. The Department noted on the expense document that receipts were attached, but the consultant was only requesting reimbursement of $2,165. It appears, therefore, that the Department did not attempt to resolve the discrepancy. When the APA questioned which expenses were being reimbursed, the Department determined, after two months, that $1,260 of the $3,131 had been paid on an earlier reimbursement. Consequently, the Department did not have support for $294 of the amount reimbursed and had to obtain documentation from the consultant after the APA requested the information. Furthermore, the consultant was reimbursed for mileage totaling $20 but did not provide the rate of reimbursement or the number of miles claimed in order to ensure the mileage was reasonable.

    - One consultant was reimbursed for an alcohol purchase totaling $15. With tip and tax included, the individual was reimbursed $20 of unallowable expenditures. Both Federal and State law prohibit the reimbursement of alcohol purchases with public funds.

    - For two consultants, 26 of 37 receipts submitted were not itemized, as required by the terms of their contracts with the Department. The reimbursements totaled $326 and $200. Furthermore, one of the consultant contracts required original receipts to be submitted, but only photocopies were provided.

    - One consultant was reimbursed $22 in excess of the GSA guidelines. The individual was reimbursed $68 for one day's meals; however, GSA guidelines designate $46 as a reasonable threshold for daily meal reimbursements in Lincoln, Nebraska. Additionally, the consultant claimed dinner for $25 on his return trip home at 8 PM. The consultant's flight landed at approximately 2:30 PM. Therefore, dinner would not have been allowable. After the improper payment was brought to the attention of the Department, the consultant made reimbursement.

COMMENTS AND RECOMMENDATIONS
(Continued)

15. <u>Unreasonable Travel Expenditures</u> (Continued)

- The Department's Director of Financial Services was over-reimbursed in the amount of $43 for meals purchased while attending an out-of-state conference. The improper reimbursement was the result of improper calculations and the failure to prorate tips and taxes, which was necessary due to the fact that her family traveled with her. Furthermore, the Director did not use the airline suggested by the conference, which provided for a 5% discount, and there was no documentation that the airline used offered a comparable fare. The flight cost $445.

- During testing of UI field representatives' expense reimbursements, we noted that the place of travel was not documented in accordance with Neb. Rev. Stat. § 81-1174 (Cum. Supp. 2012). As a result, the APA had to obtain additional documentation in order to verify that the mileage paid was reasonable.

- Four travel reimbursements tested were not properly recorded in the accounting system. One document should have been recorded as aid to individuals, but it was improperly recorded as commercial transportation for $1,400. The Department corrected the coding error after the APA selected the document for testing. Three documents were not properly allocated to the proper funds. One document totaling $703 was recorded to a Federal business unit, but it should have been recorded to an agency-wide allocation; therefore, Federal funds were overcharged. The second document was improperly recorded, causing Federal funds to be over-allocated by $4. The third was improperly recorded to the Federal Trade Adjustment Assistance program for $385.

Without adequate policies and procedures for the proper review of travel reimbursements, including steps to ensure that expenses are properly documented and reimbursed in accordance with State and Federal regulations, there is an increased risk of abuse of State and Federal funds. Improper use of Federal funds could cause a loss of Federal monies.

A similar finding was noted in the prior attestation report.

> We recommend the Department implement policies and procedures for the review of travel expenditure reimbursements to ensure proper supporting documentation is retained, and expenses reimbursed are proper and necessary.

Department's Response: Management concurs; the travel expenses for the Department of Labor totaled over $500,000 and believed it was working to improve the process. The amount of the all the errors cited totaled less than half of a percent. The APA noted that the expense reimbursement document did not note the place of travel. The nature of the field representative's job duties requires multiple locations throughout each day. The Department will implement additional controls to ensure review of travel expenditure reimbursements is proper and necessary. Additional documentation will be provided to the accounts payable staff. Management will review the requirements of Neb. Rev. Stat. § 81-1174 and make adjustments to the documentation. Pertinent information will be attached to the expense reimbursement document to assure the expense report accurately reflects travel by the field representative. Field Representatives will be trained on the new procedures.

15. Unreasonable Travel Expenditures (Concluded)

APA Response: The APA tested 18 travel documents and noted several issues. We believe there is a great likelihood that, if more documents were selected for testing, additional findings would be noted. Therefore, claiming that the percentage of dollar errors is small is not reflective of the overall issues noted with the Department's lack of review and inappropriate payment of travel expenditures.

16. Allocation Issues

A good internal control plan requires policies and procedures to ensure expenditures are properly recorded and adhere to Federal regulations. Furthermore, sound accounting practice requires the proper accounting of transactions for financial reporting purposes.

The Department had several funding sources, including both State and Federal funds. Many of the expenditures for the Department were allocated to distribute the expenses to State and Federal programs. During testing of the Department's expenditures, we noted several issues, including allocations not in accordance with the Department's Cost Allocation Plan (CAP), expenditures outside of the period of availability for Federal grants, circular allocations, and miscoding of expenditures.

- The Department's CAP, which was submitted to the Federal cognizant agency, for the fiscal year ended June 30, 2012, was not adhered to by the Department for nine allocations. The CAP stated that indirect costs would be allocated based upon the time paid to a fund source for the month in which the indirect cost was ***incurred***. However, during testing, we noted expenditures were allocated based upon time paid in the month in which the expenditure was ***paid***. Because the Department did not adhere to the CAP, expenses were recorded to grants outside of the period of availability, which could result in a loss of Federal funding.

- Three of nine expenditures tested were not incurred within the grants' periods of availability in accordance with 2 CFR § 215.28, which states:

  Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

  - One payment for utilities, totaling $2,241, was incurred in July and August 2012. When the expense was paid, it was allocated to two grants that did not begin until October 1, 2012.
  - One payment for communication costs, totaling $14,475, was incurred in September 2012. When the expense was paid, it was allocated to three grants that did not begin until October 1, 2012.
  - One payment for rent, totaling $3,375, was incurred in January 2012. When the expense was paid, it was allocated to a grant that did not begin until April 2012.

16. Allocation Issues (Concluded)

- During testing of the Department's expenditures, we noted 10 allocating business units that were circular in nature. Therefore, the expenditures recorded to these business units were never completely allocated. For instance, an expenditure would be recorded to the agency-wide business unit, which would then be allocated to other business units. Several of those other business units would then allocate back to the agency-wide business unit, and the same allocation process would repeat itself. The Department revised its allocations in July 2012, eliminating the circular allocations.

- The Department created account code groups for its allocation of expenditures. We noted 15 account codes that the Department reclassified to different account codes, causing expenditures to be misclassified for financial reporting purposes. Five operating expense accounts were reclassified as travel expenditures; one operating expense account was reclassified as personal service expenditures; and nine capital outlay accounts were reclassified as operating expenditures. For five documents tested, $7,703 was originally recorded as capital outlay, but the expense was allocated and recoded as operating expenditures. Additionally, $2,234 was originally recorded as operating expenditures but was allocated to travel expenditures.

> We recommend that the Department adhere to its submitted CAP by recording expenditures to grants only within the period of availability. Additionally, we recommend the Department ensure circular allocations are not used in the allocation process and revise the account code groups to ensure the proper recording of expenses for financial reporting purposes.

Department's Response: Management has amended the plan to take into account the timing differences cited in the report. There was no cost allocation plan for some of the periods cited in the report. The coding groups were necessary to preserve the integrity of the groupings required for the Unemployment Insurance Resource Justification Model. Without this, in the past the agency had over 800,000 codes set up. It would be fairly easy to characterize the expenses as to the state definitions of what should be included in each area. The allocations methodology has been corrected under bullet four of the auditor's report. A plan has been submitted for the year ended June 30, 2013. The plans for the FYE 2014 and FYE 2015 will be submitted by December 31st 2013.

17. Reemployment Trade Adjustment Assistance Eligibility

A good internal control plan and sound business practice require procedures to ensure adequate documentation is reviewed and on file to support that all requirements were met for eligibility prior to paying benefits.

The Training and Employment Guidance Letter (TEGL) 22-08 describes very specific guidelines for individuals to be eligible for Reemployment Trade Adjustment Assistance (RTAA) at the time of reemployment, including wage limits and how to document the expected earnings from

COMMENTS AND RECOMMENDATIONS
(Continued)

17. <u>Reemployment Trade Adjustment Assistance Eligibility</u> (Concluded)

reemployment. TEGL 22-08 also defines the eligibility period and describes how other benefits, such as Trade Readjustment Allowance (TRA) or UI, affect the calculation of the RTAA benefit amounts.

During testing of RTAA benefits to recipients, we noted:

- One of three participants tested self-reported his wages and hours worked. The Department did not verify with the employer the information reported by the participant until after the APA questioned the expenditure. Furthermore, the Department had not verified with the Federal regulatory agency that self-attestation was an acceptable means of wage verification. The individual was paid $7,803.
- Three of three participants tested did not have adequate documentation to support whether they received other assistance, such as TRA or UI, or had exhausted these benefits. If other benefits were received, the amount of RTAA benefits and the period of eligibility for receiving them would be reduced. The participants received RTAA benefits for $9,185, $7,803, and $509, respectively.

Without verification of participants' wages and hours worked or whether other benefits have been received, as required by TEGL 22-08, there is an increased risk of fraud or misuse of Federal funds due to an improper determination of eligibility or calculation of benefits.

> We recommend that the Department implement procedures to ensure compliance with TEGL 22-08 by verifying participants' wages and hours worked, as well as whether other benefits have been received. We recommend further that the Department maintain documentation of such verification.

Department's Response: NDOL agrees with this finding. NDOL has sought guidance from USDOL Regional Office for RTAA participants who are self-employed or contractual workers, NDOL will implement a self-attestation calendar which will be signed and dated by the participant verifying the hours worked in each pay period cycle before payment is awarded. The Self-Attestation Calendar includes the following statement, "By signing below I declare that this calendar and the hours and dates indicated above is a true and accurate accounting of hours worked during time period indicated." The self-attestation calendar will be stored in the participant's NEworks electronic file. Additionally, the following procedure has been established to ensure that verification of other assistance is documented; 1) the TAA Coordinator sends an email to the UI TRA Coordinator requesting the number of weeks of TRA payments received by the client and the date Unemployment Insurance eligibility from the Trade affected employer ended or would have ended, 2) the TAA Coordinator will use this information to calculate the start and end dates of the eligibility period (up to 2 years) and to calculate the reduction in available funds if TRA was received, 3) the TAA Coordinator will send this information to the field Case Manager who is responsible for saving a copy of the email/response to the client's Enterprise Content Management (ECM) record and applying the appropriate dates and reductions to the RTAA/ATAA payment process. NDOL Trade Administration will monitor the process to ensure accountability.

COMMENTS AND RECOMMENDATIONS
(Continued)

18. Unemployment Insurance Report Variances

A good internal control plan requires procedures to identify and correct variances noted during reconciliation procedures. Furthermore, when such variances are due to system errors, good internal controls require procedures to correct the system errors, so further inconsistencies are alleviated.

During testing of UI benefit payments, the APA was unable to determine the cause of variances noted between two BPS reports. The BPS Accounting Journal (Journal) provided summarized activity for the daily benefit payments and was used by the Department's accounting division to record the activity in QuickBooks. The second report, the BPS Daily Benefit Transaction Register (Register), detailed the benefit payments made to recipients for the day. The totals between the two reports should agree, as they are generated from the same system; however, variances were identified, and the Department was unable to explain why.

- On March 12, 2012, the Register reported $204 more in benefit payments than was reported in the Journal. The $204 was properly reported in the Register, and the accounting division properly adjusted the QuickBooks entry to include the $204; however, the Department was unable to explain why the Journal did not report the payment.

- On July 30, 2012, the Register reported $313 more in benefit payments than was reported in the Journal. The $313 was properly reported in the Register; however, the Department could not explain why the Journal did not report the payment. Furthermore, the accounting division double-entered the $313, causing benefit payments to be overstated in QuickBooks.

- On August 28, 2012, the Journal recorded a payment for $298; however, the payment was not made. The participant had $298 deducted from her weekly benefit for a liability owed to the State of Colorado. The Department should have forwarded the $298 to the State of Colorado, but it failed to do so. The Department was unable to explain why the error occurred.

When reconciliation procedures reveal variances in accounting records, and neither the cause is identified nor appropriate corrective measures are implemented, there is an increased risk that funds will be mismanaged.

> We recommend the Department implement procedures to ensure that variances in accounting records are researched and corrected. The Department should determine why reports generated by the same accounting system do not agree and take the appropriate action to resolve any resulting errors in the handling or distribution of funds.

18. Unemployment Insurance Report Variances (Concluded)

Department's Response: The Department agrees with the findings regarding July 30, 2012 and August 28, 2012. It should be noted that once reported, these issues were immediately corrected within the Benefit Payment System. The variance noted on August 28, 2012 was the result of an Agent-State payment that was produced out of BPS, yet still requires a paper-check to be issued. This half-automated/half-manual process will be upgraded with an IT solution to automate the payment and reimbursement process, with manual controls in the event the receiving state is not equipped to receive EFT. Several of the code changes have been implemented. The Department will make modifications to BPS to ensure the Agent-State payment and reimbursement process is automated. In the interim, procedures will be defined to ensure manual payment processes are documented and accounted for in the issuance of Agent-State payments. The 3rd variance cited was the result of an Agent-State payment that was produced out of BPS yet still requires a paper-check to be issued. This half-automated/half-manual process will be upgraded with an IT solution to automate the payment and reimbursement process, with manual controls in the event the receiving state is not equipped to receive EFT. The project scope and requirements are still being defined, with implementation planned for Program Year 2014. BPCU and Treasury management will take necessary steps to ensure manual payment processes are documented and accounted for in the issuance of Agent-State payments. In general, the Department's Treasury and UI Benefits divisions will coordinate and research variances in benefit payments. Treasury will notify the UI Benefits Testing Team of variances for appropriate investigation and resolution. The Testing Team will coordinate with other UI Benefits sections as appropriate, and document all communications and statuses of variance research.

19. Information Technology Separation of Duties Issues

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 3, Separation of Duties, states:

> *To reduce the risk of accidental or deliberate system misuse, separation of duties must be implemented where practical. Whenever separation of duties is impractical, other compensatory controls such as monitoring of activities, audit trails and management supervision must be implemented.*

A good internal control plan includes maintaining documentation on the security roles that define user access within an application, including the access each role provides a user.

During testing, we noted the following issues related to the BPS and UIConnect applications:

- There were 277 claims filed and adjudicated in BPS by the same employee during calendar year 2012. The Department did not have procedures to monitor or review those claims.

- There was no documentation on file to support the level of access each UIConnect role granted to users within the application.

COMMENTS AND RECOMMENDATIONS
(Continued)

19. Information Technology Separation of Duties Issues (Concluded)

When one employee can both file and adjudicate the same claim, there is an increased risk inappropriate or fraudulent claims will be processed, resulting in a loss of State and Federal funds. Furthermore, without current documentation of the UIConnect roles and a description of what access the role provides, there is an increased risk inappropriate access will be inadvertently provided to a user.

> We recommend the Department monitor and review claims that are both filed and adjudicated by the same employee to ensure the claims are appropriate. We also recommend the Department document the UIConnect roles, including the access each role grants a user within the application, to ensure roles are set up properly, and access granted is in line with management's intentions.

Department's Response: As far as the same employee filing and adjudicating the same claim, Adjudication requires the review of previous claims and, when necessary, establishing new claims. For example: with the implementation of legislation creating an Alternate Base Period to qualify for benefits, claimants are now able to file a claim, have initial issues adjudicated, only to receive a monetary determination of ineligibility. Because initial issues have already been determined on the ineligible claim, those issues are then re-established and auto-adjudicated (or manually established and adjudicated) by the next claims filer, who is also an adjudicator. In 2012 this was the case on 158 issues resolved by the same employee who filed the claim. Additionally, since 2008 several Nebraskans have qualified for Extended Unemployment Compensation (EUC) benefits. When a UI Claim exhausts, the claimant must file a EUC claim. All applicable adjudicable issues previously adjudicated on the Regular UI claim must be established and resolved on EUC claims as well. Adjudicators, as function of their job and as a point of customer service, have the authority and responsibility to file new claims in this scenario.

The UIConnect request for access has been handled by supervisor's email to the Tax Business Analyst and their backup, the Tax Manager. Prior to processing, the request is reviewed to assure it is consistent with access for the job duties and responsibilities of the position. The supervisor is contacted with any questions about the request that would require additional justification. All requests are processed within the UIConnect security tables. The field representative requests are completed with the filing of a ticket in the Clear Quest system to complete the mainframe portion.

Tax management will work with Internal Security and IT staff to include UIConnect access request documents within the Access Request Process (ARP) system. The Tax and IT staff will develop detailed documentation for each UIConnect access role. Establishing a crystal report to be reviewed by Internal Security on a monthly basis all claims filed and adjudicated by the same employee. Suspicious transactions in the report will be investigated by Internal Security and fully documented.

20. User Access

NITC Standards and Guidelines, Information Security Policy 8-101, Section 7, Access Control, states, in part:

> *A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification and deletion of user accounts. Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges (read, write, delete, etc.). The 'Principle of Least Privilege' should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities. Agencies or data owner(s) should perform annual user reviews of access and appropriate privileges.*

A good internal control plan includes utilizing logical access controls to ensure that user access to electronic databases is commensurate with employee job responsibilities. It also includes a process to ensure that terminated user access is removed timely.

During testing of user access to EnterpriseOne, we noted one of the Department's contracted employees had "super user" access that was not required. That access allowed the contractor to circumvent controls, view confidential data from other agencies, and modify user accounts and security statewide. According to the EnterpriseOne administrative team, they were ordered by the Director of the Department of Administrative Services to allow the access against their best judgment. The contractor's access began May 9, 2012. Furthermore, the user granted himself the ability to approve and post all of the Department's accounting transactions by assigning the Department's Director of Financial Services ID to his own.

We also examined BPS, TMS, and NEworks user access and noted the following:

- Five terminated users had an active BPS account as of May 24, 2013. Termination dates ranged from March 2010 to March 2013. None of the users accessed BPS after their termination dates.

- Two terminated users had an active TMS account as of April 30, 2013. The termination dates of the users were not known. They last logged into the application in 1992 and 2001.

- One user had an active NEworks ID, but she was no longer employed by the WIA contractor. The user terminated employment with the contractor in September 2011. The user did not access the application after the termination date.

- Three BPS users had access to supervisor roles, which were not necessary for their job responsibilities. The supervisor roles provided the ability to maintain or modify other users' access within BPS.

- Four TMS users had access to a Labor mainframe superior group, which was not necessary for their job responsibilities. Any datasets tied to the superior group could be inappropriately accessed.

COMMENTS AND RECOMMENDATIONS
(Continued)

20. User Access (Continued)

A similar finding was noted in the fiscal year ended June 30, 2012, Information Technology Systems Management letter.

When users are granted inappropriate access to electronic databases, significant informational resources may be modified inappropriately, disclosed without authorization, and/or be unavailable when needed. When an individual has access beyond what his or her job responsibilities require, moreover, there is an increased risk for unauthorized changes or transactions that could result in the loss of State or Federal funds. Additionally, when access to applications is not terminated timely, it creates the opportunity for inappropriate access to State resources.

> We recommend "super user" access be removed for the Department's contract employee and that the other individuals identified with unnecessary access also be removed. Furthermore, we recommend that the application owners review a list of database users on a periodic basis to verify that access levels are appropriate based on employee job responsibilities. We also recommend creating and adhering to a formalized process for removing user access to database systems. Terminated user access should be removed immediately.

Department's Response: Management agrees in part with the Auditors findings; however, of the five active users in BPS, two were terminated since the implementation of the ARP in ECM-On Base. ARP was designed and implemented to combat these oversights. However, requesting termination in the application does not terminate the user. ARP contains a workflow to document the creation and termination process and catalogs the documentation for storage and retrieval. UI Benefits Internal Security reviews the bi-weekly HR employee status change document to ensure status changes have a corresponding access change request form. ARP was created to strengthen the Department's access creation and termination process. These accounts appear to be well prior to the ARP process. Regarding the roles of Employees set up with supervisor roles, UI Benefits does not agree with this finding. UI Benefits employees are required to have temporarily enhanced levels of access to properly and efficiently complete the functions of their job. BPS contains a "bundling" feature for access control. Supervisor roles contain functional access necessary for some non-supervisors to complete their job functions, often on a temporary basis. All access changes are reviewed monthly by Internal Security for proper access control and functional requirement. Anomalies are questioned and documented. Thus, if a non-supervisor were to attempt a functional role modification of another user, Internal Security would identify that transaction and investigate the activity.

The super user status in EnterpriseOne was not requested by, nor did NDOL have access to this information. The auditor had alerted DAS prior to having a conversation with NDOL and it was resolved. Labor mainframe superior group and the person in question access was removed.

COMMENTS AND RECOMMENDATIONS
(Continued)

20. User Access (Concluded)

Department's Response, Concluded:
Corrective Action Plan: 1.) UI Benefits Internal Security will request the development and implementation of a functional security report to review all active users. Once the report is available in production, Internal Security will review the report monthly to ensure all terminated employees have had user access removed. 2.) A similar report for TMS/Mainframe system. 3.) Re-employment Services. 4.) No change to current procedures. 5.) same as #2

APA Response: Regarding the fourth point of the Department's corrective action plan, the ability to modify other users' access should be restricted to only those users who need to do so on a regular basis in the performance of their specific job functions. During the attestation, the Department documented its agreement with this finding. It is inexplicable, therefore, why the Department now disagrees with that same finding and chooses not to make the appropriate changes to its current procedures.

21. Application Security

Neb. Rev. Stat. § 86-516 (Cum. Supp. 2012) states, in relevant part:

> *The Commission [Nebraska Information Technology Commission – NITC] shall . . . (6) Adopt minimum technical standards, guidelines, and architectures upon recommendation by the technical panel.*

NITC Standards and Guidelines, Password Standard 8-301, Section 2.1, Password Construction, provides that a password for a State database:

- *Must contain at least eight (8) characters*
  - *Must not repeat any character sequentially more than two (2) times*
- *Must contain at least three (3) of the following four (4):*
  - *At least one (1) uppercase character*
  - *At least one (1) lowercase character*
  - *At least one (1) numeric character*
  - *At least one (1) symbol*
- *Must change at least every 90 days*
- *Cannot repeat any of the passwords used during the previous 365 days.*

A good internal control plan includes utilizing system parameters to enforce electronic database password rules that require users to comply with NITC standards. A good internal control plan also includes the use of strong encryption methods when storing sensitive data, including passwords to help prevent access by unauthorized users.

We tested BPS, TMS, and the NEworks password parameters and storage methods and noted the following:

- BPS setting for minimum password length was only six characters – as opposed to the eight characters required under the NITC Standards and Guidelines. We also observed that multiple generations of BPS passwords were stored in plain text and not properly encrypted.

21. Application Security (Concluded)

- Contrary to the requirements of the NITC Standards and Guidelines, TMS and NEworks password settings allow characters to repeat sequentially more than two times.

Strong password settings and storage methods reduce the risk of an unauthorized user gaining access to confidential information and key financial data.

> We recommend that password complexity requirements be implemented to ensure user compliance with NITC Standards and Guidelines. When systems are incapable of forcing users to comply with NITC requirements, we recommend requesting a waiver for the NITC's consideration. Furthermore, we recommend passwords be properly encrypted.

Department's Response: The Department partially agrees with the finding. When developed in 2006, BPS was developed so that it could share the same Lightweight Directory Application Protocol (LDAP) with the Interactive Voice Response (IVR). Changing password requirements on the web application requires a separate LDAP for BPS as well as code changes within the application. Besides providing a pin, the user also provides their social security number in order to access their record. Associated records must match. The Department recognizes the importance of application security and has taken other measures to ensure security, such as installing tools and appliances that verify the security of the application code and monitor access to the application. Passwords for Department staff who access the application are NITC compliant. Regarding TMS, the Department does not control the passwords. The LABZ is assigned by OCIO.

The Department is implementing a new front end that will provide access to both the BPS and NEworks applications. The front end will meet NITC authentication standards regarding password complexity and encryption. For users who do not come through the front end and log directly into the applications, the Department will research both the e-Directory and application sides to determine what changes need to be made to be compliant. The Department will also work with OCIO regarding TMS passwords.

22. Lack of Support for Transactions

OMB Circular A-87, Attachment A, § C(1)(j), provides, "To be allowable under Federal awards, costs must . . . [b]e adequately documented."

A good internal control plan requires procedures to ensure that accounting records are reconciled, all grant activity is properly balanced and recorded, and adequate documentation is maintained to support transactions.

During testing, we noted incomplete reconciliations, lack of supporting documentation for expenditures and journal entries, and late fees paid.

22. Lack of Support for Transactions (Continued)

- In July 2010, the Department began the process of setting up new business units in the State's accounting system to account for transactions by specific grant. The Department then began an extensive reconciliation process to record grant activity in the accounting system and the Federal drawdown system. The reconciliation was for grants beginning with Program Year (PY) 2009/Fiscal Year (FY) 2010 through current grants. The process of moving expenditures from the older business units to the new business units was completed by December 31, 2011. In March 2012, the Department began reconciling the Federal funds received for these grants and recorded in the accounting system to the expenditures also recorded in the system. After the receipt journal entries were complete, the Department adjusted the cash draws on the Federal draw system either to pay back monies or to draw additional money for each grant – so that the Federal receipts per the accounting system agreed to the Federal cash drawn per the Federal draw system.

  We selected one receipt journal entry affecting six separate grants for the WIA program. During the fiscal year ended June 30, 2012, Single Audit, four of these same grants were tested and compared between the Department's spreadsheets and the general ledger. We noted that not all accounts were included in the Department's reconciliation, as operating transfers in and out were not included for two of four grants reviewed. These operating transfers included items such as estimated allocations, borrowing of funds from the Department's cash funds, and transfers of cash between WIA funds. The transfers were not subsequently reversed; therefore, the grants were not reconciled, as it appears the grants had a balance on hand. These balances could be amounts due back to the Department's cash funds, due to other WIA funds, or due back to the Federal Government. Furthermore, the two grants also had unexplained variances. During the attestation, the Department indicated no corrections or further reconciliations had been performed to correct the finding noted in the fiscal year ended June 30, 2012, Single Audit.

- The Department leased space for the Career Center in Columbus, Nebraska. The lease ended in November 2011, and a new lease was not signed. Instead the Department began paying a portion of the building owner's actual expenses based on a percentage of the total square footage occupied through February 2012. The costs for the January 2012 payment, totaling $3,375, was broken down as follows:

[Continued on Next Page]

22. **Lack of Support for Transactions** (Continued)

Total Sq Ft for Building	24,056	
Career Center Sq Ft	4,076	
% of Sq Ft for Career Center	**16.94%**	
Expenses	**Total Expense**	**Department's Share (16.94%)**
Utility Expenses	$ 9,830	$ 1,665
Salaries & Benefits	5,341	905
Building & Ground Supplies	3,819	647
Property Insurance	699	118
Phone Expenses	237	40
TOTAL PAID		**$ 3,375**

The Department did not verify that the expenses paid were reasonable and supported in accordance with OMB A-87. There was no documentation for the Career Center's square footage; it was unknown if the salaries and benefits paid were for employees who worked at the location and if they performed maintenance duties; there was no supporting documentation for the property insurance; and $45 of the phone expense was for a cell phone registered in Sioux City, Iowa. The Department's previous lease, ending in November 2011, was for $2,787 each month.

- The Department performed a journal entry to move $1,161 in interest earned and rebate income for $4 from the Employment Security Administration Federal Fund to the Employment Security Special Contingent Cash Fund. The Department said cash funds were borrowed for the Federal fund, and the earnings on those funds needed to be transferred to the cash fund. However, the Department did not have documentation that the interest earnings were for the borrowed funds, and there was not support for the rebate income. Therefore, it is unknown if the journal entry was proper.

- Postage expenses totaling $8,637, for the period April through June 2012, were allocated to charge costs to the proper programs. However, the postage meter report was not retained and reported to the Lincoln office to support the expenses charged to the programs. A similar finding was noted in the fiscal year ended June 30, 2012, Single Audit.

- The Department was late in paying a utility bill, causing late fees of $89 to be charged. The fees were recorded to the Rent, Utilities, and Communication allocation, which was expensed across several funds and grants.

Without adequate documentation to support all items of a transaction, including consideration of all account classes and transaction types when reconciling grants, there is an increased risk that Federal funds could be drawn in excess of cash needs. Furthermore, without adequate documentation to support transactions, there is an increased risk of error or misuse of funds.

COMMENTS AND RECOMMENDATIONS
(Continued)

22. Lack of Support for Transactions (Concluded)

> We recommend the Department implement procedures to ensure all amounts of a transaction are adequately documented and proper. We also recommend the Department implement procedures to ensure grants are in balance. This should include a reconciliation of all grant activity to ensure no excess monies remain with the grant that should be repaid to other funds or the Federal government. Additionally, we recommend the Department ensure expenses are paid timely to avoid late fees.

Department's Response: Many of the items in the attestation were repeats of the previous year's audit and the report was not issued so corrections could have been accomplished during the period of the attestation which included six months of the previous audit period so similar findings would be expected. Management has been in negotiation with USDOL on the older grants, and has been working to clean up those. The entries were part of the settlement and therefore the grants were on the whole in sync after the entries were completed. It can be proven that many of the expense entries were moved from the older grants and therefore the revenue entries were also necessary to move. Each quarter management will review all grants as they go through the 9130 process and a document which has been made available to APA on several occasions shows the summary of all grants at the agency. While there will always be timing differences, we drew on Friday in Sept for expenses posting on Monday in October, the department does work to minimize those.

APA Response: Two of the present findings are similar to report findings in the fiscal year 2012 Single Audit, as the APA performs follow-up testing of prior findings. The Department had not resolved the prior findings during the period tested; therefore, similar findings were noted for this attestation. The relevance of the last sentence in the Department's response is unclear.

23. Credit Union

Article XIII, section 3, of the Nebraska State Constitution provides, as relevant, "The credit of the state shall never be given or loaned in aid of any individual, association, or corporation . . . ."

In addressing that constitutional provision, the Nebraska Supreme Court has noted an important corollary to it – the proscription against spending public money for a private purpose:

> *Closely related to the prohibition against the giving or lending of the state's credit, although technically not part of the prohibition due to the prohibition's narrow and specific wording, is the principle of law that public funds cannot be expended for private purposes.*

Haman v. Marsh, 237 Neb. 699, 721-722, 467 N.W.2d 836, 851 (1991).

Despite the common law restriction against expending public funds for a private purpose, the Department provided the Labor Department Credit Union (LDCU), a private nonprofit corporation, with complimentary office space in its State-owned building. In addition to those rent-free accommodations, the Department also pays the monthly utility expenses for the LDCU.

23. Credit Union (Continued)

According to the Department, the gratuitous office space arrangement with the LDCU has been in continuous effect since 1939, the year of the credit union's inception. Moreover, the Department defends its long-standing practice by pointing to language found in OMB Circular A-87, Attachment B, Section 13(a), which permits State and other governmental entities to expend Federal award money on the following:

> *The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.* (Emphasis added.)

Contending that the LDCU contributes to employee morale at the agency, the Department believes the above regulatory provision to be sufficient authority for providing the free office space and other amenities at issue.

OMB Circular A-87 may address the issue of any costs incurred by the Department, which are paid with Federal funds, as a result of granting free office space and other services to the LDCU. However, the question of the Department's underlying authority to utilize State resources in such a way remains a concern.

State agencies may exercise only that specific authority vested in them by express legislative order. As the Nebraska Supreme Court has explained:

> *Administrative bodies likewise have only that authority specifically conferred upon them by statute or by construction necessary to achieve the purpose of the relevant act.*

Southeast Rural Volunteer Fire Dept. v. Nebraska Dept. of Revenue, Charitable Gaming, 251 Neb. 852, 867, 560 N.W.2d 436, 446 (1997).

The APA is unaware of any explicit statutory authority permitting the Department to offer the LDCU – or, for that matter, any other entity – free office space in a State-owned facility. However, the Department cites Neb. Rev. Stat. § 21-17,115 (2013 Neb. Laws LB 213, § 13), which guarantees a credit union incorporated in Nebraska the same rights as a Federal credit union operating in this State:

> *Notwithstanding any of the other provisions of the Credit Union Act or any other Nebraska statute, any credit union incorporated under the laws of the State of Nebraska and organized under the provisions of the act shall have all the rights, powers, privileges, benefits, and immunities which may be exercised as of January 1, 2013, by a federal credit union doing business in Nebraska on the condition that such rights, powers, privileges, benefits, and immunities shall not relieve such credit union from payment of state taxes assessed under any applicable laws of this state.* (Emphasis added.)

With § 21-17,115 in mind, the Department points to 12 USC § 1770 of the Federal Credit Union Act, which allows credit unions to be given free office space in Federal buildings:

> *Notwithstanding any other provision of law, upon application by any credit union organized under State law or by any Federal credit union organized in accordance with the terms of this chapter, which application shall be addressed to the officer or agency of the United States charged with the allotment of space on lands reserved for the use of, and under the exclusive or concurrent jurisdiction of, the United*

23. Credit Union (Concluded)

> *States or in the Federal buildings in the community or district in which such credit union does business, such officer or agency may in his or its discretion lease land or allot space to such credit union without charge for rent or services if at least 95 percent of the membership of the credit union to be served by the allotment of space or the facility built on the lease land is composed of persons who either are presently Federal employees or were Federal employees at the time of admission into the credit union, and members of their families, and if space is available.* (Emphasis added.)

Because 12 USC § 1770 authorizes a credit union to office in a Federal building located in Nebraska, the Department reasons, the comparable right for a State-chartered credit union, pursuant to § 21-17,115, would be to occupy space in a State building.

While the Department's argument is astute, § 21-17,115 says nothing about comparability. Rather, the statutes ensures State credit unions "all the rights, powers, privileges, benefits, and immunities" exercised by their Federal counterparts in this State – language which indicates sameness, not comparability.

Due to the overarching prohibition in Article XIII, section 3, against expending public funds for a private purpose, as well as the question of the Department's underlying authority to provide a private entity, like the LDCU, free office space, along with other amenities, in a State-owned building, the APA believes that this issue merits further legal review.

> We recommend that the Department seek a formal legal opinion from the Attorney General regarding the propriety of granting free office space and other amenities to the LDCU.

Department's Response: The NDOL respectfully disagrees with the legal analysis of the Auditor of Public Accounts. The Labor Department Credit Union is a non-profit organization organized in 1939 for the benefit of the employees of the Department of Labor and has occupied space within the NDOL administrative building since that date. The provision of the space complies with OMB Circular A-87 and does not violate either state law or the state constitution. The NDOL would note that despite the presence of the office within the NDOL since 1939, its presence has never been questioned before by any state Auditor of Public Accounts, including the present Auditor. For all practical purposes the issue is now moot as the Labor Department Credit Union will merge into the State Employees Credit Union on January 1, 2014. Since the scope of the membership of the State Employees Credit Union goes beyond the employees of the Department of Labor, the State Employees Credit Union will be charged rent for any space occupied in an NDOL building.

APA Response: The Department claims to disagree with the legal analysis provided. Not until the APA raised this issue, however, were any substantive changes implemented in the suspect office arrangement, which the Department boasts had been in effect since 1939. Regardless of the actual reason for it, the APA is satisfied that appropriate corrective action is finally being taken.

COMMENTS AND RECOMMENDATIONS
(Continued)

24. Untimely Fund Transfers and Invoicing

A good internal control plan requires timely processing of transactions in compliance with State law, as well as procedures to ensure that monies due to the Department are received in a suitable manner. During testing of the Department's receipt transactions, we noted three instances of untimely transactions involving transfers and invoicing.

Neb. Rev. Stat. § 48-622.01(1) (Cum. Supp. 2012) mandates that interest earned on money in the State Unemployment Insurance Trust Fund "be credited to the Nebraska Training and Support Trust Fund at the end of each calendar quarter."

The Department did not transfer interest earned on the State Unemployment Insurance Trust Fund for May 2011 through August 2012 until September 28, 2012. When the transfer was finally performed, the interest earned had accumulated to $1,742,472. The interest transferred to the Nebraska Training and Support Trust Fund is used for various activities, including support of job training programs, recruitment of workers to Nebraska, and training new employees of expanding Nebraska businesses.

When the interest earned is not transferred timely, in compliance with § 48-622.01(1), there is an increased risk that the activities paid for with that money could be limited due to insufficient funding.

We also noted that 2 of 15 receipts tested were not invoiced timely by the Department. Both receipts were for rental income for space in the Career Centers. The first was for rent from January 2011 through December 2011 for $705, and the second was for rent from April 2012 through June 2012 for $520. The invoices were not prepared until January 31, 2012, and October 24, 2012, respectively.

When invoices are not prepared timely, there is an increased risk of loss of funds, as the Department may be unable later to collect amounts previously due.

> We recommend the Department implement procedures to ensure funds are transferred timely in accordance with State statute. We also recommend the Department implement procedures to ensure invoices are prepared in a timely manner.

Department's Response: Management was not moving the SUIT funds during this particular time as there was a concern the error mentioned earlier in the audit report would have an interest impact, and the interest would have left the SUIT fund and potentially would have to be paid back from the NTST trust. Management understands and concurs with the untimely receipts. Management is now tracking the schedule for the transfers and will continue to do so. Management will ask for the procedure manual on receipts to stress the importance of receipting timely.

COMMENTS AND RECOMMENDATIONS
(Continued)

24. Untimely Fund Transfers and Invoicing (Concluded)

APA Response: The APA's own audit work during the fiscal year 2012 State CAFR was responsible for revealing the untimely transfer of SUIT funds. Not until after the APA had already uncovered that improper funds transfer did the Department attempt to offer an explanation for it. The Department then claimed that the transfer error had been due to staff turnover. This is the first time since the APA initially discovered the transfer error that the Department has offered an alternative explanation for it. Contrary to what the Department now contends in this response, the error would have had no effect on the timing of the transfer. The APA is unconvinced, therefore, by this most recent – not to mention unexpected – excuse. Instead, the APA remains inclined to accept the earlier explanation that the late transfer was due to an oversight on the part of the Department.

25. No Reporting of FFATA

2 CFR § 170.320 provides, in relevant part, "Federal financial assistance subject to the [Federal Funding Accountability and] Transparency Act means assistance that non-Federal entities described in § 170.105 receive or administer in the form of – (a) Grants . . . ."

2 CFR § 170 Appendix A § I(a)(1) states:

> *Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111–5) for a subaward to an entity (see definitions in paragraph e. of this award term).*

2 CFR § 170 Appendix A § I(a)(2) says:

> *i. You must report each obligating action described in paragraph a.1. of this award term to http://www.fsrs.gov. ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)*

Per OMB Circular A-133, an agency has the responsibility to ensure compliance with Federal requirements through the use of sound internal controls. Thus, a good internal control plan requires policies and procedures to ensure all obligations meeting the requirements of 2 CFR § 170 are reported.

The Department did not complete reports, as required by the Federal Funding Accountability and Transparency Act (FFATA), for the WIA Cluster of programs during the calendar year. The Department entered into subaward agreements for the WIA Cluster of programs with three local areas. Subawards were made through Notices of Obligational Authority (NOAs) for each Federal Program year grant.

The following table summarizes the local areas, the amounts received through the initial subawards and amendments, and the dates the various subawards should have been reported:

25. **No Reporting of FFATA** (Concluded)

Local Area	Program Year 2011 Subgrant Amendment Reporting Due 3/31/2012	Program Year 2012 Initial Subgrant Reporting Due 5/31/2012	Program Year 2012 Subgrant Amendment Reporting Due 11/30/2012
Greater Omaha	$ 1,376,044	$ 1,272,009	$ 1,307,778
Greater Lincoln	472,005	447,957	459,581
Greater Nebraska	1,207,915	737,129	1,202,129
Total	**$ 3,055,964**	**$ 2,457,095**	**$ 2,969,488**

A similar finding was noted in the fiscal year ended June 30, 2012, Single Audit.

Without procedures to ensure Federal reporting requirements are met, there is an increased risk of non-compliance with Federal regulations – which could result in sanctions, including the loss of Federal funding.

> We recommend the Department complete the required FFATA reporting for subawards and amendments made during the calendar year. We recommend also that the Department implement procedures to ensure all required reporting is completed properly and timely in accordance with Federal regulations.

Department's Response: This is another finding which would have spanned the same timeline as in the OMB A-133 audit. However, the first FFATA report was filed following the release of the auditor's report dated March 28, 2013. Management contacted Missouri after establishing their process was a good example. NDOL has filed the PY 13 Youth which was awarded on May 20 by the due date of June 30, 2013. The PY 13 WIA Adult and DLW which were awarded on July 15, 2013, were submitted on August 30, 2013.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

NEBRASKA DEPARTMENT OF LABOR

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Labor
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Department of Labor (Department) for the calendar year ended December 31, 2012. The Department's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Schedule of Revenues, Expenditures, and Changes in Fund Balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Labor for the calendar year ended December 31, 2012, based on the accounting system and procedures prescribed by the State of Nebraska Department of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards,* we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters.

We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, others within the Department, and the appropriate Federal and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

November 20, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF LABOR

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2012

	General Fund 10000	Farm Labor Contractors Fund 22310	Employment Security Special Contingent Fund 22320	Mechanical Safety Inspection Fund 22340
REVENUES:				
Appropriations	$ 498,838	$ -	$ -	$ -
Intergovernmental	4,084	-	-	-
Sales & Charges	25,890	6,750	-	639,788
Miscellaneous	-	434	10,327	2,333
Unemployment Insurance Contributions	-	-	-	-
TOTAL REVENUES	528,812	7,184	10,327	642,121
EXPENDITURES:				
Personal Services	430,149	7,214	-	285,717
Operating	56,915	637	1,111	343,648
Travel	5,056	27	-	26,584
Capital Outlay	6,718	-	10,259	375
Government Aid	-	-	-	-
Unemployment Insurance Benefits	-	-	-	-
TOTAL EXPENDITURES	498,838	7,878	11,370	656,324
Excess (Deficiency) of Revenues Over (Under) Expenditures	29,974	(694)	(1,043)	(14,203)
OTHER FINANCING SOURCES (USES):				
Sales of Assets	43	-	390	-
Adjustment to Fund Balance	1	-	-	-
Deposit to General Fund	(30,018)	-	-	-
Deposit to/from Common Fund	-	-	-	-
Operating Transfers In	-	19,651	1,234,948	101,014
Operating Transfers Out	-	(19,651)	(355,244)	(95,145)
TOTAL OTHER FINANCING SOURCES (USES)	(29,974)	-	880,094	5,869
Net Change in Fund Balances	-	(694)	879,051	(8,334)
FUND BALANCES, JANUARY 1, 2012	310	17,603	28,703	84,373
FUND BALANCES, DECEMBER 31, 2012	$ 310	$ 16,909	$ 907,754	$ 76,039
FUND BALANCES CONSIST OF:				
General Cash	$ -	$ 16,909	$ 906,972	$ 68,049
NSF Items	-	-	782	-
Deposits with Vendors	310	-	-	-
Accounts Receivable Invoiced	-	-	-	7,990
Due From Other Government	-	-	-	-
Due to Vendors	-	-	-	-
Deposits	-	-	-	-
Due to Fund	-	-	-	-
TOTAL FUND BALANCES	$ 310	$ 16,909	$ 907,754	$ 76,039

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF LABOR

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2012

	Workplace Safety Consultation Fund 22350	Contractor Registration Fund 22360	Boiler Inspection Fund 22370	Employment Services Admin Fund 42300
REVENUES:				
Appropriations	$ -	$ -	$ -	$ -
Intergovernmental	-	-	-	10,142,784
Sales & Charges	109,900	514,966	436,165	8
Miscellaneous	-	13,359	13,565	13,937
Unemployment Insurance Contributions	-	-	-	-
TOTAL REVENUES	109,900	528,325	449,730	10,156,729
EXPENDITURES:				
Personal Services	-	207,508	235,335	5,081,831
Operating	-	54,341	37,332	2,537,555
Travel	-	12,635	26,210	85,846
Capital Outlay	-	4,116	2,163	54,366
Government Aid	-	-	-	2,304,535
Unemployment Insurance Benefits	-	-	-	-
TOTAL EXPENDITURES	-	278,600	301,040	10,064,133
Excess (Deficiency) of Revenues Over (Under) Expenditures	109,900	249,725	148,690	92,596
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	-	79	3,999
Adjustment to Fund Balance	-	-	19	(370,671)
Deposit to General Fund	-	-	-	-
Deposit to/from Common Fund	-	-	-	-
Operating Transfers In	-	48,930	85,856	1,994,191
Operating Transfers Out	-	(45,120)	(81,993)	(1,268,046)
TOTAL OTHER FINANCING SOURCES (USES)	-	3,810	3,961	359,473
Net Change in Fund Balances	109,900	253,535	152,651	452,069
FUND BALANCES, JANUARY 1, 2012	(195)	458,953	497,281	131,158
FUND BALANCES, DECEMBER 31, 2012	$ 109,705	$ 712,488	$ 649,932	$ 583,227
FUND BALANCES CONSIST OF:				
General Cash	$ 109,900	$ 712,488	$ 647,136	$ 581,787
NSF Items	-	-	-	-
Deposits with Vendors	-	-	-	-
Accounts Receivable Invoiced	-	-	2,796	1,182
Due From Other Government	-	-	-	20
Due to Vendors	-	-	-	377
Deposits		-	-	-
Due to Fund	(195)	-	-	(139)
TOTAL FUND BALANCES	$ 109,705	$ 712,488	$ 649,932	$ 583,227

The accompanying notes are an integral part of the schedule.

Employment Security Administration Fund 42310	Mid Nebraska Community Foundation Fund 42315	Occupational Safety & Health Administration Fund 42320	Welfare to Work Fund 42330	Workforce Investment Act Greater Omaha Fund 42340	Nebraska Job Training Fund 42350	Job Training Fund 42360
$ -	$ -	$ -	$ -	$ -	$ -	$ -
1,322,600	-	497,346	835,367	2,543,319	5,226,884	503,118
24,516	-	-	-	-	-	-
44,278	1	329	-	5,131	4,432	4,261
-	-	-	-	-	-	-
1,391,394	1	497,675	835,367	2,548,450	5,231,316	507,379
725,890	-	420,083	670,312	153,126	654,626	382,242
(152,166)	-	75,787	175,235	74,557	206,883	985,143
7,204	-	23,949	23,007	7,604	65,193	15,559
74,661	-	12,150	1,879	-	537	8,828
6,365	-	-	-	1,181,564	4,442,687	164,971
-	-	-	-	-	-	-
661,954	-	531,969	870,433	1,416,851	5,369,926	1,556,743
729,440	1	(34,294)	(35,066)	1,131,599	(138,610)	(1,049,364)
3,742	-	384	-	-	-	-
89,098	-	9	-	235,740	516,962	(752,573)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
9,464,343	-	270,674	454,099	67,130	359,369	1,404,619
(10,193,928)	-	(233,152)	(385,013)	(1,168,311)	(662,944)	(157,266)
(636,745)	-	37,915	69,086	(865,441)	213,387	494,780
92,695	1	3,621	34,020	266,158	74,777	(554,584)
1,089,619	38	9,274	883	28,155	82,354	570,066
$ 1,182,314	$ 39	$ 12,895	$ 34,903	$ 294,313	$ 157,131	$ 15,482
$ 1,152,957	$ 39	$ 12,679	$ 34,960	$ 292,240	$ 149,827	$ 13,933
-	-	-	-	-	-	-
1,135	-	216	-	-	2,370	205
31,028	-	-	(134)	69	4,111	1,111
44	-	-	-	-	-	-
(1,010)	-	-	77	-	240	-
(1,832)	-	-	-	-	-	-
(8)	-	-	-	2,004	583	233
$ 1,182,314	$ 39	$ 12,895	$ 34,903	$ 294,313	$ 157,131	$ 15,482

(Continued)

NEBRASKA DEPARTMENT OF LABOR

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2012

	American Job Link Grant Fund 42370	Reed Act Funds Fund 42380	Unemployment Insurance Administration Fund 42390	Temporary School Fund 61360
REVENUES:				
Appropriations	$ -	$ -	$ -	$ -
Intergovernmental	-	-	20,393,625	-
Sales & Charges	-	-	421	8,930
Miscellaneous	12,022	869	4,386	2,000
Unemployment Insurance Contributions	-	-	-	-
TOTAL REVENUES	12,022	869	20,398,432	10,930
EXPENDITURES:				
Personal Services	-	2,208,177	10,729,170	-
Operating	-	102,064	7,913,464	-
Travel	-	346	232,919	-
Capital Outlay	-	-	344,735	-
Government Aid	-	-	61,467	-
Unemployment Insurance Benefits	-	-	-	-
TOTAL EXPENDITURES	-	2,310,587	19,281,755	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	12,022	(2,309,718)	1,116,677	10,930
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	-	463	-
Adjustment to Fund Balance	-	1,055,192	(773,777)	-
Deposit to General Fund	-	-	-	-
Deposit to/from Common Fund	-	-	-	(10,930)
Operating Transfers In	-	1,285,185	4,720,438	-
Operating Transfers Out	-	(32,078)	(4,811,846)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	2,308,299	(864,722)	(10,930)
Net Change in Fund Balances	12,022	(1,419)	251,955	-
FUND BALANCES, JANUARY 1, 2012	487,516	1,454	(12,271)	-
FUND BALANCES, DECEMBER 31, 2012	$ 499,538	$ 35	$ 239,684	$ -
FUND BALANCES CONSIST OF:				
General Cash	$ 499,538	$ 35	$ 215,240	$ -
NSF Items	-	-	-	-
Deposits with Vendors	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-
Due From Other Government	-	-	30	-
Due to Vendors	-	-	24,414	-
Deposits	-	-	-	-
Due to Fund	-	-	-	-
TOTAL FUND BALANCES	$ 499,538	$ 35	$ 239,684	$ -

The accompanying notes are an integral part of the schedule.

State Unemployment Insurance Fund 62310	Nebraska Training and Support Fund 62320	Income Tax Setoff Fund 72310	Unemployment Insurance Benefits Admin Fund 72320	Unemployment Compensation Fund	**Totals (Memorandum Only)**
$ -	$ -	$ -	$ -	$ -	$ 498,838
-	-	-	-	99,045,982	140,515,109
-	-	-	-	-	1,767,334
1,222,417	82,026	-	-	9,065,960	10,502,067
-	-	-	-	175,011,659	175,011,659
1,222,417	82,026	-	-	283,123,601	328,295,007
-	77,356	-	-	-	$ 22,268,736
-	23,359	-	-	(12,339)	12,423,526
-	1,341	-	-	-	533,480
-	116	-	-	-	520,903
-	1,278,860	-	-	-	9,440,449
-	-	-	-	225,203,742	225,203,742
-	1,381,032	-	-	225,191,403	270,390,836
1,222,417	(1,299,006)	-	-	57,932,198	57,904,171
-	-	-	-	-	9,100
-	-	-	-	-	-
-	-	-	-	-	(30,018)
-	-	-	-	-	(10,930)
554,328	1,765,521	-	-	-	23,830,296
(1,742,472)	(72,488)	-	-	(2,505,599)	(23,830,296)
(1,188,144)	1,693,033	-	-	(2,505,599)	(31,848)
34,273	394,027	-	-	55,426,599	57,872,323
49,503,315	3,683,338	467	3,304	280,301,409	336,967,107
$ 49,537,588	$ 4,077,365	$ 467	$ 3,304	$ 335,728,008	$ 394,839,430
$ 49,537,588	$ 4,077,365	$ 58,124	$ 7,425	$ 335,728,008	$ 394,823,199
-	-	-	-	-	782
-	-	-	-	-	4,236
-	-	-	-	-	48,153
-	-	-	-	-	94
-	-	-	-	-	24,098
-	-	(19,977)	(2,804)	-	(24,613)
-	-	(37,680)	(1,317)	-	(36,519)
$ 49,537,588	$ 4,077,365	$ 467	$ 3,304	$ 335,728,008	$ 394,839,430

(Concluded)

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2012

1. Criteria

The accounting policies of the Nebraska Department of Labor (Department) are on the basis of accounting, as prescribed by the State of Nebraska Department of Administrative Services.

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) include:

> *The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes[.]*

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne, with the exception of the Unemployment Compensation Fund. As transactions occur, the agencies record the accounts receivable and accounts payable in the general ledger. As such, certain revenues are recorded when earned, and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payable recorded in the general ledger, as of December 31, 2012, include only those payables posted in the general ledger before December 31, 2012, and not yet paid as of that date. The amount recorded as expenditures, as of December 31, 2012, **does not** include amounts for goods and services received before December 31, 2012, which had not been posted to the general ledger as of December 31, 2012.

Other liabilities are recorded in accounts entitled Deposits and Due to Fund for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The Unemployment Compensation Fund is maintained by the Department in accordance with Neb. Rev. Stat. § 48-618 (Reissue 2010), and is on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when received and expenditures when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental and expendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Continued)

According to § 48-618, the Commissioner of Labor shall designate a treasurer and custodian of the fund, who shall be selected in accordance with Neb. Rev. Stat. § 48-609 (Reissue 2010), and who shall administer such in accordance with the directions of the Commissioner and shall issue his or her own warrants upon it in accordance with such rules and regulations as the Commission shall prescribe.

The Department had accounts receivable, for unemployment insurance, not included in the schedule of $45,157,341 at June 30, 2012, as reported in the Comprehensive Annual Financial Report for the State.

The fund types established by the State that are used by the Department are:

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

40000 – Federal Funds – account for the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

Unemployment Compensation Fund – is an enterprise fund used to account for unemployment insurance contributions, payments of benefits and earnings. The fund was established to be separate from all public money or funds of the State for the exclusive purposes of the Employment Security Law.

The major revenue account classifications established by State Accounting and used by the Department are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Continued)

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income, interest, and penalties.

The major revenue account code established by the Department and used for the Unemployment Compensation Fund is:

Unemployment Insurance Contributions – The share of combined tax that is paid by employers quarterly and credited to the State's account in the Unemployment Compensation Fund. Contributions together with State Unemployment Insurance Tax make up the combined tax.

The major expenditure account classifications established by State Accounting and used by the Department are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Department.

Operating – Expenditures directly related to a program's primary service activities.

Travel – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay – Expenditures that result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

The major expenditure account classification established by the Department and used for the Unemployment Compensation Fund is:

Unemployment Insurance Benefits – Payments to individuals for unemployment claims.

Other significant accounting classifications and procedures established by State Accounting and used by the Department include:

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and due from other government. Accounts receivable are recorded as an increase to revenues resulting in an increase to the fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to the fund balance. Other liabilities recorded in the general ledger for the Department's funds at December 31, 2012, included Deposits and Due to Fund. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

Other Financing Sources – Operating transfers, proceeds of capital asset dispositions, deposits to and from general and common funds, and adjustments to the fund balance.

2. Reporting Entity

The Nebraska Department of Labor is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department included in the general ledger and the separately maintained Unemployment Compensation Fund.

The Nebraska Department of Labor is part of the primary government for the State of Nebraska.

3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

The Unemployment Compensation Fund is under the control of the Department's treasury division in accordance with Neb. Rev. Stat. § 48-617 (Reissue 2010):

NOTES TO THE SCHEDULE
(Continued)

4. <u>General Cash</u> (Concluded)

> *There is hereby established as a special fund, separate and apart from all public money or funds of this State, an Unemployment Compensation Fund, which fund shall be administered by the Commissioner of Labor exclusively for the purposes of the Employment Security Law.*

5. <u>Capital Assets</u>

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory, recording in the State accounting system all equipment that has a cost of $1,000 or more at the date of acquisition.

For the CAFR, the State requires the Department to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of $5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Substantially, all initial building costs, land, and land improvements are capitalized. Building improvements and renovations are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Buildings and Equipment are depreciated in the CAFR using the straight-line method. The following estimated useful lives are used to compute deprecation:

Buildings	40 Years
Equipment	3-10 Years

[Continued on Next Page]

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

Capital asset activity of the Department recorded in the State accounting system for the calendar year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated:				
Land	$ 374,000	$ -	$ -	$ 374,000
Total capital assets not depreciated	$ 374,000	$ -	$ -	374,000
Capital assets depreciated:				
Buildings	$ 5,845,873	$ 10,259	$ -	5,856,132
Equipment	3,094,580	509,352	521,886	3,082,046
Total capital assets depreciated	$ 8,940,453	$ 519,611	$ 521,886	8,938,178
Less accumulated depreciation for:				
Buildings				2,202,692
Equipment				2,318,661
Total				4,521,353
Total capital assets, net of depreciation				$ 4,790,825

6. Transfers

Several operating transfers in and out were in accordance with State laws as follows:

- Interest income earned in the State Unemployment Insurance Trust Fund was transferred to the Nebraska Training and Support Trust Fund in accordance with Neb. Rev. Stat. § 48-622.01 (Reissue 2010). The transfer for $1,742,472 was performed on September 28, 2012.

- Penalties and interest collected in the Unemployment Compensation Fund totaling $705,148 was transferred to the Employment Security Special Contingent Cash Fund in accordance with Neb. Rev. Stat. §§ 48-621 and 48-656 (Reissue 2010).

- The Department collected State unemployment insurance taxes totaling $554,328 during the year from employers and deposited the monies in the Unemployment Compensation Fund. The monies were then transferred to the State Unemployment Insurance Trust Fund in accordance with Neb. Rev. Stat. § 48-622.01.

The Department also performed other transfers between funds to: consolidate the Workforce Investment Act funds (42340, 42350, and 42360); change funding sources for grants; record estimated allocations; and record final allocations.

NOTES TO THE SCHEDULE
(Continued)

7. Adjustments to Fund Balance

Adjustments to fund balance on the schedule were recorded for accounting adjustments necessary to properly reflect revenues and expenditures. The Department recorded journal entries for various reasons such as, to correct activity or to balance Federal grants. At times the journal entries were for activity recorded in previous periods causing revenues or expenditures to be negative on the schedule, therefore, adjustments were necessary. The four largest adjustments were as follows:

Fund	Amount to Reduce Fund Balance	Fund	Amount to Increase Fund Balance	Description of Adjustment
42300	$ (280,430)	42390	$ 280,430	The Department improperly performed a journal entry to move government aid from fund 42390 to fund 42300 for $280,430. There was no activity in fund 42390 to move; therefore, an adjustment was made to the fund balances to properly reflect the activity in the schedule.
42340	$ (516,833)	42350	$ 516,833	The Department performed two journal entries to reverse transfers performed during a prior period for funds 42340 and 42350. An adjustment was made to the fund balances since the transfers were originally recorded in a previous reporting year.
42360	$ (752,573)	42340	$ 752,573	The Department performed a journal entry to move intergovernmental revenues from fund 42360 to fund 42340 for $752,573. The Department performed adjustments during the calendar year to consolidate the three WIA funds, 42340, 42350, and 42360. However, the original activity being consolidated was recorded in a previous period; therefore, an adjustment was made to the fund balances.
42390	$(1,055,192)	42380	$ 1,055,192	The Department performed a journal entry to move expenditures from fund 42380 to fund 42390 for $1,055,192. The original activity was recorded prior to calendar year 2012; therefore, an adjustment was made to the fund balances. The breakdown by expenditure type was as follows: Personal Services, $10,068; Operating, $825,136; Travel, $1; and Capital Outlay, $219,987.

NEBRASKA DEPARTMENT OF LABOR

FIELD REPRESENTATIVE TRAVEL

Exhibit A

Date	Location of Employer (City)	Title of the Individual(s) APA Called See Note 2	Employer's Response	Phone Call Details
Field Representative 2:				
11/19/2012	Columbus	Both Owners and the CPA	***No***	Both owners said they had never met with or spoken to the field representative. The CPA for the employer said he and his staff had not met with the field representative.
11/19/2012	Columbus	Bookkeeper	***Unsure***	The bookkeeper for the employer said he had not met with the field representative but the field representative may have stopped by when he was out of the office.
11/19/2012	Columbus	Owner and the Bookkeeper	***No***	The owner and the bookkeeper both said they did not remember meeting with the field representative and that the employer closed the business at the end of October 2012.
11/19/2012	Columbus	Office Manager	***No***	The office manager said she had never met with nor spoken to the field representative.
11/20/2012	Norfolk	Owner	***No***	The owner said he had never met with the field representative.
11/20/2012	Norfolk	Owner and the Accountant	***No***	The owner and the accountant both said that they had not met with the field representative in years. They said they had only spoken on the phone with the field representative in recent years.
11/20/2012	Norfolk	Owner	***Unsure***	The owner said he did not remember meeting with the field representative. On the field representatives travel log a payment was documented for $5,000. When the APA asked how the payment was remitted the owner could not remember and said it could be possible the field representative picked it up.
11/20/2012	Madison	Owner and the Bookkeeper	***No***	The owner said he did not meet with or speak with the field representative via the phone. The bookkeeper said she had only spoken with the field representative via the phone and that she had never met with him in person.
11/28/2012	Columbus	Owner	***No***	The owner said he did not meet with the field representative and has only spoken with him via phone. The owner also said his wife did the bookkeeping and also did not meet with the field representative.
11/28/2012	Columbus	Owner and the Bookkeeper	***No***	Both the owner and the bookkeeper said they had only spoken with the field representative via phone and they had not met with him in person.
11/28/2012	Columbus	Office Manager	***No***	The office manager said she worked with the field representative via phone to make an adjustment to the tax form and the payment indicated on the travel log was remitted via mail.
11/28/2012	Columbus	President, Vice President, Secretary, and the CPA	***No***	The President, Vice President, and the Secretary all said they did not meet with the field representative. The CPA said she had not met with the field representative in person and had only spoken with him via phone.
11/30/2012	Norfolk	Owners	***No***	The field representative gave the APA follow up information and said he met one of the owners in the Norfolk Menards' parking lot. The owners both said they had not met with the field representative anywhere, including the Menards' parking lot.
11/30/2012	Norfolk	Owner	***No***	The field representative gave the APA follow up information and said he met with the employer's CPA at her home. The field representative provided the CPA's name also. The owner said he did not know a CPA by the name given, he provided the name of the CPA he used in Columbus, but indicated he did not use the CPA after mid year 2012. The owner also said he did not meet with the field representative.
4/2/2013	Albion	Owner	***No***	The owner said he had never heard of, met with, or spoken with the field representative.

NEBRASKA DEPARTMENT OF LABOR

FIELD REPRESENTATIVE TRAVEL

Exhibit A

Date	Location of Employer (City)	Title of the Individual(s) APA Called See Note 2	Employer's Response	Phone Call Details
Field Representative 2 ***(Concluded):***				
4/2/2013	Cedar Rapids	Owner	***No***	The owner said he had never met with the field representative in person but had spoken with him via phone. The owner said he did not have a bookkeeper or a CPA.
4/3/2013	Pierce	Owner - Note 3	***No***	The owner said he had never met with the field representative and had only spoken with him via phone.
4/4/2013	Howells	Owner, Accountant, and the CPA	***No***	The owner, accountant, and the CPA all said they had never met with the field representative and they had only spoken with him via phone.
4/4/2013	Madison	Owner/Bookkeeper	***No***	The owner/bookkeeper said she had never met with the field representative in person and she had only spoken with him via phone.
4/8/2013	Norfolk	Office Manager and the Owners	***No***	The owners and office manager said they had never met with the field representative. One of the owners had spoken with him via phone.
4/15/2013	Pierce	Owner - Note 3	***No***	The owner said he had never met with the field representative and had only spoken to him via phone. The owner stated that the payment noted on the travel log was remitted via mail.
4/15/2013	Plainview	Owner, President, and Secretary	***No***	The owner, president, and secretary said they had never met with or spoken with the field representative. The owner said he was retired and sold the business a year or two ago.
4/18/2013	Norfolk	Owner and the Accountant	***No***	The owner and the accountant both said they had not met with the field representative. The accountant said she had only spoken with him via phone.
4/19/2013	Norfolk	Owner	***No***	The owner said he had not met with the field representative since last year (2012). He also indicated he was the only contact for the business, as he did not have a bookkeeper or a CPA.
4/19/2013	Norfolk	Owner	***No***	The owner said she did not meet with the field representative in April 2013, but she did speak with him via phone.
4/23/2013	Atkinson	Owners and the CPA	***No***	The owners both said they had never met with the field representative. The CPA said he had spoken with the field representative several times on the phone, but had never met with him in person.
4/25/2013	Norfolk	Wife of the owner/bookkeeper	***No***	The owner's wife, who performs the bookkeeping duties, said she had only spoken with the field representative on the phone and had not met with him in person. She stated the payment noted on the travel log was remitted via mail.
4/25/2013	Norfolk	Wife of the owner and the CPA	***No***	The CPA said he had only spoken with the field representative via phone and had never met with the field representative in person. The CPA said he faxed in the quarterly tax form that the field representative requested. The owner's wife said she mailed in a check but she did not meet with the field representative.
4/29/2013	Norfolk	Trustee	***No***	The trustee said she hand delivered checks for the tax payment to the field representative's office, he did not come to her place of business.
4/29/2013	Bartlett	Payroll Specialist and the Bookkeeper	***No***	The payroll specialist and bookkeeper both said they had never met with the field representative. The bookkeeper said she had only spoken with him via phone.
4/30/2013	Newman Grove	Wife of the owner and the CPA	***No***	The wife of the owner said she had never met with the field representative. The CPA said he spoke with the field representative via phone, but the field representative did not come to his office.

NEBRASKA DEPARTMENT OF LABOR

Exhibit A

FIELD REPRESENTATIVE TRAVEL

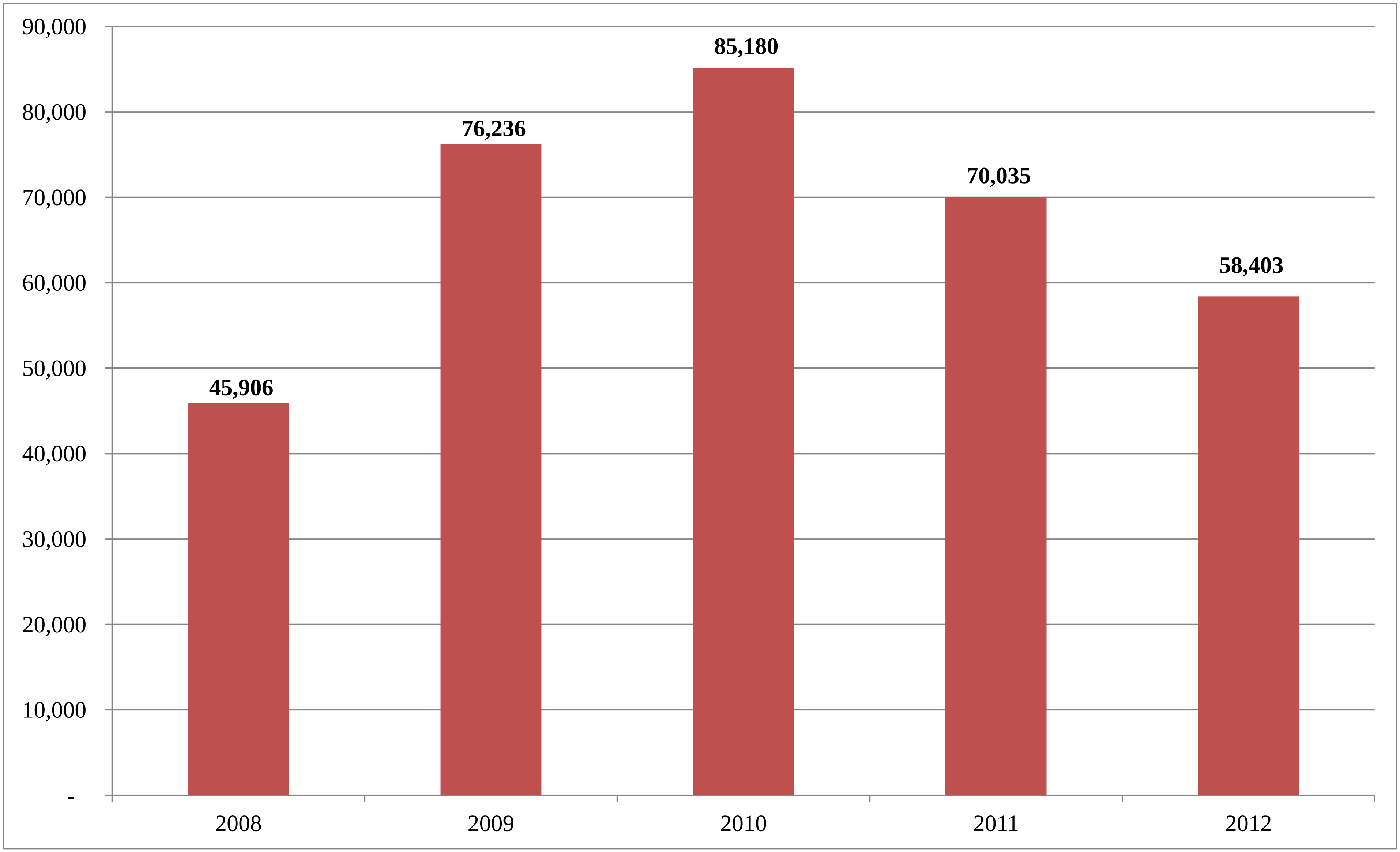
Date	Location of Employer (City)	Title of the Individual(s) APA Called See Note 2	Employer's Response	Phone Call Details
Field Representative 4:				
4/3/2013	Sutton	Owner and the CPA	***No***	The owner and CPA had not met with the field representative. The CPA indicated she had spoken with her via phone.
4/3/2013	Nelson	Owner and the Bookkeeper	***No***	The owner said he had never heard of the field representative and did not meet with her and the payment documented on the field representative's travel log was mailed in. The bookkeeper said she had only spoken with the field representative via phone.
4/3/2013	Geneva	Owner - Note 4	***No***	The owner said her and her husband had not met with the field representative and they did not have a bookkeeper.
4/8/2013	Kearney	Owner and the Accountant	***No***	The owner and the accountant both said they had not met with the field representative.
4/16/2013	Geneva	Owner - Note 4	***No***	The owner said her and her husband had not met with the field representative and they did not have a bookkeeper.
Field Representative 14:				
4/1/2013	Lincoln	Manager	***No***	The manager said he applied for an account number and the field representative emailed him and said it was too early to apply, as the business had not opened. The manager said he did not meet with the field representative.
4/3/2013	Lincoln	Owner and the CPA	***No***	The owner said he had not met with field representative in approximately six months (the APA called the owner on June 13, 2013) and mailed in the check that was recorded on the field representative's travel log. The CPA said he did not meet with the field representative.
4/3/2013	Lincoln	Owner and the Bookkeepers	***No***	The owner said he had not met with the field representative. The bookkeepers said they emailed the field representative information but they did not meet with the field representative.
4/16/2013	Lincoln	Secretary/Treasurer	***No***	The secretary/treasurer said he did not meet with the field representative. He had faxed her information, but had not met with her.

Note 1: Employers that responded they had met with the field representatives were not included in the Exhibit.
Note 2: When the APA called the employers we requested to speak with the individual(s) that would be responsible for filing unemployment insurance taxes as the field representatives would be making contact with these individuals. If possible we talked with all of the owners, accountants, and bookkeepers to ensure all reasonable attempts were made to verify travel.
Note 3: This was the same employer, documented by the field representative on two separate days.
Note 4: This was the same employer, documented by the field representative on two separate days.

SUPPLEMENTARY INFORMATION

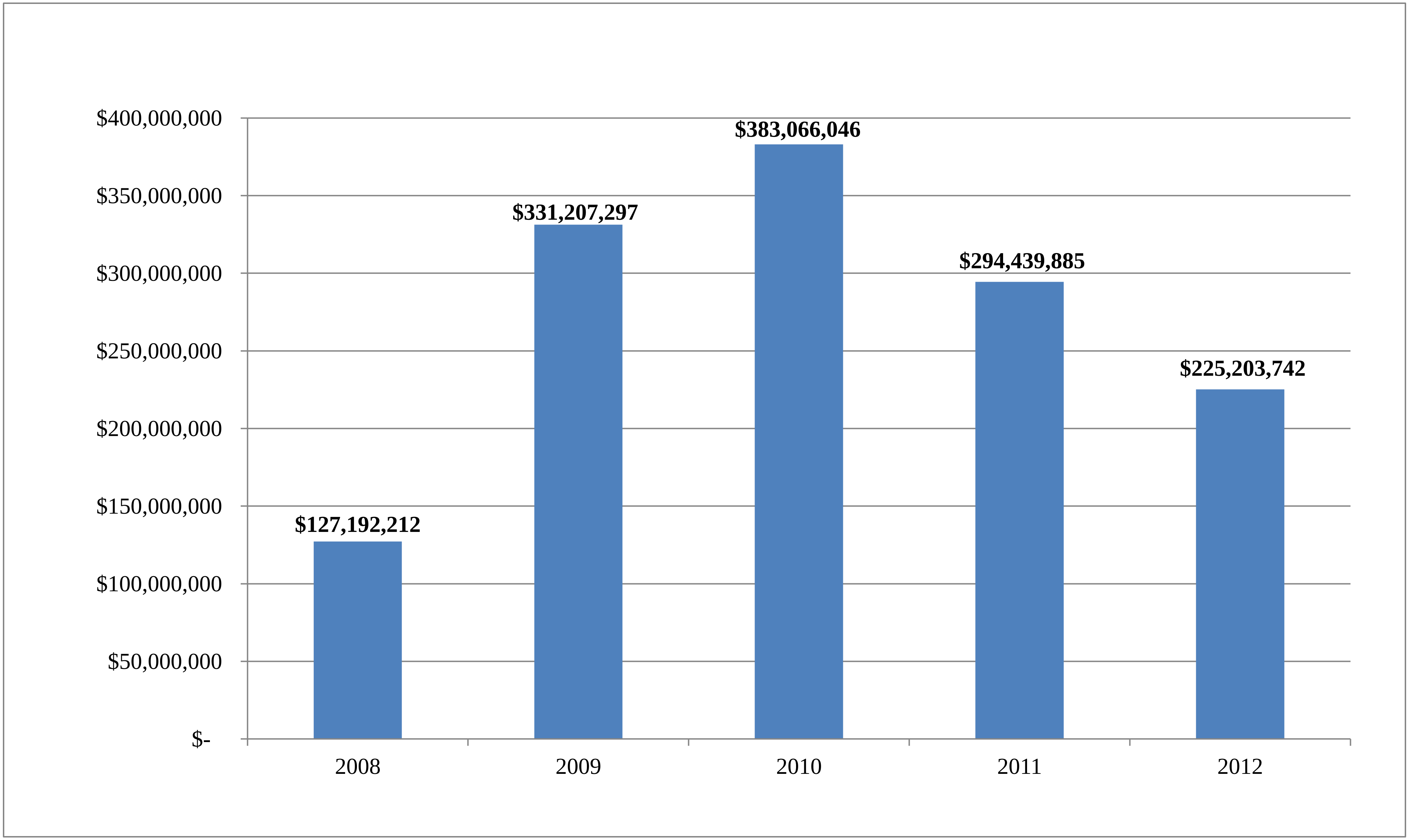
Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF LABOR
NUMBER OF UNEMPLOYMENT INSURANCE CLAIMANTS PAID
For Calendar Years 2008 through 2012



Source: Form 1099-MISC files provided by the Department

NEBRASKA DEPARTMENT OF LABOR
UNEMPLOYMENT INSURANCE CLAIM PAYMENTS
For Calendar Years 2008 through 2012

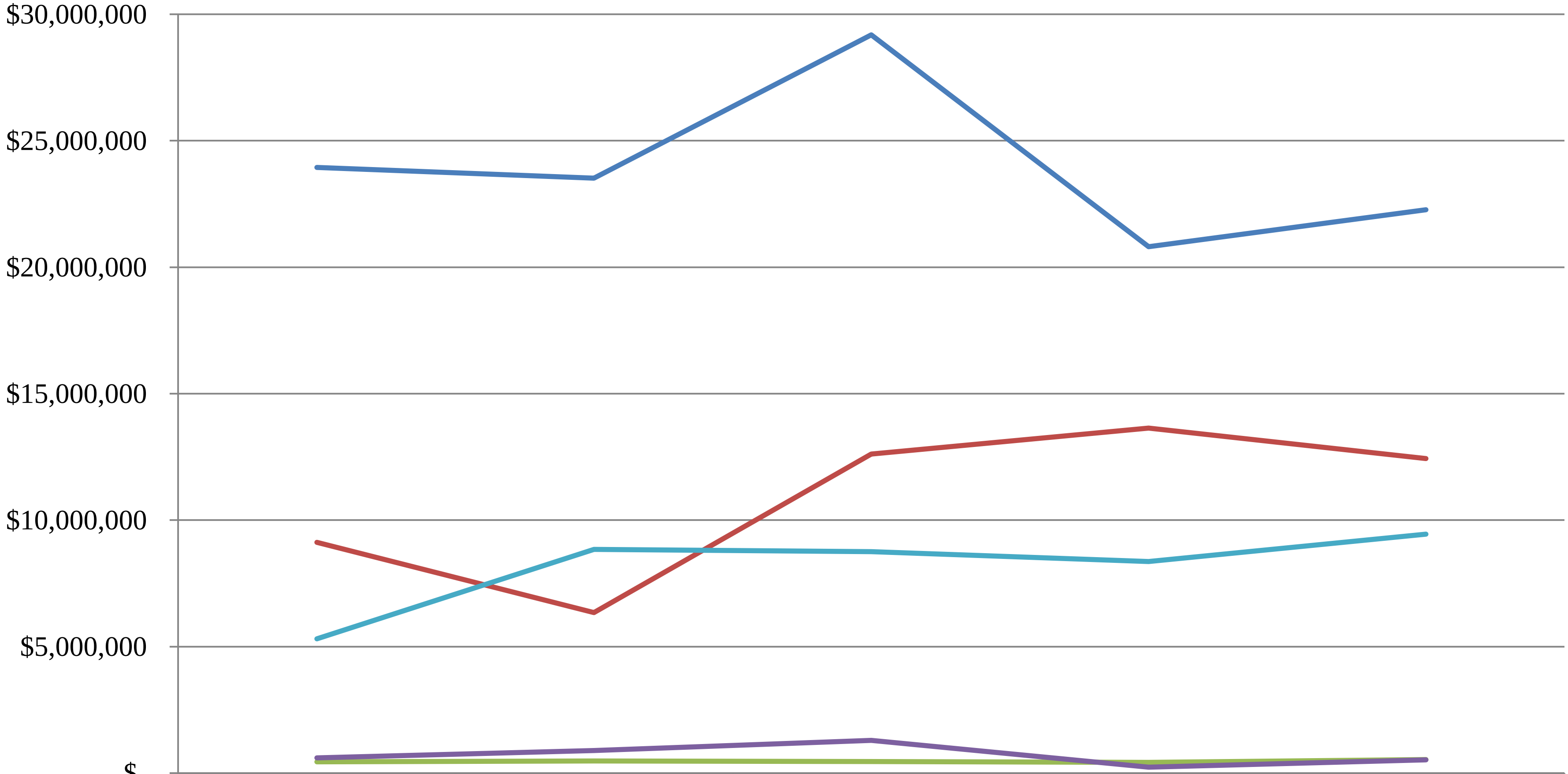


Source: Form 1099-MISC files provided by the Department

NEBRASKA DEPARTMENT OF LABOR

EXPENDITURES BY MAJOR ACCOUNT CATEGORY FROM ENTERPRISEONE

For Calendar Years 2008 through 2012



	2008	2009	2010	2011	2012
Personal Services	$23,950,450	$23,516,528	$29,191,724	$20,806,562	$22,268,736
Operating Expenses	$9,118,592	$6,345,501	$12,616,490	$13,634,916	$12,435,865
Travel Expenses	$443,957	$473,539	$456,218	$416,293	$533,480
Capital Outlay	$598,614	$887,128	$1,289,636	$228,855	$520,903
Government Aid	$5,305,831	$8,843,293	$8,756,037	$8,359,587	$9,440,449

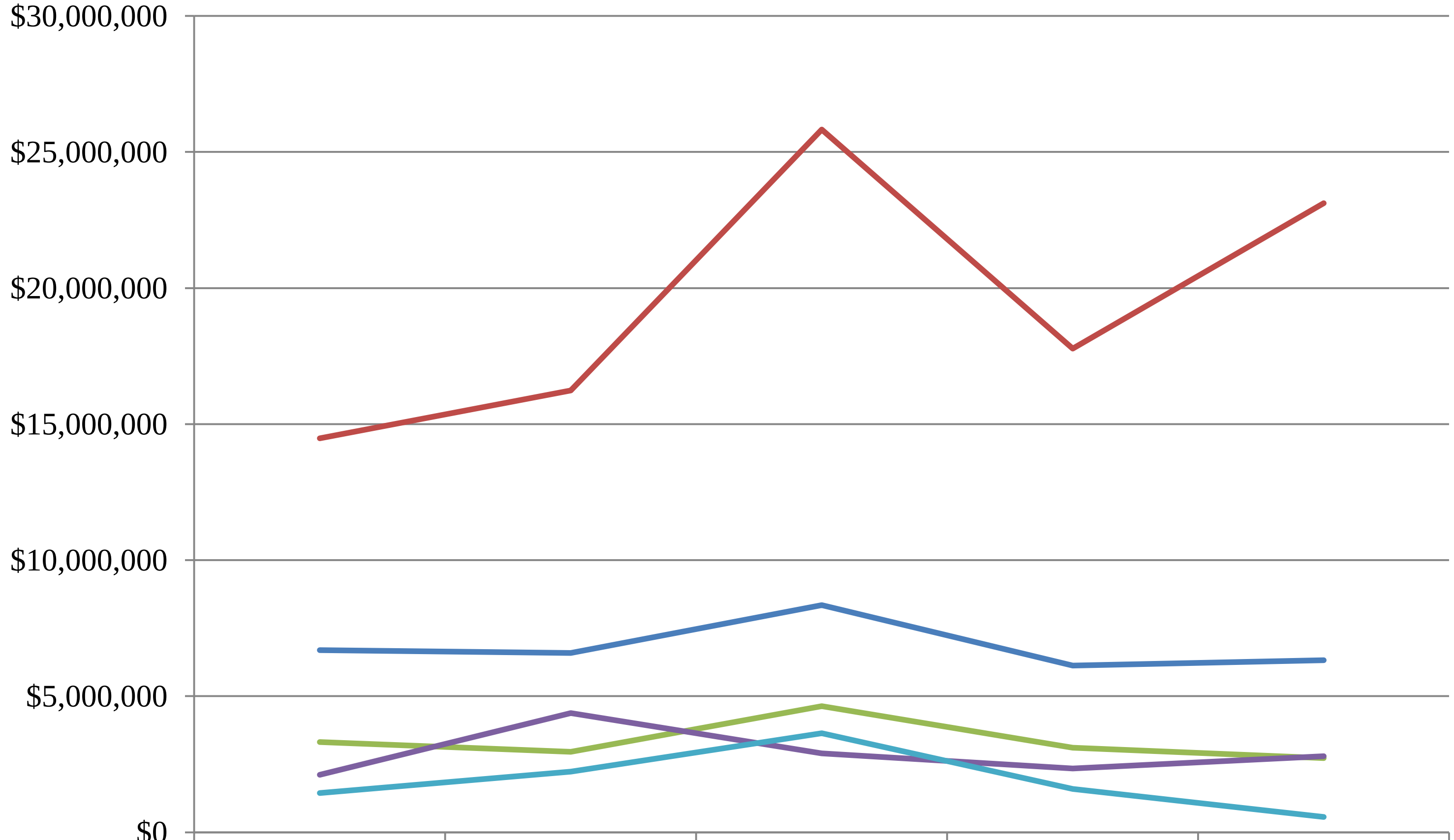
Source: State Accounting System, EnterpriseOne

Note: The chart does not include the Unemployment Compensation Fund benefit payments.

NEBRASKA DEPARTMENT OF LABOR

LARGEST FIVE FEDERAL GRANT EXPENDITURES FROM ENTERPRISEONE

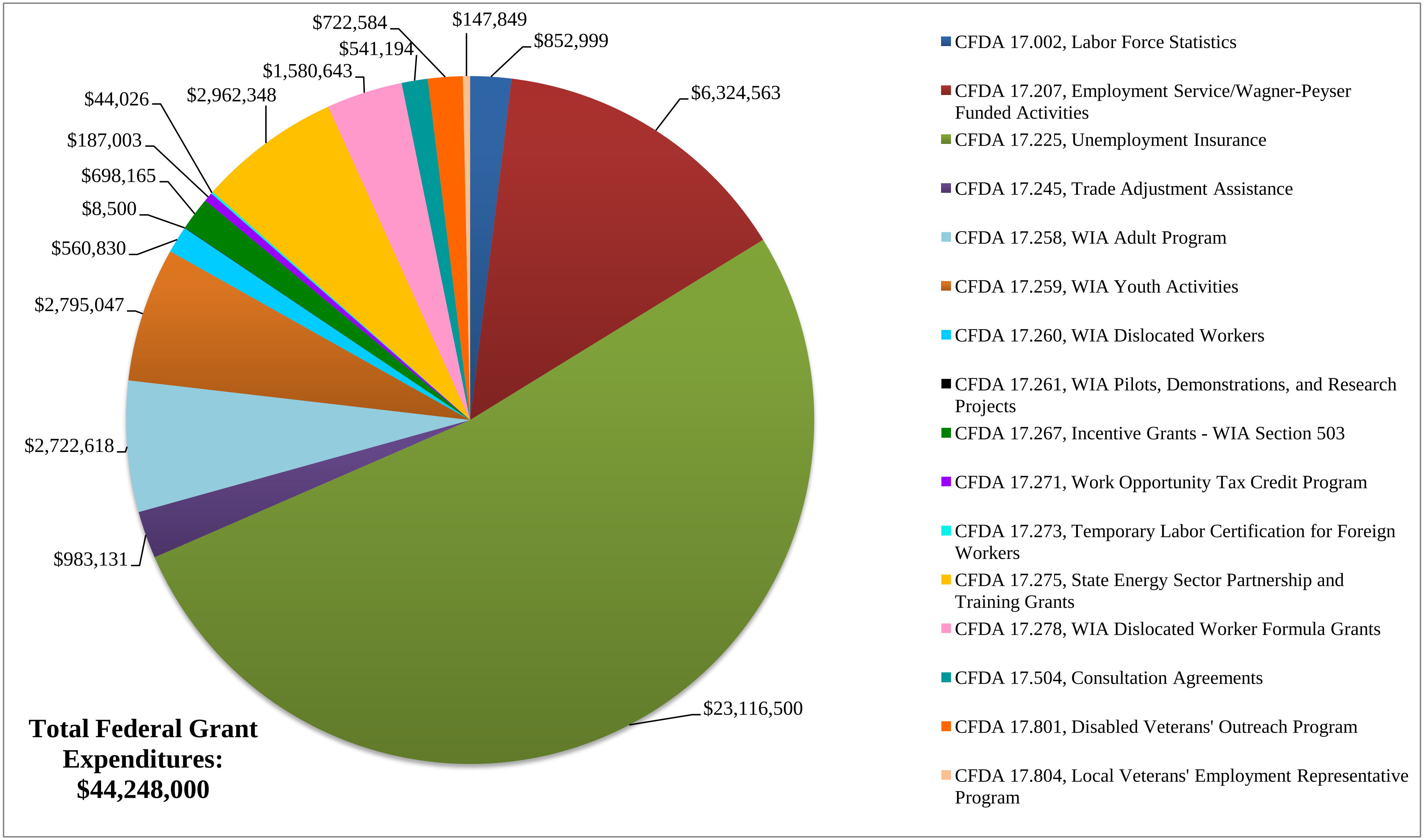
For Calendar Years 2008 through 2012



	2008	2009	2010	2011	2012
17.207 Employment Service/Wagner-Peyser Funded Activities	$6,688,754	$6,592,676	$8,349,019	$6,130,929	$6,324,563
17.225 Unemployment Insurance	$14,477,914	$16,236,949	$25,831,188	$17,769,553	$23,116,500
17.258 WIA Adult Program	$3,314,729	$2,953,123	$4,634,221	$3,109,076	$2,722,618
17.259 WIA Youth Activities	$2,106,109	$4,383,026	$2,893,114	$2,342,865	$2,795,047
17.260 WIA Dislocated Workers	$1,438,617	$2,228,301	$3,633,569	$1,594,355	$560,830

Source: State Accounting System, EnterpriseOne

NEBRASKA DEPARTMENT OF LABOR
FEDERAL GRANT EXPENDITURES BY CFDA FROM ENTERPRISEONE
For the Calendar Year Ended December 31, 2012



Source: State Accounting System, EnterpriseOne