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September 29, 2014

Gerry Oligmueller, Acting Director
Department of Administrative Services
Room 1320, State Capitol
Lincoln, NE 68509

Hari Kadavath, State Accounting Administrator
DAS – State Accounting Division
Room 1309, State Capitol
Lincoln, NE 68509

Bo Botelho, Administrator
DAS – Materiel Division
1526 K Street, Suite 130
Lincoln, NE 68509

Dear Gerry, Hari, and Bo:

This letter is provided pursuant to AICPA Auditing Standards AU-C Section 265.A17, which permits the early communication of certain audit findings due to their significance and the urgent need for corrective action. The audit work addressed herein was performed as part of the fiscal year 2014 Comprehensive Annual Financial Report (CAFR) audit. This communication is based on our audit procedures through August 27, 2014. Because we have not completed our audit of the fiscal year 2014 CAFR, additional matters may be identified and communicated in our final report.

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

We noted certain internal control or compliance matters related to the activities of the Nebraska Department of Administrative Services (DAS) or other operational matters that are presented below for your consideration. The following comment and recommendation, which has been discussed with the

appropriate members of DAS and its management, is intended to improve internal control or result in other operating efficiencies.

Draft copies of this letter were furnished to DAS to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

The essence of this letter is that the State has made two significant service-related software purchases in recent years at a cost of nearly \$2.3 million. Despite the expenditure of those funds, neither of the software products has ever been placed into operation, nor does the State have a current plan for doing so.

Comment and Recommendation

EnterpriseOne

In 2003, the State of Nebraska implemented JD Edwards’ software, referred to as the Nebraska Information System (NIS), to process the accounting functions for the State. JD Edwards was sold to People Soft, which was later purchased by Oracle. The current software program is generally known as EnterpriseOne (E1).

During May 2008, the Department of Administrative Services (DAS) purchased an e-procurement software module as a supplement to E1. This purchase was made in connection with the larger original Oracle contract. After making the purchase for a total of \$485,440.84, paid for by its own Materiel Division, DAS has never implemented or tested this software module. The payment details are as follows:

G/L Date	Paying Agency	Business Unit	BU Description	Purchase Order	Explanation Alpha Name	Amount
6/13/2008	DAS-Materiel	65050006	Purchasing Operations	00209415	ORACLE USA INC	\$ 199,508.43
6/13/2008	DAS-Materiel	65050005	Contractual Advertising	00209415	ORACLE USA INC	\$ 65,293.67
6/13/2008	DAS-Materiel	65050016	Office Supply Bureau-Operations	00209415	ORACLE USA INC	\$ 97,940.50
6/10/2009	DAS-Materiel	65050006	Purchasing Operations	00263880	ORACLE USA INC	\$ 29,733.00
6/10/2009	DAS-Materiel	65050006	Purchasing Operations	00263880	ORACLE USA INC	\$ 1,635.32
6/10/2009	DAS-Materiel	65050006	Purchasing Operations	00263880	ORACLE USA INC	\$ 1,635.32
6/10/2009	DAS-Materiel	65050006	Purchasing Operations	00263880	ORACLE USA INC	\$ 1,635.32
6/10/2009	DAS-Materiel	65050006	Purchasing Operations	00263880	ORACLE USA INC	\$ 1,635.30
8/21/2009	DAS-Materiel	65050006	Purchasing Operations	00251350	ORACLE USA INC	\$ 16,843.75
12/4/2009	DAS-Materiel	65050006	Purchasing Operations	00251350	ORACLE USA INC	\$ 16,843.75
2/23/2010	DAS-Materiel	65050006	Purchasing Operations	00251350	ORACLE USA INC	\$ 16,843.75
5/19/2010	DAS-Materiel	65050006	Purchasing Operations	00251350	ORACLE AMERICA INC	\$ 16,843.73
1/14/2011	DAS-Materiel	65050006	Purchasing Operations	00309167	ORACLE AMERICA INC	\$ 14,379.00
1/14/2011	DAS-Materiel	65050006	Purchasing Operations	00309167	ORACLE AMERICA INC	\$ 4,670.00
TOTAL						\$ 485,440.84

These dollars do not include any State employee time or costs spent or incurred in connection with this contract.

Workday, Inc.

In October 2009, DAS contracted with Cornerstone OnDemand, Inc., for a talent management software solution for the State. This system was implemented in May 2012 and is known as Workday. Workday, Inc., was a subcontractor of that contract. In March 2011, DAS contracted with Workday, Inc., to provide procurement system subscription services and professional consulting implementation services. The agreement covered a period from March 31, 2011, through March 30, 2015. The total projected

cost of the contract was \$2,311,800 – of which over \$1.6 million had been paid as of August 27, 2014. Despite making this purchase for the Workday, Inc., procurement system, DAS has yet to implement it. According to DAS, this project was at the development and testing phase when it was discontinued, and there are no current plans for reviving it.

The following expenses were paid from DAS-Materiel and the DAS-Building Division to Workday, Inc., for this contract, as of August 27, 2014:

G/L Date	Paying Agency	Business Unit	BU Description	Purchase Order	Amount
9/10/2013	DAS-Materiel	65050026	Purchasing Technology Support	490572	\$12,950.00
10/8/2013	DAS-Materiel	65050026	Purchasing Technology Support	496994	\$11,637.50
10/8/2013	DAS-Materiel	65050026	Purchasing Technology Support	497014	\$4,943.75
11/21/2013	DAS-Materiel	65050026	Purchasing Technology Support	504037	\$16,100.00
11/22/2013	DAS-Building	65040501	Capital Construction	504088	\$200,000.00
11/22/2013	DAS-Materiel	65050026	Purchasing Technology Support	504087	\$15,137.50
12/16/2013	DAS-Materiel	65050026	Purchasing Technology Support	507327	\$7,875.00
1/10/2014	DAS-Materiel	65050026	Purchasing Technology Support	511118	\$9,100.00
3/17/2014	DAS-Materiel	65050026	Purchasing Technology Support	521368	\$5,337.50
3/17/2014	DAS-Materiel	65050026	Purchasing Technology Support	521349	\$6,912.50
4/3/2014	DAS-Materiel	65050026	Purchasing Technology Support	523211	\$7,087.50
4/3/2014	DAS-Materiel	65050026	Purchasing Technology Support	523216	\$200,000.00
5/2/2014	DAS-Materiel	65050026	Purchasing Technology Support	529106	\$4,550.00
5/30/2014	DAS-Materiel	65050026	Purchasing Technology Support	533506	\$3,500.00
Fiscal Year 2014 Total					\$505,131.25
8/1/2012	DAS-Materiel	65050026	Purchasing Technology Support	431480	\$7,200.00
10/25/2012	DAS-Materiel	65050026	Purchasing Technology Support	443197	\$6,825.00
10/25/2012	DAS-Materiel	65050026	Purchasing Technology Support	443441	\$1,233.48
11/21/2012	DAS-Materiel	65050026	Purchasing Technology Support	447103	\$1,123.14
1/14/2013	DAS-Materiel	65050016	Office Supply Bureau-Operations	453899	\$187,500.00
1/14/2013	DAS-Materiel	65050016	Office Supply Bureau-Operations	453900	\$200,000.00
2/21/2013	DAS-Materiel	65050016	Office Supply Bureau-Operations	460104	\$24,412.50
3/14/2013	DAS-Materiel	65050016	Office Supply Bureau-Operations	463621	\$1,574.16
3/14/2013	DAS-Materiel	65050016	Office Supply Bureau-Operations	463911	\$1,443.22
3/29/2013	DAS-Materiel	65050016	Office Supply Bureau-Operations	466213	\$1.00
3/29/2013	DAS-Materiel	65050016	Office Supply Bureau-Operations	466213	\$22,836.50
4/24/2013	DAS-Materiel	65050026	Purchasing Technology Support	470170	\$25,987.50
5/9/2013	DAS-Materiel	65050026	Purchasing Technology Support	472936	\$1,270.96
5/13/2013	DAS-Materiel	65050026	Purchasing Technology Support	472956	\$1,206.63
5/22/2013	DAS-Materiel	65050026	Purchasing Technology Support	474476	\$25,287.50
6/19/2013	DAS-Materiel	65050026	Purchasing Technology Support	479213	\$369.02
6/24/2013	DAS-Materiel	65050026	Purchasing Technology Support	480197	\$16,800.00
Fiscal Year 2013 Total					\$525,070.61
7/7/2011	DAS-Materiel	65050026	Purchasing Technology Support	376028	\$5,425.00
7/7/2011	DAS-Materiel	65050026	Purchasing Technology Support	376028	\$957.87
10/18/2011	DAS-Materiel	65050026	Purchasing Technology Support	391791	\$14,000.00
10/18/2011	DAS-Materiel	65050026	Purchasing Technology Support	391791	\$1,659.45
11/7/2011	DAS-Materiel	65050026	Purchasing Technology Support	393671	\$2,565.09
1/6/2012	DAS-Materiel	65050026	Purchasing Technology Support	388995	\$3,106.25
1/6/2012	DAS-Materiel	65050026	Purchasing Technology Support	388995	\$21,481.25
2/1/2012	DAS-Materiel	65050026	Purchasing Technology Support	405124	\$9,362.50
2/1/2012	DAS-Materiel	65050026	Purchasing Technology Support	405136	\$11,418.75
5/1/2012	DAS-Materiel	65050026	Purchasing Technology Support	417974	\$175.00
5/17/2012	DAS-Materiel	65050026	Purchasing Technology Support	421178	\$187,500.00
Fiscal Year 2012 Total					\$257,651.16
5/18/2011	DAS-Materiel	65050026	Purchasing Technology Support	369911	\$150,000.00
5/18/2011	DAS-Materiel	65050026	Purchasing Technology Support	369911	\$150,000.00
6/13/2011	DAS-Materiel	65050026	Purchasing Technology Support	373754	\$5,337.50
Fiscal Year 2011 Total					\$305,337.50
Total					\$1,593,190.52

In addition, a small portion was paid on the contract related to project management software implemented by the DAS Building Division related to Capitol Construction. Slightly over \$35,000 was

paid for this “out of the box” software, which has been in use through the production environment since June 2013. The payments below are in addition to those noted above to Workday, Inc.:

G/L Date	Paying Agency	Business Unit	BU Description	Purchase Order	Amount
9/10/2013	DAS-Building	65040501	Capital Construction	490572	\$3,850.00
10/8/2013	DAS-Building	65040501	Capital Construction	496994	\$437.50
6/24/2013	DAS-Building	65040501	Capital Construction	480197	\$875.00
5/1/2012	DAS-Building	65040501	Capital Construction	417974	\$4,943.75
5/1/2012	DAS-Building	65040501	Capital Construction	417981	\$7,962.50
4/24/2012	DAS-Building	65040501	Capital Construction	417831	\$8,750.00
2/1/2012	DAS-Building	65040501	Capital Construction	405124	\$3,456.25
2/1/2012	DAS-Building	65040501	Capital Construction	405136	\$2,843.75
7/7/2011	DAS-Building	65040501	Capital Construction	376028	\$2,012.50
Total					\$35,131.25

The APA questions why the November 2013 payment of \$200,000 (highlighted in yellow in the first table, above) was made by the DAS-Building Division. Per DAS, the payment was for the Building Division’s share of the Workday software subscription service; however, DAS did not have supporting documentation on file to determine how the amount allocated to the Building Division was derived. Previously, these payments had been made by the DAS-Materiel Division. Allegedly, the previous DAS Director had verbally told staff to allocate the payments in this manner; however, there was no support or documentation available.

Additionally, the total dollar amounts above do not include any State employee time or costs spent or incurred in connection with this contract.

The Workday, Inc., contract also has another subscription fee of \$200,000 that is due 30 days after September 30, 2014, which will bring the total paid on the contract to **over \$1.8 million.**

Based upon the information provided, it appears that DAS has entered into a contract, as well as spent a considerable amount of time and money, without placing the purchased software into service or even having the means or a plan to do so.

According to Bo Botelho, DAS Materiel Administrator, in a May 28, 2014, email message to the APA:

The State of Nebraska team has participated in ongoing meetings with Workday and initial meetings with state agencies to define and document the State’s business processes. Based on the State’s requirements, the team worked to configure Workday Procurement to process purchasing documents. The State worked with Workday technical staff to define requirements for integrations between EnterpriseOne and Workday. In June and July 2013, the State identified key data fields for conversion from EnterpriseOne into Workday. In August 2013, the State began testing Workday Procurement using realistic data to validate Workday’s ability to support the State’s business needs. Since August, the team has documented issues with current functionality and tested updates as they become available. There are additional updates that will be available for testing in August 2014. The current E1 upgrade, scheduled for completion September 2014, has prevented integration work from proceeding. However, development work continues. There was an earlier delay of approximately six months, to allow State resources to focus on the HCM project.

The Administrator continued:

As work on the procurement project proceeds, it has been determined that the Department does not have sufficient resources, staff or appropriations, to expand the original statement of work for this project enterprise wide, address the integration costs associated with the layering of Workday procurement onto the existing E-1 system, and sustain the integration costs on an ongoing operational basis.

Any further significant or future work or timelines related to the improvement or altering of the State's current E-1 based procurement process will be determined via the upcoming 2015-2017 biennial budget process; departmental request, Governor's recommendations, and legislative appropriations.

Additionally, Gerry Oligmueller, Acting DAS Director, stated the following related to DAS's recent fiscal year 2015-2016 biennial budget submission:

The agency's biennial budget request submission includes a request for an appropriation in FY2015-16 to undertake an evaluation of the agency's current and future use of technology. It also includes a request for appropriations for an IT Management Agreement with the Office of the Chief Information Officer (OCIO) to provide dedicated ongoing expertise and oversight for the current and future use of technology by the various divisions. The agency's biennial budget request submission does not include a request for additional appropriations for further work on Workday procurement in the next biennium.

Neb. Rev. Stat. §§ 73-501 to 73-510 (Reissue 2009; Cum. Supp 2012; 2014 Neb. Laws, LB 974, § 1) set out specific requirements for the procurement of services by State agencies. According to § 73-501, the purpose of those statutes is "to establish a standardized, open, and fair process for selection of contractual services" and "to create an accurate reporting of expended funds for contractual services." That same statute explains further:

This [procurement] process shall promote a standardized method of selection for state contracts for services, assuring a fair assessment of qualifications and capabilities for project completion. There shall also be an accountable, efficient reporting method of expenditures for these services.

Furthermore, good internal control requires procedures to ensure contracts for services are sustainable, will be placed in operation, and are not duplicative.

Without making the "fair assessment of qualifications and capabilities for project completion" mandated by § 73-501 or implementing appropriate internal control procedures, there is an increased risk for loss, misuse, or waste of State funds.

In light of the above, it appears the DAS payments made for the e-procurement projects addressed herein have proven a waste of State taxpayer money. Based on the contract provisions, as of October 2014, the State will have spent \$2,278,631 (\$1,593,190 + \$485,441 + \$200,000) on the Workday, Inc., and Oracle contracts for procurement projects – neither of which were implemented or subject to specific plans for implementation. No further appropriations have been requested, moreover, for this specific procurement project. In the 2015-2017 budget request, DAS has asked for appropriations to

undertake an evaluation of the technological needs. Again, this amount is exclusive of any State employee time or dollars spent on dealing with these contracts.

We recommend DAS implement procedures to ensure proper evaluations of future technology are completed prior to the expenditure of funds for projects. Additionally, we recommend DAS ensure that all software products and services are functional, capable of actual implementation, and sustainable prior to contracting for the purchase of those items. Finally, DAS should work both to ensure compliance with State statute and to minimize the loss of State taxpayer funds arising from the attempted implementation of software services that are not workable or sustainable.

***DAS Response:** DAS agrees with the APA recommendations and agrees in part with the APA findings. DAS continuously strives to ensure statutory compliance and proper stewardship of tax dollars. DAS analyzed the current procurement project and suspended further development and testing. DAS has submitted an information technology plan with its biennial budget submission subject to the review of the Governor and Legislature. DAS has requested an appropriation to evaluate current and future technology use by the agency prior to proceeding with future projects. DAS is also entering into an interagency agreement with the Office of Chief Information Officer (OCIO) to assign an IT management position to provide direct support to the DAS Director in the management and supervision of all department information technology including implementation of internal control procedures for specific projects.*

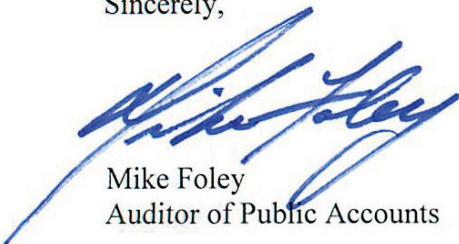
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Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other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

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

If you have any questions regarding the above information, please contact my office.

Sincerely,



Mike Foley
Auditor of Public Accounts