

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF  
ADMINISTRATIVE SERVICES**

**JANUARY 1, 2014 THROUGH DECEMBER 31, 2014**

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**Issued on September 15, 2015**

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NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

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## NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

### BACKGROUND

The Department of Administrative Services (DAS) was created by the Legislature in 1965. DAS coordinates and administers the following divisions: Departmental Administration, Accounting, Budget, State Building, Materiel, Personnel, Employee Relations, Transportation Services Bureau, Risk Management, Task Force for Building Renewal, and Office of the Chief Information Officer.

State statute established DAS to aid the Governor in the execution and administration of the civil administration of the laws of the State. The legislative intent of DAS is to do the following:

- Provide for the development and maintenance of a modern system of budgetary, inventory, and financial accounting;
- Provide for development and maintenance of such modern and economical methods and systems for record keeping, accounting, expenditure planning, and control as may be possible through timely adoption of modern technological developments;
- Provide for centralized direction of services and service agencies;
- Assure the development and operation of organizational and procedural innovations as may be expected to provide acceptable internal control of the handling and processing of public funds; and
- Focus responsibility for execution of the financial policies of this State on the chief executive and provide assistants having the necessary technical skills for the achievement of that end.

**Departmental Administration** – This division provides central administration for DAS. The director and the staff are funded through this division.

**Accounting Division** – State Accounting fills the role of providing centralized financial, payroll, and accounting services for State government and providing financial statements and reports to a wide variety of users. The division sets statewide accounting policies, administers the State's purchasing card program and the State's Master Lease program, prepares a monthly bank reconciliation of State bank accounts, and provides training to agencies. Systems, Internal Control, and Reporting units are responsible for reviewing internal controls and accounting methods of State agencies. The Comprehensive Annual Financial Report, the Annual Budgetary Report, and the Statewide Cost Allocation Plan are prepared annually. The EnterpriseOne team, functional and technical, is responsible for the Enterprise Resource Planning System (ERP), ensuring that the ERP is available for daily operations and processing of transactions. The functionality includes the areas of Accounting, Budgeting, Accounts Payable, Accounts Receivable, Capital Assets, Grants, Inventory, Capital Asset Management, Manufacturing, Sales Order, Payroll, and Procurement. Central Finance provides accounting services for the divisions of DAS, including accounts receivable, accounts payable, and budget preparation.

## NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

### BACKGROUND

(Continued)

**Budget Division** – The State Budget Division provides direction, coordination, and support for State agencies in the preparation of mid-biennium and biennial budget requests. The division also conducts analysis of Federal, State, and local fiscal policy and budget issues to assist in the preparation of the Governor's budget recommendations to the legislature. The division provides assistance to State agencies in budget administration and conducts management oversight of the implementation of the approved State budget and the Governor's fiscal policy.

**State Building Division** – The Nebraska Legislature created the DAS State Building Division (SBD) in 1974 for the following purpose: to provide centralized procurement, operation, maintenance, and management of office space and independent review, analysis, and oversight of capital construction projects to ensure the most appropriate facilities are provided for the efficient functioning of State government. Operational expenses of the SBD are paid from cash, general, and revolving funds. Other capital construction programs are administered by the SBD as necessary.

Administrative Support within the SBD includes management of the State parking program, coordination of the division's budget and accounting activities, and general support to the other facilities/subprograms of the division. The division, by statute, coordinates the State's real property inventory and provides property management.

The Property Management subprogram serves as the State's leasing agent in procuring and providing for the space needs for State agencies and implements orders of the Vacant Building and Excess Land Committee, which involves the sale and disposition of various buildings and real estate. Other subprograms include Facilities Planning, Construction and Design, Grounds, Security, and Energy Management.

**Materiel Division** – The Materiel Division was established by the 1969 Legislature and provides support services to State agencies, boards, commissions, and political subdivisions. Such services include purchasing (at the agency level and some centralized services), office supplies, mail, printing, copiers, surplus property, and recycling. The division oversees statewide commodity contracts, establishes policies, and assists agencies in bidding and contracting for outside services. The division provides the following: (1) a direct source for office supplies, paper, etc., through a single-vendor contract; (2) a centralized mail distribution service for internal and external mail; (3) low-cost print production capabilities and specialized printed material; and (4) centralized service for all copy machine leases. The division also coordinates the disposition of all State surplus property, the required annual reporting of capital assets, and the statewide recycling program.

**Personnel Division** – The Personnel Division was created in 1967 as the Department of Personnel. The Department of Personnel became a division within DAS because of action by the 1992 Legislature. The division administers the State personnel system, which includes State employees in classified agencies and non-classified agencies. This includes, but is not limited to

## NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

### BACKGROUND

(Continued)

the following: maintaining and continually updating job classifications and pay systems for State employees; providing agencies with qualified job applicants; promulgating and administering personnel rules and regulations; promoting equal opportunity and diversity in employment; providing a statewide training program; maintaining the State employee benefits system; continual process improvement and training on utilizing the State Human Resource Management System; and administering and coordinating statewide employee participation and recognition events.

**Employee Relations Division** – The Employee Relations Division is charged with conducting good faith bargaining with labor organizations working toward the goal of mutually acceptable collective bargaining agreements; conducting joint salary surveys; administering and coordinating State employee grievance appeals; proper interpretation and application of the labor contracts; advising and assisting agencies concerning proper administration of discipline; reviewing agency work rules and layoff plans for consistency with labor contracts; responding to questions from agencies; and conducting training for supervisors and managers on labor contract administration. The Chief Negotiator, who is appointed by the Governor, administers the division.

**Transportation Services Bureau Division** – The Transportation Services Bureau was created by the 1969 Legislature. The bureau provides management, service, and guidance in using privately owned and State-owned vehicles for official travel while monitoring State government transportation needs.

**Risk Management Division** – Risk Management is responsible for identifying and implementing the most economical and effective methods to reduce exposure of the State and its employees to personal injury, property damage, and legal liability. The division administers the State Tort Claims Act, the State Miscellaneous Claims Act, the State Contract Claims Act, the State Workers' Compensation program, and the State risk management, indemnification, insurance, self-insurance, and bonding programs.

**Task Force for Building Renewal** – In 1977, the Legislature created the 309 Task Force for Building Renewal as an entity to prioritize building renewal projects on a statewide level, and then fund the highest priorities. The mission of the Task Force is to address the State's sizeable need for deferred building repairs and improvements to the extent possible with available funding, utilizing those funds wisely and efficiently. The four types of projects funded include deferred repair, fire/life safety, removal of barriers pursuant to the Americans with Disabilities Act guidelines, and energy conservation measures for existing State-owned buildings. The Task Force also funds training opportunities for facility maintenance staff to ensure long-term sustainability of the State's assets.

## NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

### **BACKGROUND**

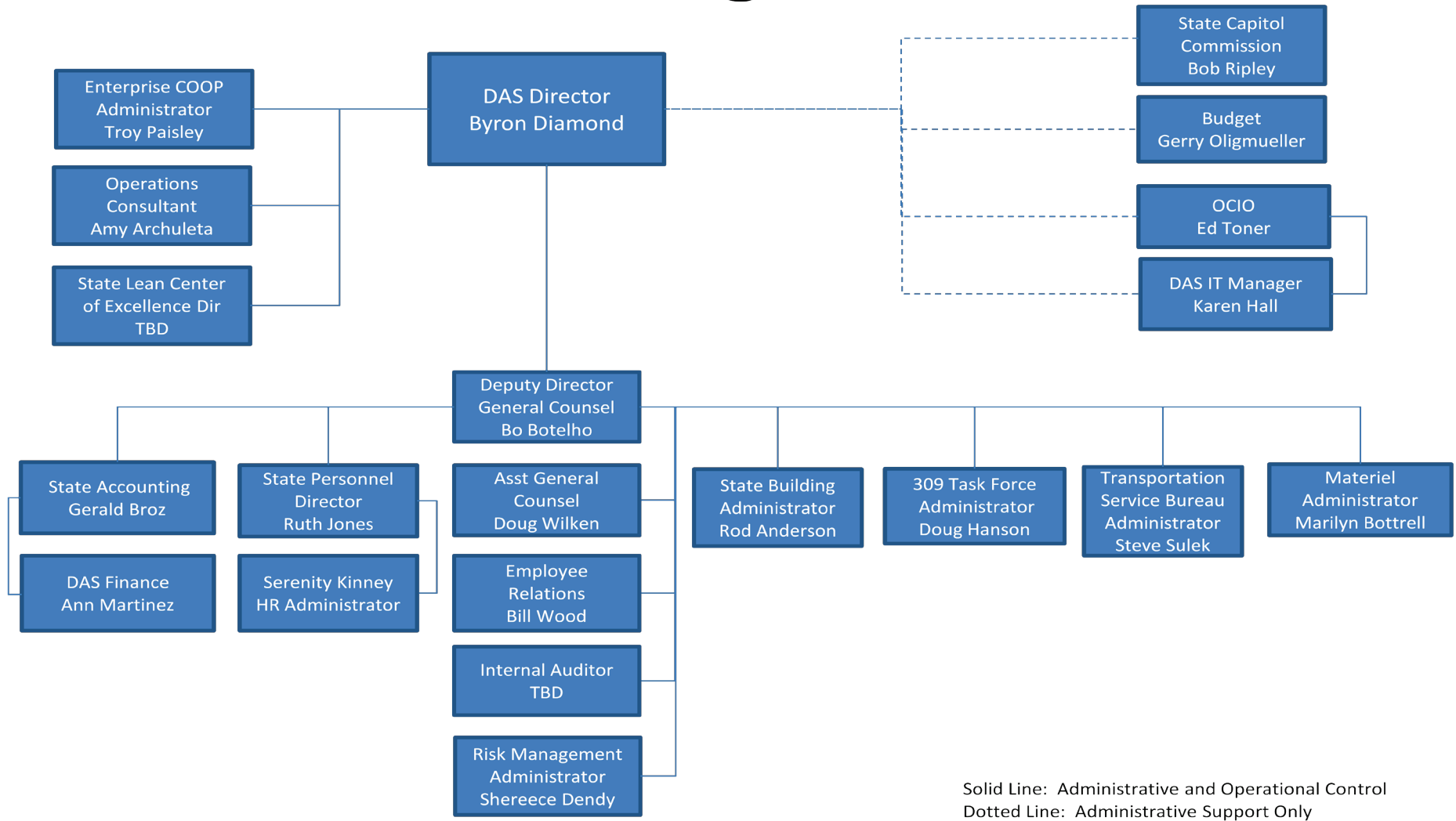
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**Office of the Chief Information Officer** – The Office of the Chief Information Officer, created by the 1998 Legislature, works with State agencies and the Nebraska Information Technology Commission to ensure cost-effective and efficient use of State resources and investments in information technology. The Chief Information Officer is appointed by the Governor and confirmed by the Legislature.

**The Office of the Capitol Commission** – The 1949 Legislature changed the original Capitol Commission to the State Building Commission. The Building Commission membership was altered by the 1965 Legislature and again in 1974 when the Legislature designated the body as advisory. The 2004 Legislature changed the name back to the Capitol Commission and altered the membership to include representation from the legislative and judicial branches. The governor chairs the commission. The Office of the Capitol Commission (Commission) is not a full-fledged State agency, but has a degree of independence that keeps it from being classified within any department or agency. The Commission is associated with DAS for accounting, budget, and personnel functions. Funds are recorded under DAS on the general ledger and are included on the financial schedule. The Commission provides facility management for the preservation, restoration, enhancement, operational maintenance, and capital construction as well as archival conservation and tour/ promotion/education outreach for the Nebraska State Capitol and grounds as a National Historic Landmark. The Administrator, who is appointed by the Governor and serves at the Governor's pleasure, administers this Commission.

ORGANIZATIONAL CHART

# DAS Senior Management Structure





# NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

## EXIT CONFERENCE

An exit conference was held August 26, 2015, with the Department of Administrative Services (DAS) to discuss the results of our examination. Those in attendance for DAS were:

NAME	TITLE
Byron Diamond	DAS Director
Bo Botelho	Deputy Director/Legal Counsel
Ruth Jones	Director, State Personnel
Crystal Meyer	Administrator, Benefits & Wellness
Serenity Kinney	Administrator, Human Resources
Marilyn Bottrell	Administrator, Materiel
Doug Hanson	Administrator, 309 Task Force
Steve Sulek	Administrator, Transportation Services Bureau
Rodney Anderson	Administrator, State Building
Jerry Broz	Administrator, State Accounting
Gerry Oligmueller	Administrator, State Budget
Karen Hall	IT Manager
Julie Heyen	Financial Administrator - the Office of the Chief Information Officer
Wes Mohling	Accounting Operations Manager
Ann Martinez	Controller
Raeann Snyder	Internal Auditor
Jennifer Sommars-Link	Paralegal

## NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

### SUMMARY OF COMMENTS

During our examination of the Department of Administrative Services (DAS), 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. ***Competitive Bidding Requirements:*** During testing, we noted three contracts totaling over \$31 million that were not competitively bid, as DAS considered the services as sole source or emergency contracts. Based upon our review, it does not appear the contracts in question fall within the limited exceptions to statutory requirements. We believe that contracts of such magnitude should be publicly bid as a matter of course.
2. ***Request For Proposal Process:*** During our review of contract bidding procedures, we noted the Request for Proposal (RFP) for one contract tested did not have criteria clearly defined, and the evaluation process was not adequately documented. We also noted five of seven additional RFPs tested did not have adequate support on file.
3. ***Improper Payment After Contract Terminated:*** Peridot Solutions, Inc., and DAS agreed to terminate the service contract effective December 31, 2014. According to the amended contract, "The parties agree to a final payment by the State to Contractor in the amount of \$104,175.00, to satisfy delivery of 81% of the User Acceptance test (UAT) provisions of the Contract." DAS improperly paid \$178,783 after signing the termination agreement.
4. ***Advanced Funding:*** A total of \$3,325,000 in State funds was held in the custody of third-party administrators. Some of these funds were deposited in banks not licensed to conduct business in Nebraska, which contravenes State law. Because none of these funds were in State bank accounts, moreover, they did not earn interest for the State. DAS also lacked procedures to ensure the amounts advanced were minimized, or funds were adequately protected with pledged collateral. When third-party administrators receive advance funding, there is an increased risk for loss of State funds. In addition, the State loses potential investment income.
5. ***Contract Procedures Not Adequate:*** We noted 8 of 10 contracts tested had information incorrectly recorded in the State accounting system. Two contracts did not have contract usage of over \$103 million recorded on the Contract Usage Report. For four contracts, the estimates reported on the accounting system exceeded contract awarded amounts by over \$29 million. In addition to significant amendments after the bidding process, we noted changes not explicitly expressed in contract amendments.
6. ***Inadequate Controls Over Disbursements:*** We noted certain contract payments were not adequately monitored, such as communication charges that could not be traced to support or contract provisions. Also, Health Fitness Corporation (HFC) payments were not adequately monitored. HFC notified DAS that the State had been overcharged \$322,390.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

SUMMARY OF COMMENTS

(Continued)

7. ***Lack of Segregation of Duties Over Receipts and Expenditures:*** We noted three employees had the ability to prepare, approve, and post their own transactions within the accounting system. We noted 10 employees with the ability to prepare documents that could also approve transactions for all users. We further noted DAS did not have adequate procedures to ensure all monies collected were properly deposited.
8. ***Excessive Fund Balances:*** Excess internal service fund balances indicate the fees charged to other State agencies are too high. We noted that the Accounting Services, General Services (Materiel), Transportation Services Bureau (TSB), and Temporary Employee Pool Funds all had balances in excess of 60 days at June 30, 2014. We further noted the Accounting Division, TSB, and Personnel Revolving Funds each had approximately six to eight months of expenditures on hand at December 31, 2014, and the Life Health History Trust Fund had 203 months of expenditures on hand.
9. ***OCIO Rate Charges and Credits Not Supported:*** The Office of the Chief Information Officer (OCIO) did not have adequate documentation to support rates charged for services were reasonable, equitable, and reflected actual costs incurred. The OCIO provided agencies \$5,000,000 in credits, provided rate reductions, delayed implementing 2014 rates, and did not bill for certain services. There was not adequate documentation to support these reductions were reasonable and in accordance with State statute.
10. ***Segregation of Duties Over Payroll:*** DAS lacked an adequate segregation of duties for the processing of payroll. Furthermore, no review of payroll reports was performed by an individual who did not have access to process payroll in the accounting system.
11. ***Long-Term Disability Insurance:*** State employees who elected Long-Term Disability (LTD) insurance underpaid their premiums from July 2014 through April 2015. Mutual of Omaha, the State's LTD insurance provider, agreed to write off approximately \$45,000-\$50,000 in underpaid premiums for July through December 2014; however, the State was responsible for repaying the underpaid premiums from January through April 2015. Total underpayments for this period were \$35,379, which the State repaid in June 2015.
12. ***Lack of Support for Payroll Charges:*** During testing, we noted a lack of support for payroll charges, including the allocation of costs, missing payroll deduction forms, shift differential and per diem payments, and support for sick leave.
13. ***Lack of Adequate Time Records:*** Overtime exempt employees were not required to maintain a timesheet or other form of documentation to show at least 40 hours were worked each week, as required by State statute. Timesheets were maintained only for the current pay period. Supervisors and human resource staff were able to change the employees' submitted timesheets without the employees' knowledge or documentation of the changes made.

**SUMMARY OF COMMENTS**

(Continued)

14. ***Leave Adjustment Policy:*** We noted that DAS' Statewide policy regarding lapsing of vacation and sick leave did not account for leave earned in December but not recorded in the State's accounting system until January. By not accounting for all accumulated leave earned in December, the current policy creates the possibility that not enough leave would be lapsed should an employee's balance be above the allowed maximum at the end of the year.
15. ***Accounting Errors:*** We noted several errors recorded in the accounting system, totaling \$1,431,691.
16. ***Internal Control Over Capital Assets:*** Certain individuals were able to perform all functions of capital asset processing for their respective divisions. There were no policies or procedures in place to track assets susceptible to theft that were below the \$1,500 capitalization threshold. Seven of 40 assets tested were not properly tagged. Neither Materiel Division nor the agencies performed the annual physical inventory of the copiers required by State statute.
17. ***Exchange of Property:*** We tested a vacant lot with a value of \$360,000 that was part of an exchange transaction. DAS did not obtain independent appraisals for two pieces of land acquired and never attempted to sell the State buildings outright. In addition, those buildings were not removed, and the land acquired was not recorded in a timely manner.
18. ***Proceeds from Sales of Assets:*** Asset additions and sales of assets were not properly recorded. The statutory language is unclear as to where sale proceeds should be deposited. Insurance proceeds of \$10,075 had not been deposited to the State in almost an entire year after a vehicle was deemed a total loss.
19. ***Capital Asset Report Errors:*** The Additions and Retirements by Tag Number Report was not mathematically correct, and assets were recorded with incorrect values.
20. ***Print Shop Inventory:*** Physical inventory counts were conducted by Print Shop Supervisors who were not independent because they had access to, and oversaw the use of, the Print Shop inventory. The Print Shop's policy was to investigate variances only over \$1,500 for a single item. There was no annual or periodic complete physical count of Print Shop inventory that was reconciled to the records.
21. ***Printing and Copy Service Rates:*** Print Shop rates were last updated in fiscal year 2010 and had not been reviewed since that time. The Print Shop's billing to the Department of Motor Vehicles (DMV) included discounted rates on one item and did not bill for another item, and the quantity charged for a third item did not agree to supporting documentation. These special rates resulted in the DMV being underbilled by \$57,222. Copy Service rates lacked support, and one agency tested was overcharged \$1,120.

**SUMMARY OF COMMENTS**

(Continued)

22. ***Health Insurance Program:*** DAS lacked adequate monitoring of the Health Insurance Program. No reviews were performed to ensure the following: the claims paid were for eligible individuals; terminated participants and ineligible dependents were removed from the plan timely; and enrollment files provided to the State's third-party administrator were accurate and complete. Six dependents' coverage was not terminated timely, and one of those dependents had claims paid totaling \$169 after their coverage should have terminated.
23. ***Monitoring Third-Party Administrators:*** DAS did not obtain and review the Application Software Inc. (ASI) Service Organization Control (SOC) Report. ASI is the third-party administrator for employee flexible spending accounts. Additionally, the State was paying the ASI funding request without any type of review to ensure the request was proper and for eligible participants. Furthermore, the Risk Manager lacked documentation that DAS was monitoring the third-party administrator, Nebraska Risk Management Association (NRMA), to ensure insurance claim payments were properly made.
24. ***Credit Union Employees:*** Three credit union employees improperly participated in the State's Health Insurance Program. This issue was noted in our 2010 report, but DAS did not correct the issue until fiscal year 2016. During calendar year 2014, credit union employees and their covered dependents incurred \$131,144 in medical and prescription claims while contributing only \$30,546 to the program.
25. ***Building Replacement Values:*** DAS did not have adequate documentation to support the building replacement values used in assessing the depreciation surcharge and building insurance.
26. ***Support for Rent Receipts:*** The State Building Division charges agencies for space occupied in State-owned facilities. We noted 2 of 10 rent receipts tested were not accurate, resulting in agencies being undercharged. We also noted DAS did not have adequate support for the allocation of Lincoln grounds or Lincoln security.
27. ***State Building Division Policies Conflict with State Statute:*** The State Building Division's (SBD) policies are in conflict with statutory requirements and agency rules and regulations. The SBD's current policy regarding reviews and inspections requires agencies to submit quarterly reports only for projects with costs that exceed \$640,000, which is in excess of the \$50,000 threshold set by statute. Furthermore, the SBD only reviews and approves certificates of payment that exceed \$100,000. This is in conflict with the agency rules and regulations requirement that all certificates of payment must be reviewed if the total project cost exceeds \$100,000.
28. ***Non-Certification of Workers' Compensation Claims:*** We noted Workers' Compensation claims were not certified by the Attorney General prior to disbursement, as required by State statute.

**SUMMARY OF COMMENTS**

(Concluded)

29. ***Personnel Division Rates Charged Not Supported:*** DAS did not have adequate documentation on file for the rate charged for the Defensive Driving Course or the \$10 administration fees charged.
30. ***EnterpriseOne User Access:*** The employee termination process begins in Workday, the State's human resource application, which then interfaces with EnterpriseOne, the State's accounting system. For two of eight terminated users tested, their EnterpriseOne access was not removed in a timely manner.
31. ***Business Continuity Planning:*** The Continuity of Operations Plan did not include server-specific data, such as configuration files or locations, recovery file locations, dependencies between applications, etc.

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 DAS.

Draft copies of this report were furnished to DAS 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.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

1. **Competitive Bidding Requirements**

Neb. Rev. Stat. § 73-504 (Cum. Supp. 2014) requires that State agencies follow established competitive bidding procedures when entering into contracts for services. A relevant exception under § 73-507 (Cum. Supp. 2014) to the competitive bidding requirements for service contracts is set out at subsection (1) of that statute, which provides the following:

*Subject to review by the Director of Administrative Services, the [materiel] division shall provide procedures to grant limited exceptions from the provisions of sections 73-504, 73-508, and 73-509 for . . . [s]ole source contracts, emergency contracts . . .*

Neb. Rev. Stat. § 73-502(3) (Cum. Supp. 2014) defines “emergency” as follows:

*Emergency means necessary to meet an urgent or unexpected requirement or when health and public safety or the conservation of public resources is at risk[.]*

Subsection (5) of that same statute defines “sole source” as follows:

*Sole source means of such a unique nature that the contractor selected is clearly and justifiably the only practicable source to provide the service. Determination that the contractor selected is justifiably the sole source is based on either the uniqueness of the service or sole availability at the location required[.]*

Good internal control and sound business practices require that contracts involving the expenditure of millions of dollars in public funds be let for bid to ensure the fair and reasonable expenditure of those funds, as well as to make certain that the State receives the best services for the lowest possible price.

During testing, we noted three contracts that were not competitively bid, as DAS considered the services to fall within sole source or emergency exceptions. Based upon our review, it does not appear the contracts in question fall within those limited exceptions to the statutory bidding requirements. We believe that contracts of such magnitude should be publicly bid as a matter of course.

We noted the following:

**International Business Machines Corporation (IBM)**

DAS did not follow competitive bidding requirements when entering into a contract with IBM for \$11.97 million, which has since been amended numerous times, extending the end date of the contract and increasing the contract amount to \$26.73 million.

The Sole Source Justification for contracting with IBM stated the following:

*The consolidation of IBM software renewals, hardware renewals, and new purchases of existing products for all Agencies, Boards, Commissions, and Political Subdivisions allows the State to obtain a significant discount . . .*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Competitive Bidding Requirements** (Continued)

Per the State Procurement Manager:

*The deviation from contractual services request combined several contracts with IBM under one contract. By combining all contracts under one this allowed for the State to benefit from additional discounts. Further this allowed the State to lock in the cost of software maintenance. This allowed the State to maximize use of state resources. Statute 73-507(1)(a) allows for other circumstances or specific contracts when any of the requirements of sections 73-504, 73-508 and 73-509 are not appropriate for or are not compatible with the circumstances or contract.*

Discounts are not a sole source justification, nor is there documentation to support that the requirements of 73-504, 73-508, or 73-509 were not appropriate in regards to the IBM contract.

Kronos

DAS did not follow competitive bidding requirements when awarding Kronos the contract for the Nebraska Department of Roads (NDOR) timekeeping system for \$2.1 million. A contract with Kronos was awarded in 2003 with Department of Health and Human Services and Department of Corrections. DAS subsequently used the Sole Source Justification to renew/enter into new contracts with Kronos. Following the initial contract, the State entered into six separate contracts with Kronos, with estimated costs over \$4.7 million. There has been no new Request for Proposal (RFP) since the original system was implemented.

The Sole Source Justification states the following:

*There is synergy in having all state agencies that need timekeeping functionality utilize the same system . . . . In June 2012, DAS solicited Request for Information [RFI] presentations for replacing the State's JDE [E1] system. NDOR participated in those sessions, and none of the vendors offered systems that would provide the functionality needed by NDOR.*

However, the Auditor of Public Accounts (APA) reviewed the responses received per the RFI, mentioned in the Sole Source Justification, and was able to find several vendors that appeared to be able to provide the specific services noted within the deviation from contractual services.

When questioned, DAS referred to the synergy of having all agencies on one system. Per DAS, "This was the basis of deciding what type of product would be allowed to interface with E1 [the State accounting system] . . . . This was not a decision of whether the vendors responding to the RFI could meet Roads' needs, but what system that the State currently owned with interfaces to E1 that would meet Roads' needs." However, the Sole Source Justification clearly used the RFI as justification for why Kronos was the only vendor that could provide the services needed by NDOR.

Peridot Solutions, LLC (Peridot)

The \$2.3 million contract with Peridot should not have been approved as an emergency contract since the service was for a software upgrade, which was an announced and expected upgrade. As noted in Comment Number 3, this contract was subsequently terminated December 31, 2014, before all services were completed.



**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Competitive Bidding Requirements (Concluded)**

DAS stated this upgrade project was considered an emergency because the current version of the State accounting system was certified to use only Internet Explorer (IE) versions 7 and 8 and was not supported by the newer versions of IE 9 or 10. As of April 8, 2014, moreover, Microsoft would no longer support Windows XP and IE 8. However, Microsoft made the announcement on April 10, 2013, which was a year ahead of time. Although DAS should have been aware as early as April 2013, that IE 8 was going to become obsolete in 2014, the contract process did not begin until September 24, 2013. Also, DAS stated there had been 10 documented emergency shut-downs of the State system during business hours since February 2013. Despite the many shutdowns, the contract process did not begin until September 24, 2013.

Based on the advance announcement, we believe DAS had sufficient time to bid competitively for these services.

When competitive bidding requirements are not adhered to, there is an increased risk the State will not receive the best services at the lowest price. We asked DAS to provide a listing of sole source contracts as of December 31, 2014. There were 145 contracts with an estimated total of over \$1.5 billion. (See **Exhibit A** for listing) It should be noted that our procedures did not include a review of contract performance, or whether the contractor was or was not the best choice for the State; our review simply noted the contracts were not appropriate as sole source, and competitive bidding procedures were not followed.

We recommend DAS competitively bid service contracts worth millions of dollars, as a matter of course, to ensure the fair and reasonable expenditure of public funds, as well as to make certain that the State receives the best services for the lowest possible price.

*DAS Response: DAS continuously reviews contract bidding processes and procedures to ensure that the State receives the best services for the lowest possible price. State agencies are allowed by statute to enter into sole source and emergency contracts, DAS has no approval authority over Emergency contracts entered into by external agencies. These deviations are fact and circumstance specific, and must be considered with the State's cost and best interest in mind. The statute does not place a dollar threshold on the granting or utilization of these deviation processes.*

**2. Request For Proposal Process**

During our review of contract bidding procedures, we noted the Request for Proposal (RFP) for one contract tested did not have criteria and service needs clearly defined, and the process to evaluate the responses received from vendors was not adequately documented. We also noted five of seven additional RFPs tested did not have adequate support on file, and one RFP was evaluated by only one individual.

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**2. Request For Proposal Process (Continued)**

Neb. Rev. Stat. § 73-501 (Cum. Supp. 2014) states, in relevant part, the following:

*The purposes of sections 73-501 to 73-510 are to establish a standardized, open, and fair process for selection of contractual services, using performance-based contracting methods to the maximum extent practicable, and to create an accurate reporting of expended funds for contractual services. This process shall promote a standardized method of selection for state contracts for services, assuring a fair assessment of qualifications and capabilities for project completion.*

Additionally, Neb. Rev. Stat. § 73-505 (Reissue 2009) provides, as is relevant:

*State agency directors shall be responsible for maintaining accurate documentation of the process used for selection of all contracts for services . . . . Such documentation shall be kept with each contract for services.*

A good internal control plan and sound business practice requires the RFP for contract services to be clearly defined with sufficient detail to allow a fair assessment of vendor responses. Good internal controls also require the evaluation process to be adequately documented.

Health Fitness Corporation

The Health Fitness Corporation was awarded a contract effective April 1, 2009, through June 30, 2015, for approximately \$23 million. The RFP was for an integrated Wellness Program for employees, including health tools and resources, activity tracking, health coaching, reporting, and a health assessment or biometric screening option. Seventeen vendors submitted responses to the RFP. DAS used an outside vendor to score the cost proposals. We noted the following:

- The RFP did not outline whether any or all of services listed were required to be included in the vendors' responses in order to be considered. Due to a lack of guidance, the State received a wide range of responses. Some vendors included all services, but others did not.
- The RFP had nine categories of services and costs; however, the cost scoring sheets only had six categories, including; Implementation, Online Suite, Targeted Lifestyle Modification Program, Biometric Screenings, Onsite Client Manager, and Disease Management or Other. The nine categories on the RFP were combined differently into the six categories on the cost summary spreadsheets for different vendors.
- The cost proposals were worth 200 points toward the entire score of each vendor, and each of the six categories used to score the cost proposals had weights applied to them. The weights ranged from 2% for Implementation to 43% for Online Suite. There was no documentation to support the basis of the weights applied to the categories.
- The vendor with the lowest cost in each of the six categories was used as a baseline to score the other vendors' costs submitted. However, not all vendors included all services. Had the RFP explicitly stated which services were mandatory, some vendors may not have been included for scoring, which would have altered the baseline scores.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Request For Proposal Process** (Continued)

- There was a lack of specific guidance on the number of assumed participants. As a result, vendors used a wide range of assumed participants to base their costs in the cost proposals. The RFP stated there were 17,000 benefit-eligible employees, of which 14,000 were enrolled in the State's health plan. Per the RFP Questions and Answers:

*Question: Page 22, IV. Project Description and Scope of Work, A. Project Overview and C. Project Requirements. The RFP states that the State's employees enrolled in the PPO health plan will be enrolled and participate in the Wellness Program. Please confirm that 14,000 employees are enrolled in the PPO health plan and that bidder's pricing should be based on 14,000 employees. Please also confirm that employees enrolled in another health plan, will not be eligible for the Wellness Program.*

*Answer: All benefit eligible employees will have access to complete the health assessment during 2009/2010 open enrollment, which is the entry point for access to the Wellness Medical Plan for this benefits year only. All benefit eligible employees will have access to all on-line tools and resources. Additional programs will be determined by vendor engagement. This allows a comprehensive program approach to be rolled out to the entire population, creating a supportive culture of health and driving behavior change throughout the organization.*

*Question: Please provide a summary of benefits for the two health plans that will be available to employees, and your assumptions regarding the number of employees that will enroll in each plan.*

*Answer: The wellness health plan has not been finalized. However, the State is targeting first year participation in the wellness health plan of 20%.*

- As noted above, the State was anticipating a 20% participation rate. However, in scoring the cost proposals, the State used two participation rates, 20% and 50%. Each cost proposal was scored with each participation rate separately, and then combined to arrive at an average participation rate. It was noted that, for the 20% participation rate, the assumed number of participants used ranged from 2,800 to 17,000. For the 50% participation rate, the assumed number of participants ranged from 10,045 to 20,090. In some cases, the assumed participants per the bidder was used; however, in some instances, another number of participants was used. There was no support or explanation for changes made by the State to the number of participants submitted by the vendors.

Additional testing

During our testing of the bidding process for seven additional contracts awarded, we noted the following:

- For one of seven RFP's, the vendor responses were evaluated by only one individual. That individual was the Risk Manager, who requested the contract. In accordance with the RFP Evaluation and Scoring Manual, the evaluation committee should include a minimum of two staff members from other agencies, boards, commissions, etc.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Request For Proposal Process (Concluded)**

Furthermore, only three costs submitted by the vendors were used in the allocated cost scoring. Several other costs were submitted, but there was no documentation as to why only three costs were used.

- For five of seven RFP's tested, the original scorecards were not on file.
- After the initial scoring of one RFP, the top three bidders were interviewed and scored; however, the interview scorecards were not retained. There was also a post discussion with no documentation maintained. The results of the scoring were as follows:

Bidder	Initial Ranking	Interview Ranking	Post Discussion & Final Ranking
A	1	2	2
B	2	3	1
C	3	1	3

- For two RFPs, the hours and costs on the scoring sheets did not agree to the bidders' cost proposals. We recalculated the scores using the cost proposals, and the winning bidders still had the highest overall scores.

A similar comment was noted in our prior reports.

When contract RFP criteria and service needs are not clearly defined, and the process to evaluate responding vendors is not adequately documented, there is an increased risk that the State will not receive the best service at the lowest price.

We recommend procedures be implemented to ensure Requests for Proposals are sufficiently detailed, and vendors are evaluated on a consistent, standard basis. We recommend further that all supporting documentation be maintained.

*DAS Response: Processes and procedures are routinely reviewed and revised. Procedural changes have previously been implemented regarding the maintenance of all supporting documentation, i.e. scorecards have been maintained since 2012 and Materiel is now maintaining documentation of the proof of publication.*

**3. Improper Payment After Contract Terminated**

In October 2013, the Department of Administrative Services (DAS) entered into a service contract with Peridot Solutions, Inc., a Virginia corporation, to implement a series of upgrades to the State's computer system. Negotiated for the fixed price of \$2,230,000, the contract contained the following retainage provision:

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Improper Payment After Contract Terminated** (Continued)

*The State will withhold ten percent (10%) of each payment due to retainage. The entire retainage amount will be payable upon successful completion of the project. Upon completion of the project, the contractor will invoice the State for any outstanding work and for the retainage. The State may reject the final invoice by identifying the specific reason for such rejection in writing to the contractor within ninety (90) calendar days of receipt of the final invoice. Otherwise, the project will be deemed accepted and the State will release the final payment and retainage in accordance with the contract payment terms.*

Pursuant to the above, retainage was withheld on each of a number of deliverables provided periodically during the course of the contract.

By amendment, Peridot Solutions, Inc., and DAS agreed to terminate the contract effective December 31, 2014. According to the amended contract, “The parties agree to a final payment by the State to Contractor in the amount of \$104,175.00, to satisfy delivery of 81% of the User Acceptance test (UAT) provisions of the Contract.” The agreement also contained the following release language:

*The parties agree said sum is the final settlement of all Contractor claims for payment for all products and services under the Contract or related to the Contract. In consideration of the amount shown above Contractor releases the State from all liability for claims and demands arising out of the agreement described above.*

Additionally, the termination agreement concluded by stating, “If there is conflict between this amendment and the Contract or any earlier amendment, the terms of this amendment will prevail.”

During testing of payments relating to the initial contract with Peridot Solutions, Inc., the APA found that DAS continued to pay retainage after signing the termination agreement. In all, DAS paid Peridot Solutions, Inc., a total of \$178,783 in additional retainage for earlier work performed.

Payment of the additional retainage appears inappropriate given that the termination agreement contains language releasing the State from any further claims by Peridot Solutions, Inc. Questioned about continuing to pay the retainage when the agreement appears to have made such payments unnecessary, DAS explained that the intent of both parties was to halt the performance of any further work – not to deny pending retainage to Peridot Solutions, Inc., for work already performed.

In support of this explanation, DAS provided the auditors with copies of documentation revealing the intent of DAS to continue paying the retainage. According to a December 25, 2014, email message from the Chief Executive Officer of Peridot Solutions, Inc., to the former Accounting Administrator of DAS, the State “would be paying all the retention amount [sic] that are due to Peridot Solutions LLC . . . .” In a letter dated December 29, 2014, the General Counsel for DAS acknowledged that the State “agrees to pay Peridot . . . the retention amount withheld from the start of the contract until the date the contract is terminated, December 31, 2014, for all completed and accepted deliverables.”

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**3. Improper Payment After Contract Terminated** (Concluded)

The apparent intent of the parties to continue the retainage payments is not evident from the language of the termination agreement. In fact, the agreement's reference to a "final settlement" and releasing "the State from all liability for claims and demands" indicates the opposite. Had a legal dispute arisen regarding the actual intent of the parties regarding payment of the retainage, it is questionable whether extrinsic evidence, such as the communications provided to the APA, would have been accepted to prove the intent of the parties. As the Nebraska Supreme Court has explained, "Proof of prior or contemporaneous oral agreements which alter, vary, or contradict the terms of a written agreement is rendered ineffective by the parole evidence rule." *Abboud v. Michals*, 241 Neb. 747, 755, 491 N.W.2d 34, 40 (1992).

According to DAS, \$848,628 was subsequently paid through May 31, 2015, for completion of the upgrade by other contractors and DAS staff after the termination with Peridot.

To avoid potential legal complications, we recommend DAS ensure that all of its legal agreements reflect completely and accurately the intent of the parties thereto. DAS should consider recouping the funds paid after termination.

*DAS Response: DAS disagrees with the APA's assertion that payment was improper, as noted by the APA, the parties both agreed the retainage payments were not impacted by the amendment. To attempt to recoup payments properly paid out under the contract, would be impermissible and without any basis in law or equity. The amendment was very limited in scope and only impacted those contract items specifically addressed in the amendment. The amendment was never meant to be read as the entire agreement, only to augment the existing contract, this was expressly stated in the amendment. Thus DAS believes the APA is reading the amendment over broadly. DAS agrees with the APA assertion that, "all of its (DAS) legal agreements reflect completely and accurately the intent of the parties."*

**APA Response: According to the contract, the retainage would be "payable upon successful completion of the project." As evidenced by the need for the amendment, the project was not successfully completed. Likewise, the amendment declares the \$104,175 disbursement to be "the final settlement of all Contractor claims for payment for all products and services provided under the Contract or related to the Contract." The amendment specifies also that the settlement payment "releases the State from all liability for claims and demands arising out of the agreement described above." Given these broad and sweeping release provisions, it is difficult to assign propriety to the apparently unnecessary payment at issue. Arguing the limited scope of the amendment seems equally incongruous, moreover, when that document plainly says, "If there is conflict between this amendment and the Contract or any earlier amendment, the terms of this amendment will prevail." If, as asserted in the agency response, the APA has read the amendment "over broadly," this merely reflects the need for DAS to draft documents with more precise language that does not permit such a misinterpretation.**

# NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. Advanced Funding

Nebraska State Accounting Manual (02-03-14), Section Number AM-005, General Policies, Number 4, "Prepayments," states the following, in relevant part:

*Though prepayments are not illegal, per se, they are in conflict with the normal claims process since the State has given up assets in anticipation of goods or services being rendered at a later date. (There is no enforceable claim against the State until goods or services are received.) Since the potential for loss to the State is greater under prepayment situations, extreme care should be exercised and a conscious effort should be undertaken to minimize prepayments at the agency level.*

Additionally, good internal controls require that advance payments be minimized to ensure State funds are properly safeguarded and to lessen the loss of investment earnings.

A total of \$3,325,000 in State funds was held in the custody of third-party administrators. Because these funds were not in State bank accounts, the State did not earn interest on them. DAS also lacked procedures to ensure the amounts advanced were minimized, or funds were adequately protected with pledged collateral. According to DAS, the pre-funding was necessary to provide the third-party administrators with sufficient cash flows to process monthly claims, request reimbursements from the State for those claims paid, and continue to process the next month's claims until the reimbursement was received.

#### F.A. Richards and Associates

F.A. Richards and Associates (FARA) is the third-party administrator that processes the State's workers' compensation claims. In 2009, the State pre-funded a \$3 million FARA escrow account with Bank of America, which is headquartered in Charlotte, North Carolina, and has no branches in Nebraska. The \$3 million was based on an estimated three months of disbursements. Each month, FARA sends DAS a list of paid claims. DAS then pays FARA for those claims, which replenishes the escrow account. As reflected in the chart below, the State paid FARA a total of \$12,161,528 for workers' compensation claims during the calendar year. The largest payment was \$1,521,089.

Payment Date	Amount
1/21/2014	\$ 589,728
2/13/2014	1,521,089
3/12/2014	100,000
3/17/2014	1,075,933
4/11/2014	1,176,403
5/19/2014	1,090,775
6/12/2014	1,048,183
7/18/2014	871,739
8/18/2014	1,143,965
10/1/2014	834,635
10/17/2014	1,070,642
11/21/2014	847,800
12/12/2014	790,636
Total	\$ 12,161,528

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Advanced Funding** (Continued)

Even if an escrow account is needed, the amount of \$3 million appears excessive. Payments could be made more frequently in smaller amounts or other arrangements such as a zero balance account (zba) could be used.

According to the State Treasurer, moreover, Neb. Rev. Stat. § 77-2301(1) (Reissue 2009) requires any bank holding State funds to be authorized to conduct business in the State of Nebraska. That statute says the following:

*The State Treasurer shall deposit, and at all times keep on deposit for safekeeping, in the state or national banks, or some of them doing business in this state and of approved standing and responsibility, the amount of money in his or her hands belonging to the several current funds in the state treasury. Any bank may apply for privilege of keeping on deposit such funds or some part thereof.*

Additionally, the deposits in the escrow account were not properly secured by either Federal Deposit Insurance Corporation (FDIC) coverage or adequate pledged collateral. Neb. Rev. Stat. § 77-2398(1) (Cum. Supp. 2014) sets out the following pledged collateral requirements:

*As an alternative to the requirements to secure the deposit of public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation pursuant to sections 77-2389 and 77-2394, a bank, capital stock financial institution, or qualifying mutual financial institution designated as a public depository may secure the deposits of one or more governmental units by providing a deposit guaranty bond or by depositing, pledging, or granting a security interest in a single pool of securities to secure the repayment of all public money or public funds deposited in the bank, capital stock financial institution, or qualifying mutual financial institution by such governmental units and not otherwise secured pursuant to law, if at all times the total value of the deposit guaranty bond is at least equal to the amount on deposit which is in excess of the amount so insured or guaranteed or the aggregate market value of the pool of securities so deposited, pledged, or in which a security interest is granted is at least equal to one hundred five percent of the amount on deposit which is in excess of the amount so insured or guaranteed.*

The FDIC insurance coverage amount is currently \$250,000 per depositor, per insured bank, for each account ownership category. Throughout calendar year 2014, the escrow account maintained a balance well in excess of \$250,000, making FDIC coverage alone inadequate to protect fully all of the State's deposits.

Nebraska Risk Management Inc.

Nebraska Risk Management Inc. (NRMA) is the third-party administrator for the State's property, casualty, and automobile liability claims. To manage those claims, NRMA established two bank accounts, a Short-Term Federal Investment Trust (STFIT) account and a checking account. According to DAS, the State's claim payments to NRMA went into the STFIT account. Nightly, the bank transferred from that account to the checking account an amount necessary to cover the claim payment checks made earlier that day.

According to accounting records, the State pre-funded \$300,000 in the STFIT account. Neither that account nor the checking account was under the direction of the State. During the calendar year, the checking account had one day, April 9, 2014, on which its \$2,611,795 balance exceeded FDIC coverage. Contrary to the requirement in § 77-2398(1), the account did not have additional pledged collateral for balance that exceeded \$250,000.



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Advanced Funding (Concluded)**

The State also pre-funds any NRMA check to be drafted in an amount equal or greater to \$15,000.

Application Software, Inc.

Application Software, Inc. (ASI) is the third-party administrator for the State's employee flexible spending benefit program. As with both FARA and NRMA, the State pre-funds a payment account that is under the exclusive control of ASI. While the State initiates a daily ACH transaction to ASI to cover claim payments, the \$25,000 pre-funded account has also been established to ensure and facilitate the payment process.

Failure by third-party administrators, like FARA, to hold state funds in banks authorized to conduct business in Nebraska conflicts with State law. Furthermore, when third-party administrators, such as FARA and NRMA, receive advance funding and do not ensure the holding accounts are secured for amounts in excess of the FDIC coverage, there is not only an increased risk for loss of State funds but also a failure to comply with Nebraska law. In addition, when third-party administrators hold State funds, the State loses potential investment income from that money.

We recommend DAS implement procedures to ensure pre-funded accounts under the control of third-party administrators are maintained in banks authorized to conduct business in Nebraska, as required by State law. We recommend also DAS ensure that money placed in pre-funded accounts of third-party administrators is adequately collateralized in accordance with State statute. Finally, we recommend DAS work with the State Treasurer to eliminate the State funds held in escrow by third-party administrators.

*DAS Response: DAS will work with F.A. Richards, Nebraska Risk Management, ASI and the State Treasurer to determine if the need to maintain escrow accounts can be eliminated, or to develop alternate means of payment.*

**5. Contract Procedures Not Adequate**

The Materiel Division (Materiel) is responsible for contracting and assisting agencies with contracts related to services, materials, supplies, and equipment.

A good internal control plan requires policies and procedures to ensure contracts are accurately recorded in the accounting system, and any changes to contracts are properly approved.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Contract Procedures Not Adequate** (Continued)

Contracts Not Properly Recorded in Accounting System

Neb. Rev. Stat. § 73-503(1) (Cum. Supp. 2014) states, in relevant part, the following:

*All state agencies shall process and document all contracts for services through the state accounting system . . . . All state agencies shall enter information on new contracts for services and amendments to existing contracts for services.*

Neb. Rev. Stat. § 73-501 (Cum. Supp. 2014) adds, “There shall also be an accountable, efficient reporting method of expenditures for these services.” Furthermore, a good internal control plan requires procedures to ensure accurate reporting of these expenditures.

The State accounting system has a Contract Usage Report that shows the total expenditures made against a contract. We noted the Contract Usage Report did not accurately reflect contract expenditures, and Materiel had not developed adequate training or monitoring procedures to ensure State agencies properly recorded the purchase orders associated with State contracts.

When purchases are made from a contract, a purchase order is entered in the State accounting system. The purchase order should reflect the contract number. There are situations in which a purchase order must be changed, such as when additional lines are added to an existing purchase order. However, there are no procedures in place to ensure all additional lines reference the contract number. As a result, these amounts are not included on the Contract Usage Report, and contract expenditures are understated.

We noted 8 of 10 contracts tested had information incorrectly recorded in the State accounting system, as follows:

- Three contracts tested did not have the correct start date, and the renewal and end dates were incorrect for one contract.
- Two contracts did not have the contract usage correctly recorded. It appears not all payments were being processed against the contract.

Contractor	Usage Reported	Total Payments	Variance
United HealthCare	\$ 7,813,868	\$ 17,683,761	\$ (9,869,893)
Covendis Technologies	\$ 13,082,292	\$ 106,262,933	\$ (93,180,641)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Contract Procedures Not Adequate** (Continued)

- For four contracts, the contract estimates reported on the accounting system were not reasonable. Estimated amounts exceeded contract awarded amounts by over \$29 million.

Contractor	Contract Award Amount	Estimated Amount on System	Variance
IBM Corporation	\$ 26,725,428	\$ 33,999,029	\$ 7,273,601
F.A. Richards & Associates*	\$ 10,012,310	\$ 13,714,401	\$ 3,702,091
Covendis Technologies	\$ 131,400,156	\$ 138,604,571	\$ 7,204,415
Databank IMX	\$ 5,602,977	\$ 17,163,430	\$ 11,560,453

\*For this contract, we noted also that the \$3,702,091 was mistakenly added to the contract – which, per discussion with DAS staff, would have allowed someone to purchase up to \$3,702,091 erroneously.

When contract purchases are not properly recorded against the contract, there is an increased risk for the contract to be overpaid.

A similar comment was noted in our prior Materiel Division report.

Changes to Contracts

During testing, we noted the contract with Databank IMX had 17 amendments as of December 31, 2014.

Amendment #	Date	Amount*
Original Contract	9/21/10	\$ 2,546,390
1-13	9/24/10 thru 12/31/13	14,684,412
14	3/17/14	1,701,055
15	7/18/14	0
16	9/12/14	(13,328,880)
17	9/12/14	0
Total contract award at 12/31/14		\$ 5,602,977

\*Amount includes signed amendments and unsupported line changes.

In addition to significant amendments after the bidding process, we also noted changes not explicitly expressed in the amendments. For example, software costs of \$765,000 were added to Amendment 13, but not included in the signed amendment. We noted 27 contract line changes with increases of \$1,316,482 and decreases of \$3,874,920 that were not supported by a signed amendment.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Contract Procedures Not Adequate (Concluded)**

Making significant changes to contract services after the bidding process not only undermines the purpose for statutory bidding requirements, if not effectively circumvents them, but also increases the likelihood the State will not obtain the best services at the lowest cost.

We recommend DAS implement procedures to ensure the accounting system reflects the most accurate and complete contract information. We further recommend contract changes be properly approved and documented through the amendment process. We also recommend procedures be improved to reduce the need for significant contract amendments.

*DAS Response: DAS and State Accounting will continue to review and improve Procurement procedures and conduct user training to ensure that the accounting system reflects the most accurate contract information.*

**6. Inadequate Controls Over Disbursements**

A good internal control plan requires contracts to be monitored on an ongoing basis to ensure that services contracted for were received and contract charges were appropriate. Good internal control also requires administrative charges to be reasonable and adequately supported. Supply items should be adequately monitored and safeguarded.

During testing of 30 expenditures, we noted the following:

- Payments to Health Fitness Corporation (HFC) were not adequately reviewed to ensure contract charges were proper. HFC is the provider of the State's wellness program. HFC notified DAS in July 2014 that two wellness programs had double counted the enrollees charged to the State, and the State had been overcharged \$322,390. HFC's parent company, Trustmark Mutual Holding Company, performed an internal audit of the other wellness programs and found no issues with them. However, no independent audit was performed. DAS reviewed invoices only for reasonableness, which was not adequate for determining whether payments were proper. The review process did not detect the overcharge. HFC was paid \$2,396,656 during calendar year 2014.
- We reviewed a \$137,960 payment to Windstream Corporation for communication services. Seven rates charged, totaling \$86,917, could not be traced to support or contract provisions. One item had an incorrect charge, resulting in a \$5 overpayment. Windstream Corporation was paid \$3,556,015 during calendar year 2014. It was noted that DAS subsequently bills State agencies for these services. For two of the rates noted above, a 31% administration charge was added to the billings to State agencies. There was no documentation to support the 31% administrative charge was reasonable and necessary.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**6. Inadequate Controls Over Disbursements (Continued)**

- DAS paid \$43,653 for 2,516 square yards of carpet tiles. The Building Administrator indicated a supply of carpet was kept on hand to replace any old or worn carpet. However, DAS did not have adequate procedures to track or safeguard the supply of carpet tiles. There was no inventory tracking system or periodic reconciliation of carpet tiles on hand with carpet purchased and used.
- Neb. Rev. Stat. § 19-103 (Reissue 2012) created the City of the Metropolitan Class Development Fund. The statute requires the city of Omaha's finance director to certify that at least \$4,000,000 has been encumbered by the city for the calendar year before any distribution is made from the fund. DAS did not obtain a certification from the city of Omaha prior to making quarterly disbursements of \$375,000 each (\$1,500,000 total) in January, April, July, and October 2014 to the city from the Metropolitan Class Development Fund. After the APA requested documentation for the certification, the encumbrance letter dated June 23, 2015, was provided.

Without adequate control procedures, there is an increased risk for the loss of State funds and non-compliance with State statutes.

We recommend DAS implement procedures to ensure contract charges are correct. We also recommend documentation be maintained to support administrative charges are reasonable and necessary. We further recommend large purchases of supply items be tracked and safeguarded. Finally, we recommend DAS comply with State statute by ensuring the certified encumbrance letter is received prior to the disbursement of funds.

*State Personnel Division Response: Health Fitness Corp – DAS Wellness & Benefits has revised the previous process that was used to review the Health Fitness invoices. Due to the confidentiality of the program [coaching, condition management, and HIPPA regulations] the total scope of the information available to the State is somewhat limited. DAS will continue to work with the vendor and their parent company Trustmark to review and monitor billings for accuracy. Trustmark is hiring additional staff to assist with the internal audit process.*

*OCIO Response: The OCIO has implemented a process where they will review each telco invoice annually based upon a predetermined schedule, verifying charges against current contracts.*

*State Building Division (SBD) Response: SBD will review and implement a process to monitor the inventory of large purchases of supply items.*

*State Budget Division: As noted by the APA, a certified encumbrance letter has been provided by the City of Omaha for CYs 2013 and 2014; an encumbrance letter will be secured from the City of Omaha for CY2015 prior to making the final distributions from the City of the Metropolitan Class Development Fund to the City of Omaha in 2016.*

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**6. Inadequate Controls Over Disbursements (Concluded)**

*DAS Response: DAS has prioritized contract management and contract administration. DAS has hired an internal auditor, to assist in this goal and has implemented an internal contract management training program. In an effort to promote a culture of proactive contract management DAS has incorporated contract management training into its quarterly Purchaser User Group (PUG) meetings.*

**APA Response: For the Health Fitness Corp invoices we recommend DAS periodically perform or obtain an independent review of the information to ensure payments are proper. Reliance on the vendor's internal audit processes cannot replace DAS's responsibility to monitor the contract.**

**7. Lack of Segregation of Duties Over Receipts and Expenditures**

A good internal control plan requires a proper segregation of duties to ensure no one individual is independently able to process a transaction from beginning to end. A good internal control plan also requires that a documented review of the General Ledger Detail Report be performed to ensure all transactions are properly recorded.

Three employees were set up in the accounting system with the ability to prepare, approve, and post their own transactions. We also noted ten additional employees with the ability to prepare documents who could also approve transactions for all users. Because these ten employees can approve all users, they were able to prepare, approve, and post their own transactions. Furthermore, four additional employees had full access to the accounting system, which gave them the ability to set themselves up to prepare, approve, and post their own documents.

As a compensating control, DAS established a report in the accounting system to identify transactions that were prepared and approved or posted by the same user ID. We noted several issues with this report, as follows:

- The accounting system sent the report automatically to the State Financial Systems and Reports Manager (Manager), who would then forward it on to the Internal Control Coordinator (Coordinator) to review. However, the Manager had the ability to prepare, approve, and post his own transactions. The report should have been sent directly to the Coordinator to ensure all transactions were reviewed.
- The Coordinator only reviewed transactions that were prepared, approved, and posted all by the same user ID. Furthermore, certain State agency transactions were not reviewed because the Coordinator had a general understanding that they had a separate documentation process for their segregation of duties.
- Procedures performed, if any, on the transactions identified on the report were not documented.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**7. Lack of Segregation of Duties Over Receipts and Expenditures (Continued)**

- The report included only accounts payable transactions, not accounts receivable.

Considering the issues noted above, the compensating control is not effective.

We also noted DAS did not perform a documented review of the General Ledger Detail Report. DAS indicated the General Ledger Detail Report was sent to managers each month for review; however, this review was not documented. Reviewing the General Ledger Detail Report could identify improper transactions resulting from a lack of segregation of duties.

We further noted DAS did not have adequate procedures to ensure all monies collected were properly deposited. Each division's receipts are sent directly to Central Finance. One employee, who also had the ability to prepare, approve, and post their own transactions, opened the mail and recorded the initial control log of monies received and to which division the receipts were due. Receipts were not recorded on the initial control log if the employee could not determine to which division the receipts were due. The indeterminate receipts were locked in a safe until the proper division could be identified. Another employee with the ability to prepare the deposit documents and apply cash received to invoices had access to receipts located in the safe.

Lastly, we noted there was a lack of adequate controls over changes to vendor banking information and addresses in the accounting system, as follows:

- Only one individual from State agencies was required to request vendor additions or changes to vendor information in the accounting system. There was no secondary approval by another agency staff person prior to DAS' approval of the changes. DAS did not have procedures to ensure address changes were accurate or proper. Therefore, an agency staff person could change a vendor's address and have payments submitted to fraudulent addresses because DAS relied upon the agencies for accurate and proper changes to vendor information.
- The form used to make changes to vendor banking information could be fraudulently completed by an agency if it had access to the vendor's current banking information. Therefore, an agency staff person could change a vendor's banking information and have payments submitted to a fraudulent account. DAS had no procedures to identify fraudulent changes prior to approval and relied upon the bank's pre-note process, which did not require the banks to verify vendor names, addresses, etc.

A similar finding was noted in our 2004 report.

Without proper controls and segregation of duties, there is an increased risk for errors or fraud to occur and remain undetected.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**7. Lack of Segregation of Duties Over Receipts and Expenditures (Concluded)**

We recommend DAS implement a proper segregation of duties. DAS should restrict system access so that no one individual has the ability to process transactions independently from beginning to end, or it should establish adequate compensating controls to monitor individuals with elevated system access.

*DAS Response: DAS will continue to review duties and procedures regarding the segregation of duties over receipts and expenditures. All receipts are now being deposited immediately.*

**8. Excessive Fund Balances**

DAS has various revolving funds, also referred to as internal service funds, that accounts for goods and services provided to other State agencies. Internal service funds for Accounting Services (Accounting), General Services (Materiel), Transportation Services Bureau (TSB), and the Temporary Employee Pool had excessive fund balances per Federal requirements. Excess internal service fund balances indicate the fees charged to other State agencies are too high. These fees may subsequently be charged to various Federal programs. The Federal government could request excessive balances be returned to the Federal government.

OMB Circular A-87, Attachment C, Section G(2), provides the following:

*Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.*

Neb. Rev. Stat. § 81-1110.03 (Reissue 2014) states the following:

*The Accounting Administrator at the direction of the Director of Administrative Services shall prepare a schedule of fees to assess agencies for accounting services performed by the accounting division of the Department of Administrative Services. The fees shall be adequate to cover actual and necessary expenses associated with providing the services.*

DAS prepares worksheets at the end of each fiscal year to determine if the balances of internal service funds are within Federal requirements of 60 days of expenses. We noted that the Accounting, Materiel, TSB, and Temporary Employee Pool funds all had balances in excess of 60 days at June 30, 2014. All of these funds, except TSB, also had excessive fund balances at June 30, 2013. DAS indicated the Federal government had not yet completed its review of the 2013 or 2014 fund balances.

We further noted the Accounting Division, TSB, and Personnel Revolving Funds each had approximately six to eight months of expenditures on hand at December 31, 2014.



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**8. Excessive Fund Balances** (Concluded)

Fund	Fund Balance at			
	6/30/12	6/30/13	6/30/14	12/31/14
Accounting 56650	\$ 2,695,238	\$ 3,775,966	\$ 3,379,679	\$ 3,531,197
TSB 56570-2	\$ 6,103,800	\$ 5,577,936	\$ 5,815,265	\$ 4,173,836
Personnel 58040-1	\$ 317,676	\$ 443,549	\$ 378,947	\$ 411,424

We also noted in our review of fund balances that the Life Health History Trust Fund had 203 months of expenditures on hand. The Life Health History Trust Fund was used for a brief period of time several years ago, as the State-funded life insurance plan. Several people were grandfathered into the plan, and their death benefits are paid from this fund. DAS had not analyzed the fund balance to determine the proper funding level.

Fund	12/31/2014 Balance	Calendar Year Expenditures	Months on Hand
Life Health History - 68921	\$ 3,446,085	\$ 203,617	203

We recommend DAS develop procedures to ensure internal service fund balances are in accordance with Federal requirements. Additionally, we recommend DAS review fees charged and reduce rates where appropriate. We further recommend DAS analyze the Life Health History Fund to ensure the fund balance is appropriate.

*DAS Response: Internal Service funds balances are being monitored and the Agency will continue to take the necessary steps [rate reductions, credits, expenditures related to program enhancements, etc.] to decrease fund balances to meet the Federal requirements. DAS will analyze the Life Health History Fund to ensure the fund balance is appropriate.*

**9. OCIO Rate Charges and Credits Not Supported**

The Office of the Chief Information Officer (OCIO) is responsible for providing an equitable billing system based on actual costs for information management and communication services.

Agency budget requests are based in part on the rates established for services. These budget requests are then reviewed by the Legislature. If published rates are not accurate, agencies may receive more or less funding than necessary. If the agencies are awarded more appropriations than required for OCIO services, those appropriations could be used for purposes other than the Legislature intended. When rates are not charged in accordance with published rates, and special credits are provided to agencies, the budget process will also be affected.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

9. **OCIO Rate Charges and Credits Not Supported** (Continued)

Neb. Rev. Stat. § 81-1117(2)(F) (Reissue 2014) directs the information management services administrator to do the following:

*He or she shall prepare a budget in sufficient time in advance of the statutory date for submittal of budget requests by departments and agencies of the state as to permit each department and agency for which services are performed, or are to be performed during the request budget period, to be informed of the cost of maintaining the current fiscal year's production work for inclusion within their respective budget requests;*

Under subsection (2)(g) of that same statute, the information management services administrator is also required to do the following:

*He or she shall provide for a system of charges for services rendered by the information management services division to any other department or agency of the state when these charges are allocable to a particular project carried on by such department or division. Such standard rate charges shall, as nearly as may be practical, reflect the actual costs incurred in the performance of services for such department or agency. Such system of charges shall be annually reviewed by the Legislature's Committee on Appropriations. Rates planned for the coming fiscal year shall be included in the instructions for completion of budget request forms as annually prepared by the Department of Administrative Services budget division. If rate revisions are required during the fiscal year to reflect changes in the information management services division's operating costs, these revisions shall be announced to state agencies at least thirty days prior to their use in billing these agencies for service.*

Neb. Rev. Stat. § 81-1120.22 (Reissue 2014) states, in relevant part, the following:

*The Director of Communications shall develop a system of equitable billings and charges for communications services provided in any consolidated or joint-use system of communications. Such system of charges shall reflect, as nearly as may be practical, the actual share of costs incurred on behalf of or for services to each department, agency, or political subdivision provided communications services.*

Federal regulations allow a working capital reserve of 60 days cash expenses for revolving funds, excessive balances could require payment to the Federal government.

Good internal controls require procedures to ensure rate charges are equitable and reflect actual costs incurred. Good internal controls also require adequate documentation be maintained to support rates charged and that rate reductions are reasonable.

We noted the following:

- The April 2014 OCIO billings provided agencies \$5,000,000 in credits for information management services (IMS). No support was available for the \$5,000,000 credit amount or how it was allocated to specific services.
- The OCIO provided rate reductions, delayed implementing 2014 rates, and did not bill for certain services. Adequate documentation was not available to support that these reductions were reasonable and in accordance with statute.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**9. OCIO Rate Charges and Credits Not Supported** (Continued)

- The OCIO lacked adequate documentation to support that rates charged for services were reasonable, equitable, and reflected actual costs incurred.

More detailed information is noted below.

IMS Billing Credits/No-Bills/Rate Reductions

The rates established by the OCIO were not consistent with actual costs incurred. This resulted in a fund balance in excess of the 60 days of working capital allowed by Federal regulations. The balance of the IMS Revolving Fund at June 30, 2013, was \$16,299,735, which was approximately 129 days of working capital. In order to reduce the fund balance, the OCIO provided billing credits, rate reductions, and no-bills, instead of lowering the rates to reflect more accurately the cost of providing these services. DAS staff indicated rate credits and no-bills were implemented to lower the fund balance because it would be difficult to raise the rates in the future. However, without adequate supporting documentation, there is an increased risk that charges to agencies will not be equitable. Also, the Legislature and agencies need published rates to be as accurate as possible to facilitate the budget process.

- Credits – The OCIO provided credits to agencies in April 2014 based on prior usage. Credits totaling \$5,000,000 were provided for Enterprise Computing (mainframe) services. The services were tracked by billing codes. Billing codes were assigned to a business unit for tracking in the general ledger. Each business unit may have multiple billing codes. The credits were only for certain billing codes, as noted below. However, there was no support for how those particular billing codes were selected to be credited or how amounts were established for each.

Code	Description	Business Unit	Credits
034	MVS-CICS	65070028	\$ 982,410
035	MVS-CICS Test	65070028	17,590
002	MVS Enterprise Server	65070032	1,269,959
003	MVS-DB2 CPU	65070032	277,605
004	MVS Enterprise Zip Processor	65070032	452,436
013	Job Schedule Support Service	65070034	128,138
030	Output Manger Service	65070034	371,862
014	MVS-Disk Storage	65070038	1,492,679
016	Tape Storage	65070038	7,321
Total April 2014 Credits			\$ 5,000,000

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**9. OCIO Rate Charges and Credits Not Supported** (Continued)

- No-Bills – To reduce its fund balance further, the OCIO also implemented a “no-bill” policy. Agencies were not charged for these services during the specified time period.
  - CICS (codes 34 and 35): October 10, 2014, to December 5, 2014
  - MVS (codes 2, 3, and 4): October 10, 2014, to November 12, 2014
  - Production Control (codes 13 and 30): October 10, 2014, to March 3, 2015
  - Disk Storage (codes 14 and 16): October 10, 2014, to April 7, 2015
- Rate Reductions – Effective April 1, 2014, the OCIO implemented rate reductions for Enterprise Computing (codes 2, 3, 4, 14, 16), and Web Application Hosting services (codes 38, 73-76). These rate reductions were extended through June 30, 2015. Additionally, the OCIO delayed implementing the FY 2014 Published Rates for Applications Development staff (codes 144-149) until May 1, 2014.

The balance of the IMS Revolving Fund at December 31, 2014, was \$11,242,768, or approximately 79 days of working capital. Although the fund balance was reduced, based on our review of the general ledger it does not appear those reductions were equitable.

We reviewed the revenues and expenditures for the IMS Revolving Fund for each of the business units related to the services noted above:

Business Unit*	CY 2014 Revenues	CY 2014 Expenditures	CY 2014 Revenues over/(under) Expenditures
CICS	\$ 4,149,747	\$ 5,796,507	\$ (1,646,760)
MVS	\$ 7,796,539	\$ 9,188,532	\$ (1,391,993)
Production Control	\$ 149,409	\$ 611,371	\$ (461,962)
Disk Storage	\$ 350,085	\$ 1,866,805	\$ (1,516,720)
Interactive Web Hosting	\$ 793,916	\$ 634,522	\$ 159,394
Applications Development	\$ 20,612,156	\$ 19,676,257	\$ 935,899

\*Each business unit includes multiple service codes.

As part of the calendar year is included in State fiscal year 2014 and part in State fiscal year 2015, we also reviewed the general ledger for each fiscal year to determine the variance between revenues and expenditures. We also included the service with the largest variance that did not receive credits or no-bills. Revenues that exceed expenditures indicate excessive rate charges. Revenues less than (under) expenditures indicate that costs were not recovered; therefore, other services were overcharged to pick up the costs. Depending on the services used by an agency, the agency may have paid more or less than an equitable rate.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**9. OCIO Rate Charges and Credits Not Supported** (Continued)

Business Unit*	FY 2014 Revenues over/(under) Expenditures	FY 2015 Revenues over/(under) Expenditures	Total for Biennium Revenues over/(under) Expenditures
CICS	\$ (984,118)	\$ (692,371)	\$ (1,676,489)
MVS	\$ 1,599,792	\$ (335,484)	\$ 1,264,308
Production Control	\$ (321,312)	\$ (8,430)	\$ (329,742)
Disk Storage	\$ (2,725,291)	\$ (645,563)	\$ (3,370,854)
Interactive Web Hosting	\$ (406,515)	\$ 140,423	\$ (266,092)
Applications Development	\$ 954,689	\$ 568,930	\$ 1,523,619
Enterprise Exchange	\$ 720,746	\$ 850,094	\$ 1,570,840

\*Each business unit includes multiple service codes.

As evidenced by the table above, information management service (IMS) rates were clearly not in accordance with statute, which requires charges to reflect actual costs.

Lack of support for IMS rates charged

We reviewed five published rates charged through the IMS billing system. The OCIO lacked adequate documentation to support that rates charged for services were equitable and reflected actual costs incurred. Documentation was not maintained to support amounts used in the rate calculations.

We also noted the following:

- Rates included a percentage for administrative and indirect costs, but there was no documentation to support that the percentage was reasonable, and the percentage used was inconsistent. We noted administrative and indirect costs of 5%, 7%, 10%, and 15% used for different service rates.
- CICS – The OCIO lacked adequate support for estimates used for projected sales.
- MVS – The OCIO provided a spreadsheet that compared revenue per the current rate to expected revenue based on the proposed rate; however, the spreadsheet did not include related expenses and, therefore, did not support that the rates reflected the cost of the service.
- The OCIO-estimated costs for Web Hosting were also included in calculating the SQL Server Database Hosting Fee, which appears to be a duplication of costs. Directory Services costs were allocated 75% to Web Hosting, but the OCIO did not have documentation to support that the 75% was reasonable. The OCIO did not maintain documentation to support estimates used in the rate calculation. The rate calculation

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**9. OCIO Rate Charges and Credits Not Supported** (Continued)

worksheet provided showed estimated costs of \$672,709, compared to estimated revenues of \$558,004, for estimated unrecovered costs of \$114,705. Actual revenues exceeded expenditures for the calendar year. As noted above, Web Hosting received a rate reduction starting April 1, 2014. However, revenues continued to exceed expenditures.

- Applications Developer – The worksheet provided by the OCIO did not include the basis for assumptions used or an explanation when projections varied substantially from historical data. We noted the OCIO's projected amounts were more than 15% higher than actual costs for fiscal year 2014.
- Virtual Machine – The OCIO did not have support for the estimated sales used in the rate calculation. The OCIO had a rate of \$70 for Virtual Machine up to 2GB and a separate rate of \$45 for Virtual Machine – Memory Surcharge 2GB. All of the costs used to determine the \$45 rate were also the same costs used for the \$70 rate; thus, there appeared to be a duplication of costs. Costs for Virtual Machine also included SAN storage, which was a separate rate that also appeared to be a duplication of costs.

We also tested five IMS monthly billings to agencies and noted the following:

- One billing included services for contract programmer time that was charged at the contractor rate plus a \$20 per hour surcharge. The OCIO lacked documentation to support that the \$20 surcharge was reasonable or based on actual costs.
- One billing included services for contract programmer time that was charged at the contractor rate plus a \$12.50 per hour surcharge. The OCIO lacked documentation to support that the \$12.50 surcharge was reasonable or based on actual costs. Also, the invoice included \$62,186 for software purchases; however, the actual price was \$70,586, and there was no documentation to support why \$8,400 was not billed to the receiving agency.
- One billing included \$9,232 for an Information Technology Manager. The OCIO provided IT managers to seven State agencies. The IT managers were employees of the OCIO and were selected jointly by the OCIO and each agency director. Each IT manager was located at the agency and was a dedicated IT staff member within the agency. The agency IT manager also acted as a liaison between the agency and the OCIO. The agency paid 90% of the total monthly cost of salaries and benefits for the person assigned to the position of agency IT manager. The OCIO lacks adequate documentation to support not charging 100% of the salary to the agencies. There was no support to show 90% was reasonable, as any additional cost would have to be paid by non-participating agencies.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**9. OCIO Rate Charges and Credits Not Supported** (Continued)

- One billing included \$31,000 charged for OCIO support services, but there was no documentation to support that the rate was reasonable or based on actual costs. Also, the laptop lease program was charged \$113.75, but the published rate was \$115.
- One billing tested included a service not billed at the published rate, resulting in an undercharge of \$10.

Total revenue for the IMS Revolving Fund for calendar year 2014 was \$48,172,712.

*Lack of support for communication rates charged*

DAS did not start distributing revenue to associated business units in the accounting system until fiscal year 2014. Prior to July 1, 2014, DAS used manual spreadsheets to track revenues and expenditures by services.

We noted DAS charged a 7% administrative fee for communication services; however, DAS did not have adequate documentation to support that 7% was reasonable and in accordance with statute. A similar comment was noted in our 2004 report.

Costs in the rate calculations for monthly recurring line charges, long distance rates, and network WAN services did not agree to support, or support could not be located. We also noted during our testing of monthly billings to agencies the 7% administrative fee was charged twice for monthly recurring agent line charge. The 7% administration fee was included as a separate item on the communications billing and in the rate calculation.

Total revenue for the Telecommunications Revolving Fund for calendar year 2014 was \$36,892,819. The Fund balance at December 31, 2014, was \$11,539,687 or approximately 115 days of working capital. Fund revenues exceeded expenditures by \$320,183 for the calendar year.

Without adequate controls and procedures to ensure rates are based on actual costs, and agencies are properly billed, there is an increased risk that some agencies will be overcharged and other agencies undercharged for services.

We recommend DAS implement procedures to ensure that charges are correctly calculated and billed. We further recommend DAS maintain adequate documentation to support that rates charged are equitable and reflect the actual costs incurred for services provided. We also recommend DAS improve procedures to ensure rates published for the budgeting process are the actual rates charged during the biennium. Finally, we recommend that, if credits are necessary, those credits be adequately documented to support the proper services receive credits based on actual costs.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**9. OCIO Rate Charges and Credits Not Supported** (Concluded)

*DAS Response: Effective 7/1/15, the DAS-OCIO reset all rates to those that were published for budgeting purposes. Once financial data, including actual revenues for budgeted rates is received; OCIO will do a wide-spread rate review to ensure that state agencies are charged rates that are equitable and reflect actual costs incurred for services provided. As part of this process, OCIO will also begin reducing fund balances to more acceptable levels by adequately documenting credits to support that the proper services receive credits based on our actual costs.*

**10. Segregation of Duties Over Payroll**

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

DAS lacked an adequate segregation of duties for the processing of payroll. The State's accounting system used to process payroll does not have any built-in segregation of duties controls, resulting in anyone with access to payroll in the accounting system having the ability to process payroll from beginning to end, without the involvement of a second individual. Additionally, all individuals involved in the review of payroll reports had access to, as well as the ability to make changes within, the accounting system. No review of payroll reports was performed by an individual who did not have access to process payroll in the accounting system to compensate for the lack of segregation of duties.

Furthermore, five individuals at DAS had statewide payroll access that allowed them to make changes to all State agency payrolls prior to processing the final payroll files. DAS did not have procedures in place to identify inappropriate changes made by these individuals. State agencies may not identify these changes, as their payroll approval process would have been finalized prior to submission to DAS for final processing.

When a proper segregation of duties does not exist, there is an increased risk for misuse of funds and for employees' pay to be improper.

We recommend DAS establish policies and procedures for a proper segregation of duties, including a review of payroll reports by an individual without access to process payroll in the system. Furthermore, we recommend DAS ensure statewide payroll access is monitored for appropriate use.

*DAS Response: DAS will review its internal payroll process and ensure that payroll reports are reviewed by an individual without access to payroll in the system. DAS State Accounting is reviewing the process and the information that is required when an Agency submits their payroll certification and will also continue to review segregation of duties and statewide payroll access.*



**COMMENTS AND RECOMMENDATIONS**

(Continued)

**11. Long-Term Disability Insurance**

Good internal control requires procedures to ensure amounts withheld for payroll benefit deductions are proper.

The cost of Long-Term Disability (LTD) insurance coverage is based on the coverage selected by employees, as well as employees' age and salary as of July 1 of each year. Annually, as of July 1, the LTD rate should be updated for salary and age increases. Workday, the State's human resource application, was not set to automatically update LTD withholding rates based on July 1 pay increases and age increases, resulting in LTD rates not being updated for July 1, 2014, changes. This issue was not identified by DAS until March 2015, and it was not corrected until May 2015. Because LTD rates were not updated for July 1, 2014, changes, State employees who elected LTD insurance underpaid their premiums from July 2014 through April 2015.

Mutual of Omaha, the State's Long-Term Disability Insurance provider, agreed to write off approximately \$45,000-\$50,000 in underpaid premiums for July through December 2014; however, the State was responsible for repaying the underpaid premiums from January through April 2015. Total underpayments for this period were \$35,379, which the State repaid in June 2015.

When proper amounts are not withheld from employee paychecks for benefit deductions, there is an increased risk that the State will be responsible for the underpayment of the employees' share of premiums.

We recommend DAS implement procedures to ensure that proper amounts are withheld from employees' pay, and any variances are identified in a timely manner.

*DAS Response: DAS implemented an improved process beginning in July 2015, as premiums were updated for the new plan year.*

**12. Lack of Support for Payroll Charges**

A good internal control plan requires adequate documentation be maintained to support payroll charges.

Title 273 NAC 8-008, Additional Benefits, states the following:

*In order to ensure equitable compensation programs, agencies shall obtain concurrence of the Director of Personnel, DAS-State Personnel Division before granting employees any additional benefit (shift differentials, stipends, officer of the day pay, uniforms, housing, vehicles, etc.).*

Neb. Rev. Stat. § 81-175 (Reissue 2014) states, in relevant part, the following:

*The compensation of the members of the task force [for building renewal] shall be established by the Governor on a per diem basis, and they shall work the days and hours required to accomplish the task.*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**12. Lack of Support for Payroll Charges (Concluded)**

NAPE/AFSCME and State of Nebraska Labor Contract, Sections 14.12, states the following:

*Substantiating evidence may be required if the sick leave absence exceeds three consecutive workdays.*

Administrative Services Workplace Policies Manual, Chapter 8 – Attendance and Work Schedules, Attendance Expectations, states the following:

*Substantiating evidence may be required if the sick leave absence exceeds three consecutive workdays.*

During testing, we noted DAS lacked adequate supporting documentation, as follows:

- Adequate support was not available for the allocation of payroll costs for two of two employees tested, who had their pay split between multiple funds and/or programs.
- For 5 of 25 employees tested, the W-4 form that was in effect for the pay period tested could not be located.
- For 2 of 25 employees tested, documentation was not on file to support payroll deductions withheld from the employee's pay.
- For one employee tested who received shift differential pay, documentation was not on file to support that the shift differential was approved by the State Personnel Division.
- DAS could not locate documentation to support the per diem pay rate earned by all three members of the 309 Task Force. Per diem payments to these employees totaled \$31,958 during 2014.
- For one of five employees tested, DAS did not have adequate support for sick leave used. The doctor's note on file excused the employee from work through March 31, 2014. However, the employee used sick leave for the entire pay period, which extended through April 4, 2014. Consequently, four days were not supported by adequate documentation.

A similar finding was noted in prior reports.

When adequate supporting documentation is not maintained, there is an increased risk that improper transactions may occur and go undetected.

We recommend DAS implement adequate procedures to ensure supporting documentation is maintained for all transactions.

*DAS Response: DAS will maintain documentation of the allocation of payroll costs for those employees who have Labor distribution, review current procedures and take the necessary actions to ensure compliance with the requirements for Per Diem employees and DAS will continue to review policies and procedures to ensure supporting documentation is maintained for all payroll transactions.*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**13. Lack of Adequate Time Records**

Neb. Rev. Stat. § 84-1001(1) (Reissue 2014) states the following:

*All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur.*

Sound business practices, as well as a good internal control plan, require hours worked by State employees to be adequately documented and such documentation to be kept on file to provide evidence of compliance with § 84-1001(1). Furthermore, a good internal control plan requires employees who accrue vacation and sick leave to have documentation to support the amounts earned.

Section 124-86, Payroll – Agency Records, of Nebraska Records Retention and Disposition Schedule 124, General Records, as issued by the Nebraska State Records Administrator, requires any “supporting records received or generated by an agency used to review, correct or adjust and certify agency payroll records” to be retained for five years. Per that same section, the supporting records may include timesheets and reports.

A good internal control plan requires the approval of timesheets to be documented for subsequent review.

The State’s accounting system, EnterpriseOne, was utilized for time entry and leave reporting. We noted the following:

- Overtime exempt employees were not required to maintain a timesheet or other form of documentation to show at least 40 hours were worked each week. Exempt employees were only required to record leave used in the system.
- EnterpriseOne timesheets were only maintained for the current pay period.
- Supervisors and human resource staff within DAS were able to change the employees’ submitted timesheets without the employees’ knowledge or documentation of the changes made.
- EnterpriseOne did not accurately track who approved timesheets in the system. Each employee was assigned a supervisor in his or her master file in the system. The supervisor assigned to an employee approved the timesheet. However, supervisors were allowed to set up delegates in the system to approve timesheets in the supervisor’s absence. The system did not record who actually approved the timesheet; if a delegate approved an employee timesheet, the system would record the assigned supervisor as the approver.

A similar finding was noted in prior reports.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**13. Lack of Adequate Time Records (Concluded)**

Without adequate records to support hours worked and leave earned, there is an increased risk for fraudulent or inaccurate payments to occur.

We recommend DAS establish a policy requiring all State employees to maintain adequate documentation, such as timesheets or certifications, to support leave earned and compliance with statute. Furthermore, we recommend DAS make the necessary changes to EnterpriseOne to comply with the Nebraska Records Retention and Disposition Schedule.

*DAS Response: According to the Fair Labor Standards Act, exempt employees must receive the full salary for any week in which the employee performs any work without regard to the number of days or hours worked, unless certain exceptions are met. Exempt employees, when hired, are expected to work 40 hours per week and that they will report any exceptions. Time sheet images are maintained until the payroll is processed, however the electronic data is maintained indefinitely in the system of record.*

**14. Leave Adjustment Policy**

Title 273 NAC 10-004.02 of the State Classified System Personnel Rules and Regulations states, “All employees’ accumulated vacation time in excess of thirty-five days shall be forfeited as of December 31 of each calendar year.”

Similarly, Title 273 NAC 10-005.03 states, “The sick leave account of each employee shall be balanced to a maximum of 1440 hours on December 31 of each year.”

Sound business policies should ensure that all accumulated leave is accounted for, including leave earnings through December 31, as required by the above rules and regulations.

The APA determined that the DAS statewide policy regarding lapsing of vacation and sick leave did not properly account for leave earned after the last pay period in December but not recorded in the State’s accounting system until January.

The last pay period of the calendar year included time worked and leave earned through December 28, 2014. Leave hours earned from December 29 to 31, 2014, were not recorded until after the end of the calendar year. Therefore, 3 of the 10 days in January’s first pay period were for leave earned in December, but not recorded in the State’s accounting system until January.

The table below illustrates the December 2014 leave lapsing calculation under DAS’ current policy compared to the NAC regulation for a biweekly employee who accrues vacation leave at the maximum rate of 7.69 hours per pay period, or .769 per workday.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**14. Leave Adjustment Policy (Concluded)**

	Vacation Leave Hours				
	Balance on Pay Period Ended 12/28/2014 <b>(A)</b>	Leave Earned from 12/29 to 12/31 (recorded in January) <b>(B)</b>	Balance Subject to Lapsing <b>(C) = (A) + (B)</b>	Allowed Maximum Carryover <b>(D)</b>	<b>Required Lapse Amount (C) - (D)</b>
Per DAS Policy	288	0	288	280	<b>8</b>
Per NAC	288	2.307	290.307	280	<b>10.307</b>
<b>Variance</b>					<b>2.307</b>

**Note 1:** Thirty-five days multiplied by 8 hours per day equals a maximum allowed carryover of 280 hours.

**Note 2:** Three days multiplied by .769 hours equals 2.307 hours.

Under DAS' current policy, leave earned on the last three days of December would not be subject to lapsing. Although the 2.307 hour variance shown in this example may appear insignificant, similar variances would exist for all State employees under Title 273 NAC with leave balances in excess of the allowed maximum at the end of the year. The result is an insufficient amount of leave hours being lapsed and the possibility that employees are overpaid leave hours upon termination of employment.

By not complying with the actual language of the NAC regulations, there is an increased risk that not enough leave will be lapsed, and the State could pay for leave to which employees are not entitled.

We recommend DAS amend its statewide leave adjustment policy to account for all leave earned during the year, in accordance with the NAC regulations.

*DAS Response: DAS will further review this recommendation, but currently sees no significant benefit once the beginning of the year accruals are reversed from the calculation.*

**15. Accounting Errors**

A good internal control plan requires procedures to ensure financial information is accurately recorded in the accounting system.

The State Accounting Manual, General Policies, contains the following:

*Building improvements are capitalized when the project enhances the functionality of the building either by effectiveness or efficiency, or extends the life of the building and the accumulated costs are \$100,000 or greater. These improvements do not add square footage to the existing building. For large projects with multiple progress payments, the payments should be coded to 587500 – Construction In Progress . . .*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**15. Accounting Errors (Continued)**

We noted the following errors recorded in the accounting system:

- A reimbursement of \$165,600 was recorded to distance education “Sale of Services” but should have been recorded to “Non-grant Reimbursement.”
- Expenditures of \$516,100 were paid from the Telecommunication Revolving Fund but should have been paid from the Public Safety Communications Revolving Fund. The revenue was from the retainer fees recorded to the Public Safety Communications Revolving Fund. The expenditures should have been paid from the same fund so that revenues and expenditures matched; otherwise, other agencies will be overcharged for Telecommunication services.
- DAS recorded pass-through service costs to a miscellaneous revenue account “IMS Commodity Pass Thru.” DAS then billed the agency and recorded the revenue as “Sales of Services.” This resulted in a negative miscellaneous revenue on the financial statement. The total of the “Commodity Pass Thru” account for calendar year 2014 was \$416,577.
- A payment for building renovations was not properly capitalized but was recorded instead as a repair and maintenance expense. The payment tested was for \$64,037; the total contract for the project was \$2,473,000.
- Two documents tested totaling \$106,377 for employee training courses were incorrectly paid from the Personnel Revolving Fund but should have been paid from the Training Revolving Fund. Neb Rev. Stat. § 81-1354.03 (Reissue 2014) requires all funds received by the Personnel Division for employee training programs to be remitted to the State Treasurer for credit to the Training Revolving Fund.
- The State’s accounting system, EnterpriseOne, was maintained by assessment fees charged to State agencies. These assessments were recorded as revenue to the Accounting Division Revolving Fund. In May 2012, Workday became the State’s human resource system of record. Since EnterpriseOne was the previous human resource system, DAS-State Accounting Division determined a portion of the EnterpriseOne assessment fees should be transferred to the Personnel Revolving Fund to cover the maintenance costs of Workday.

We tested a journal entry expensing \$163,000 from the Accounting Division Revolving Fund and a credit to revenue in the Personnel Revolving Fund. This appears to be double recording the revenues and incorrectly recording \$163,000 as an expense when it is actually just a reallocation of an assessment fee. Additionally, the amount transferred was not adequately supported. According to the Personnel Division, the amount transferred was determined by employees who are no longer with the State, and no documentation to support the \$163,000 was on file.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

15. **Accounting Errors** (Concluded)

When transactions are not correctly recorded, there is an increased risk the financial statements will be misstated.

We recommend DAS develop procedures to ensure financial information is accurate, complete, and in accordance with State statutes and accounting policies. We further recommend DAS prepare correcting accounting entries as needed.

*DAS Response: DAS will continue to review current procedures to ensure that the financial information is accurate, complete and in accordance with State statutes and accounting policies, and DAS will review the information and make any necessary prior year correction entries for those transactions that materially impact the prior fiscal year.*

16. **Internal Control Over Capital Assets**

A good internal control plan requires an adequate segregation of duties or compensating controls to ensure no one individual is able both to perpetrate and to conceal errors or fraud. Additionally, a good internal control plan requires procedures to ensure that capital asset reports are reviewed by an individual independent of the process. Sound accounting practice requires controls over assets susceptible to theft be established. Good internal controls also require an item to be physically located and observed in order to be properly inventoried.

Neb. Rev. Stat. § 81-1118.02(3) (Reissue 2014) provides the following, in relevant part:

*(1) Each executive, department, commission, or other state agency, including the Supreme Court, the Board of Regents of the University of Nebraska, and the Board of Trustees of the Nebraska State Colleges, shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission, or other state agency as of June 30 and shall be completed and filed with the materiel administrator by August 31 of each year.*

....

*(3) Each such executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska. In the inventory required by subsection (1) of this section, each such executive, department, commission, or other state agency shall state positively that each item of such property has been so tagged, marked, or stamped.*

The State Accounting Manual states, “The DAS Materiel Administrator has established \$1,500 as the minimum for capitalization of articles or property. Agencies have the option to capitalize items under \$1,500 on their inventories if they so desire.”

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**16. Internal Control Over Capital Assets (Continued)**

We noted the following:

- Certain individuals were able to perform all functions of capital asset processing for their respective divisions. Not only did they have the ability to add, initiate the deletion, and maintain the capital assets on the accounting system, but these individuals were also responsible for conducting the annual inventory. Additionally, there was no independent review of the Additions and Retirements Report from the accounting system to ensure all assets added and deleted were proper. A similar finding was noted in our 2004 and 2011 reports.
- No policies or procedures were in place to track assets susceptible to theft, such as computers, that were below the \$1,500 capitalization threshold. Furthermore, the APA observed an unlocked employee training room with assets valued collectively at \$21,182. Items included several computers and a 60" television. This room was accessible by any person in the building.
- Seven of 40 assets tested were not tagged as property of the State of Nebraska in accordance with State statute. A similar finding was noted in our 2004 report.
- Per Neb. Rev. Stat. § 81-1118(4) (Reissue 2014), the Materiel Division's copy services is responsible for the purchase and placement of all State copier equipment. However, neither the Materiel Division nor the State agencies performed the annual physical inventory of the copiers required by § 81-1118.02(1). Copiers totaled \$5,971,435 of the Materiel Division's assets as of December 31, 2014. It was noted that the Materiel Division accepted receipt of an agency email with a copier's meter reading as a physical inventory for that piece of equipment.

Equipment on the capital assets listing totaled over \$139 million as of December 31, 2014. Without proper controls, there is an increased risk that assets could be lost or stolen.

We recommend DAS segregate duties over capital assets, ensuring the Additions and Retirements report is reviewed by an employee with no access to capital asset records. We also recommend DAS develop procedures for safeguarding non-capitalized assets susceptible to theft. We further recommend that DAS ensure, pursuant to an annual inventory, all capital asset items are appropriately tagged as "Property of the State of Nebraska" and the annual inventory include a physical observation of copiers.

*DAS Response: DAS will review the segregation of duties over capital assets and ensure that the Additions and Retirement Report is reviewed by an employee without access to capital asset records.*



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**16. Internal Control Over Capital Assets (Concluded)**

*A statewide letter dated 07-01-2015 from Bo Botelho, Materiel Administrator (at that time), instructed all agencies, boards, and commissions to record all computer towers, laptops, notebook computers, and tablet computers purchased from the date of the letter be classified in EnterpriseOne as a fixed asset regardless of their cost.*

*A memo will be sent to all Fixed Asset Coordinators to remind them of the requirements of tagging all State owned items.*

*Materiel will work with all Fixed Asset Coordinators to ensure that the copiers are scanned as part of the annual inventory process completed by all agencies, boards, and commissions.*

**17. Exchange of Property**

Neb. Rev. Stat. § 72-815(3)(a) (Cum. Supp. 2014) provides the following:

*If a building or land is to be sold or leased, the state building division shall cause an appraisal to be made of the building or land . . . . The state building division may then sell or lease the building or land by such method as is to the best advantage of the State of Nebraska, including auction, sealed bid, or public sale and, if necessary, by private sale, but in all situations only after notice of the property sale is publicly advertised on at least two separate occasions in the newspaper with the largest circulation in the county where the surplus property is located and not less than thirty days prior to the sale of the property. The state building division may use the services of a real estate broker licensed under the Nebraska Real Estate License Act. Priority shall be given to other political subdivisions of state government, then to persons contracting with the state or political subdivisions of the state who will use the building or land for middle-income or low-income rental housing for at least fifteen years, and finally to referrals from the Department of Economic Development.*

Although the above statutory language mandates an appraisal only when selling or leasing a building or land, sound business practice requires a similar appraisal of any building or land to be purchased or leased. Additionally, sound business practice requires all contracts entered into to be in the best interest of the State and thoroughly reviewed for accuracy prior to signing. Good internal controls require, moreover, all assets acquired and disposed of be recorded on the accounting system in a timely manner.

During our review of 15 asset additions, we tested a vacant lot with a value of \$360,000 that was added to the State's accounting system on April 5, 2014. Upon further review, we noted this land was part of an exchange transaction between the Omaha Zoo Foundation (Zoo) and the State in August 2013.

The exchange involved two buildings operated by the Nebraska Tourism Commission and the Game and Parks Commission. Per Neb. Rev. Stat. § 90-253 (Reissue 2014), the Department of Economic Development (DED) was authorized, upon written approval of the Governor, to sell, lease, or otherwise convey the State property. As custodian of all buildings and lands owned by the State, DAS acted on behalf of DED. The two buildings were exchanged for two vacant lots and a 20-year, no-cost lease agreement for a Tourism Information Desk at the Zoo.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**17. Exchange of Property (Concluded)**

DAS did not obtain independent appraisals for the two pieces of land acquired and never attempted to sell the State buildings outright. In addition, those buildings were not removed from the State's accounting system until the APA brought up the issue in March 2015. Also, the land acquired was not added to the State's accounting system in a timely manner.

	Value per DAS Appraisal	Value per Zoo Appraisal
<b>Property Received</b>		
Vacant Lot 1	None obtained	\$ 360,000
Vacant Lot 2	None obtained	\$ 300,000
DAS Estimate of Lease Value		\$ 75,000
<b>Total Estimated Value Received</b>		<b>\$ 735,000</b>
<b>Property Given Up</b>		
Buildings and Land	\$ 930,000	\$ 700,000
<b>(Loss)/Gain on Exchange</b>	<b>\$ (195,000)</b>	<b>\$ 35,000</b>

Taking an average of the estimated loss/gain from the exchange, as illustrated in the above chart, would reveal that the transaction resulted in a loss of approximately \$80,000 for the State.

The failure to obtain independent appraisals of the property received, as well as not attempting to sell the buildings before entering into the exchange transaction, increased the risk for loss of funds – a risk that became a reality in the form of an estimated \$80,000 undervaluation.

Furthermore, when large assets are not recorded in the State's accounting system in a timely manner, there is increased risk for financial statement errors to occur.

We recommended DAS obtain independent appraisals prior to either selling or purchasing property and explore all options for a possible sale of property before agreeing to an exchange. We also recommend asset acquisitions and retirements be recorded in the State's accounting system in a timely manner.

*DAS Response: As part of the exchange of property DAS reviewed and used an appraisal completed by an independent licensed appraiser that was paid for by the seller. DAS will review and revise, when necessary, current processes to ensure that asset acquisitions and retirements are entered into EnterpriseOne in a timely manner.*

**18. Proceeds from Sales of Assets**

Neb. Rev. Stat. § 81-161.04(2) (Reissue 2014), regarding proceeds from sales of surplus property, states the following:

*Except as otherwise provided in this subsection, the proceeds of the sales 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*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**18. Proceeds from Sales of Assets** (Continued)

*percentage of such accounts or funds, in which case the proceeds of the sale to that extent shall be credited to the cash or federal account in the percentage used in originally purchasing the property . . . . The proceeds received from the sale of passenger-carrying motor vehicles originally purchased with money from the General Fund, other than passenger-carrying motor vehicles used by the Nebraska State Patrol, less selling costs, shall be deposited in the state treasury and credited by the State Treasurer to the Transportation Services Bureau Revolving Fund.*

Neb. Rev. Stat. § 84-710 (Reissue 2014) states the following, in relevant part:

*It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state, including the State Racing Commission, to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more . . . .*

During our review of asset sales and disposals, we noted the following:

- In June of 2014, a State-owned vehicle was deemed a total loss from hail damage. The Nebraska Risk Management Association (NRMA), the insurance carrier, handled both the disposal of the vehicle and the resulting \$10,075 in proceeds. According to DAS, NRMA was to hold that money until TSB purchased another vehicle. NRMA was then to pay the insurance proceeds directly to the vendor. As of May 15, 2015, almost an entire year after the vehicle had been deemed a total loss, none of the insurance proceeds had been deposited to the State or paid to a vendor for a new vehicle. The State should have received those funds and, per § 84-710, deposited them to the State treasury within three days of receipt.
- Section 81-161.04(2) uses the term “cash account,” which is not specifically defined in statute. The statute also referred to a certification to the Materiel Division; however, DAS lacked policies or procedures for obtaining such certification. Instead, agencies instructed the Materiel Division how to deposit proceeds from sales – but, contrary to the statutory requirement, no provision was made for certifying that the property was purchased from the fund credited.

The operative language in § 81-161.04(2) originated in 1963, and the language found at the end of subsection (2) addressing specific cash and revolving funds was added through a series of four separate bills between 1972 and 1995. In the committee hearing for LB 381 (1995), the State Budget Administrator explained how the statute is supposed to work:

*As far as the surplus goes, on regular surplus property, the money goes back to whatever fund it came from. So . . . so, a computer that you’re selling, if it was purchased with general funds, the money goes back to the general funds, the state general funds. If it’s purchased with cash funds from a cash fund agency, it would go back to that cash fund.*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**18. Proceeds from Sales of Assets (Concluded)**

LB 381 (1995), Transcript of Government, Military and Veterans Affairs Committee Hearing of February 9, 1995, p. 4. This testimony indicates that the understanding and actual application of the statutory language at issue is to return the money to the fund of origin.

For 8 of 10 sold assets tested, we noted the proceeds were deposited to the fund of origin; however, the various divisions failed to certify this, as required by § 81-161.04(2), to the Materiel Division.

- We noted 2 of 10 sold assets had proceeds deposited to funds other than the General Fund or fund of origin. An asset purchased from the IM Services Revolving Fund had \$607 credited to the Telecommunication Revolving Fund. Likewise, an asset purchased from the General Fund had \$49 credited also to the Telecommunication Revolving Fund.
- For 1 of 15 additions tested, the asset was purchased for \$49,438 from the Telecommunication Revolving Fund, but it was being tracked with the Public Safety Communication Revolving Fund. Good internal controls require assets to be tracked under the same fund from which they were purchased to ensure that any subsequent proceeds are properly credited.

DAS had 1,530 asset retirements during calendar year 2014, and the deposits from the sale of assets totaled \$2,641,123.

When statutory language is unclear as to where sale proceeds should be deposited, there is an increased risk that State funds will be mishandled. Furthermore, when funds due to the State are not deposited timely to the State treasury, there is risk of loss or misuse of those funds.

We recommend DAS receive and deposit to the State treasury in a timely fashion all monies due to the State. Additionally, we recommend all proceeds from the sale of State surplus property be deposited to the General Fund or fund of origin. We recommend also tracking State assets with the fund of origin. We recommend further DAS implement policies and procedures for agencies to certify the fund to which surplus property sale proceeds are to be deposited. Finally, we recommend that § 81-161.04 be amended to clarify the meaning of “cash accounts” as used in that statute.

*DAS Response: DAS will review current procedures to ensure that DAS receives and deposits in a timely fashion all monies due. DAS will review Neb. Rev. Stat. § 81-161.04 and work with the appropriate officials to make the necessary revisions. The allocation of sale proceeds to appropriate funds will be the result of possible procedural changes as statute interpretation becomes clear.*

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**19. Capital Asset Report Errors**

Good internal controls require procedures to ensure the accuracy of asset records and reports.

The Additions and Retirements by Tag Number Report was not mathematically correct, and assets were recorded with incorrect values. We noted the following:

- The “Beginning Asset Cost” plus “Additions” less “Assets Sold and Retired” did not equal the “Ending Asset Cost.” This appeared to be a logical error in the system report.
- The “Beginning Asset Cost” and “Ending Asset Cost” were adjusted due to a video camera disposed of in 2011 that was not properly updated.
- Additions were overstated by \$2,004,736 due to six asset transfers. The costs were included as additions when purchased and as additions when transferred. Asset information was correct in the accounting system for the individual ledger items but incorrect on the reports.
- “Ending Asset Cost” was overstated by \$1,012,950 due to the asset errors noted and the report not being mathematically correct.
- The assets noted above were also incorrect on the Asset Master List – F2 Ledger Report. The total overstatement of \$1,012,950 was adjusted for the Net Book Value.

When asset information is not properly recorded, there is an increased risk for financial reporting errors.

We recommend DAS implement procedures to ensure that errors noted in the capital asset reports are researched and corrected. DAS should determine why the capital asset reports generated do not agree to the individual ledger information in the system and take the appropriate action to resolve any errors.

*DAS Response: DAS will review and research the EnterpriseOne Fixed Assets reports as noted.*

**20. Print Shop Inventory**

Good internal controls require the segregation of key duties to ensure that no one is in a position both to perpetrate and to conceal errors or fraud. Physical inventory counts should be performed by someone who does not have custody of inventory. Good internal controls also require procedures to ensure inventory is properly tracked and safeguarded.

The Print Shop conducts monthly physical counts of 22 high-cost or high-volume inventory items. The physical counts are conducted by Print Shop supervisors who are not independent because they have access to, and oversee the use of, the Print Shop inventory.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**20. Print Shop Inventory** (Concluded)

Each month during the physical count of 22 items in the Print Shop Inventory, a report is generated that shows the variance between the physical count and the accounting records for each item. The Print Shop's policy is to investigate only variances over \$1,500 for a single item. There is no annual or periodic complete physical count of Print Shop inventory that is reconciled to the records.

We reviewed the variance reports from July 2014 through December 2014, and the following issues were noted:

- An average of 18 out of 22 items counted had variances between the amounts physically counted and the amounts in the records each month. The total value of the variances per month ranged from (\$7,415) to \$2,622.
- Two of 5 items with variances over \$1,500 were not explained or investigated by the reviewer per the Print Shop's policy.
- For all items with variances under \$1,500, the accounting records are adjusted to the physical count without any investigation into what caused the variance. Per the Print Shop, the system does not take into consideration jobs that may be completed or partially completed but not yet billed. Because of time and staff constraints, moreover, it was determined by the Print Shop not to be in the best interest to review variances below \$1,500.

Inventory purchases for calendar year 2014 totaled \$850,224. Without an adequate segregation of duties and a periodic complete physical count of inventory reconciled to accounting records, there is an increased risk for loss or misuse of inventory items and misstatement of the financial statements.

We recommend that an independent individual conduct the physical counts of the Print Shop inventory. Furthermore, we recommend an annual physical count of inventory be completed and reconciled to the accounting records, with all variances reviewed.

*DAS Response: DAS will review Print Shop inventory procedures, including the monthly and annual inventory processes, and will identify and include an independent person(s) to conduct the physical inventory.*

**21. Printing and Copy Service Rates**

Neb. Rev. Stat. § 81-1120(1) (Reissue 2014) states:

*There is hereby created the Materiel Division Revolving Fund. The fund shall be administered by the materiel division of the Department of Administrative Services. The fund shall consist of (a) fees paid for printing, copying, central supply, and mailing services provided to state agencies and local subdivisions by*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

21. **Printing and Copy Service Rates** (Continued)

*the division and (b) assessments charged by the materiel administrator to state agencies, boards, and commissions for purchasing services provided by the division. Such assessments shall be adequate to cover actual and necessary expenses associated with providing the service. The fund shall be used to pay for expenses incurred by the division to provide such services.*

A good internal control plan and sound business practices require procedures to ensure fees charged by the Materiel Division (Materiel) are equitable, adequately supported, and in accordance with published rates. Good internal control further requires that personnel have an adequate understanding of how systems used in the billing process are functioning to ensure costs charged are proper.

Print Shop Rates

The Print Shop uses cost centers to set its rates. A cost center consists of a machine or group of machines that perform a specific task. Historical costs and anticipated production units are used to arrive at a per unit rate. During testing of the Print Shop rates, we were informed the rates were last updated in fiscal year 2010 and had not been reviewed since that time. Our audit report for the period July 1, 2009, through December 31, 2011, noted the printing service rate calculations used amounts that did not agree to supporting documentation, calculations were incorrect, and assumptions were not supported. We also noted Materiel established a 35% surcharge for special purchases, paper costs, plate material, special order supplies, and colored ink. Materiel did not have support for the surcharge, Materiel said it was the industry standard.

It is unlikely that costs have remained constant since 2010; moreover, as noted, those rates were not adequately supported. The Print Shop offers a variety of services, and it is important that each service be charged appropriately. Otherwise, agencies using these services could be over or undercharged depending on the services used. Also, if Print Shop revenues are not adequate to cover expenditures, then DAS is not in compliance with statute, and charges to agencies for other Materiel services will be too high. Conversely, if revenues are significantly higher than expenditures, then agencies will be overcharged. For the 2014 calendar year, expenditures exceeded revenues by \$500,107.

Print Shop Operations 2014 Calendar Year		
Revenues	Expenditures	Variance
\$ 2,960,777	\$ 3,460,884	\$ (500,107)

Print Shop Billings

During testing of the Print Shop's billing to the Department of Motor Vehicles (DMV), we noted that the Print Shop provided discounted rates on one item, did not charge at all for another item, and the quantity charged for a third item did not agree to supporting documentation. These special rates resulted in the DMV being underbilled by \$57,222. The Print Shop indicated it provided these special rates to be more competitive in order to secure the print job.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**21. Printing and Copy Service Rates** (Continued)

Additionally, we noted the Print Shop was relying on the State accounting system to calculate the average cost of inventory used in the billing process. However, DAS was unable to provide an adequate explanation of how the system calculated those costs, nor was it able to explain variances identified when the APA attempted to recalculate the cost for one item.

Furthermore, we noted the Print Shop does not provide agencies with detailed documentation needed to identify exactly what they were billed for. Specifically, the DMV billing noted above included charges for additional pages for overruns. The Print Shop indicated it was industry standard to print overruns in case not all pages originally printed are acceptable; however, the documentation provided to the DMV did not identify the amount charged for overruns.

When discounted rates are provided on some print jobs, other users of the Print Shop's services are effectively overcharged to make up for the discounts. Additionally, without an adequate understanding of how inventory costing should be functioning, DAS would be unaware if costs calculated by the accounting system were proper. Finally, when agencies are not provided detailed information with their billings, they will be less likely to identify potential errors in the billing and, consequently, pay improper amounts.

Copy Service Rates

Copy Services is responsible for the leasing of copiers to State agencies. The rate charged per individual copier is made up of three components related to the cost of the machine, the cost to operate the machine, and administrative overhead. Per Materiel, there were 882 copiers leased to State agencies. We noted the following:

- During testing of the overhead rate of \$18.70 per month charged on each copier, we noted a lack of support for the salary allocations of the copy services staff. Two staff members' salaries were included in the overhead copier fee. A shop supervisor had 50% of his salary and a technician had 90% of his salary included in the calculation. Materiel did not have documentation to support the percentages allocated were reasonable.
- We tested rates billed for seven copiers. One agency was billed the incorrect rate for 16 months. The monthly fee tested should have been \$118.70; however, \$188.70 was charged, causing the agency to overpay \$1,120.

Without adequate controls and supporting documentation, there is an increased risk for agencies to be improperly charged.

A similar finding was noted in our prior reports.



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**21. Printing and Copy Service Rates (Concluded)**

We recommend DAS improve procedures to ensure fees reflect the actual costs of providing services. We recommend rates be adequately supported and consistently charged in accordance with published rates. Agencies should be provided adequate documentation to support that charges are accurate. Additionally, we recommend DAS obtain an appropriate understanding of the inventory cost system to ensure costs charged are accurate.

*DAS Response: DAS will continue to review procedures and the methodology used when calculating Print and Copy rates to ensure the amounts billed reflect the cost of providing the services.*

**22. Health Insurance Program**

Pursuant to Neb. Rev. Stat. § 84-1602 (Reissue 2014), the Health Insurance Program (Program) is administered by the Personnel Division. The Program is self-insured – meaning that the State pays 79% of the premium costs, while State employees pay the remaining 21% of the premiums. These premiums are held by the State and used to pay medical and prescription claims made on behalf of State employees and their dependents. The premiums are also used to pay administration fees associated with the Program.

DAS lacked adequate monitoring of the Program and its operations, which placed the assets of the Program at an increased risk for fraud or misuse. No reviews were performed to ensure the following:

- Claims paid were for eligible individuals.
- Terminated participants and ineligible dependents were removed from the plan timely.
- Enrollment files provided to the State's third-party administrator, United HealthCare (UHC), were accurate and complete.

A similar finding was noted in our 2010 Health Insurance report.

DAS implemented the audits below, which are designed to monitor operations of the Program; however, they were not implemented for the majority of the period examined.

Audit Description	Audit Start Date
Administrative Services Only (ASO)	January 2013*
Claims	December 2014
Deductions Audit	November 2014
UHC Enrollment	February 2015
Dependent Audits	December 2014
Coverage End Dates	October 2014

\*Small population examined. Larger population not reviewed until August 2014.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**22. Health Insurance Program (Concluded)**

Our testing included a review of dependents over age 26. The Affordable Care Act allows young adults to stay on their parents' health care plan until the age of 26. DAS did not start monitoring Program participants to ensure dependents met eligibility requirements until December 2014. We obtained UHC enrollment files for two months and selected from them 16 dependents who were over 26 years old to test. We noted the following:

- Six dependents' coverage was not properly terminated the month in which they turned 26, and one of those dependents had claims paid totaling \$169 after coverage should have terminated. See table below for analysis of coverage termination dates:

# of Dependents	Proper Coverage Term Date	Actual Coverage Term Date	Days Late
1	4/30/2013	6/30/2014	426
2	8/31/2013	6/30/2014	303
2	10/31/2013	6/30/2014	242
1	5/31/2014	6/30/2014	30

- One dependent had two records in the UHC enrollment file with two different birth dates. According to one date, the dependent was 27; the other date made the dependent only 17. In fact, the dependent was 17 and, therefore, eligible to participate in the Plan.
- Two of the dependents were determined to be disabled and, therefore, eligible to be on the Plan past the age of 26.

Without procedures to ensure the eligibility of all Program participants, there is an increased risk ineligible claims will be paid with State funds. Claims for ineligible participants increases the risk of higher premiums being required to fund the Program sufficiently. Additionally, providing inaccurate enrollment files to the third-party administrator increases the risk for errors to occur.

We recommend DAS monitor the Program to ensure all participants are eligible, and enrollment files provided to the third-party administrator are complete and accurate.

*DAS Response: DAS will continue to review and revise, as needed, the processes in place to monitor the Health Insurance Program and to ensure that the information provided to third party administrators is complete and accurate.*

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**23. Monitoring Third-Party Administrators**

DAS lacked documentation to support the State adequately monitored the services of third-party administrators.

Statement on Standards for Attestation Engagements No. 16 (SSAE16), Reporting Controls at Service Organizations, provides guidance for reporting on service organizations. SSAE16 reports, which are also known as Service Organization Control (SOC) reports, provide valuable information to any users of the service organizations under review. Such reports not only describe issues found when performing an in-depth audit of the service organization but also provide specific controls that users of the service organization should have in place to ensure the presence of a proper internal control structure.

A good internal control plan and sound business practice relating to the proper monitoring of third-party administrators require the following: 1) SOC reports for third-party service organizations to be reviewed by user organizations; 2) the user organization to review the user controls to ensure that they have been put into operation; and 3) documentation to be on file to ensure that proper payment is made on behalf of the State.

**Flexible Spending Accounts**

ASI is the third-party administrator that provides services for both dependent care and medical flexible spending accounts to State employees. These flexible spending accounts are tax-free accounts that allow employees to pay for essential health care and dependent care expenses. When employees enroll in one or both of these flexible spending accounts, they decide how much to contribute to each account for the entire plan year. The money is then deducted from the employee's paycheck (pre-tax) in equal amounts over the course of the plan year.

After incurring medical or dependent care expenses that qualify for reimbursement, an employee can submit a claim to ASI to request a tax-free withdrawal from his or her flexible spending account. ASI reviews the employee claims and, if approved, will reimburse the employee for the expenses claimed. The State maintains the medical and dependent care funds. Once ASI has reimbursed the employee, ASI must submit a request for funding to the State showing all claims reimbursed to State of Nebraska employees.

We noted DAS did not obtain and review the ASI SOC Report. Additionally, the State was paying the ASI funding request without any type of review to ensure the request was proper and for eligible participants. The user controls noted in the ASI SOC report indicate the need for DAS to review the funding requests submitted by ASI, as the report states:

*User organizations' auditors should consider whether the following controls have been placed in operation at the user organizations: . . . Controls should be established to ensure that output data generated by ASIFlex for monthly billing of services are reviewed by the user organizations for accuracy.*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

**23. Monitoring Third-Party Administrators** (Continued)

When SOC reports are not obtained and reviewed, there is an increased risk control findings will not be addressed, and user controls will not be performed. Furthermore, without a review of the funding requests, there is an increased risk improper payments will be made. Total payments to ASI for medical and dependent care services during calendar year 2014 were \$6,655,847.

A similar finding was noted in our 2010 State Health Insurance report.

Insurance Claim Processing

Nebraska Risk Management Association (NRMA) is a third-party administrator that provides insurance claim processing for the State of Nebraska. The contract with NRMA is through the Risk Management Division. The Risk Manager lacked documentation that the State was monitoring NRMA to ensure insurance claim payments were properly made.

For claims over \$15,000 NRMA received a pre-fund to pay its claims to the claimants. According to Risk Management, the process to ensure payments made by NRMA on behalf of the State was to obtain NRMA's bank reconciliation or bank statement. When we requested this documentation, however, the Risk Manager had to request the banking information from NRMA, as it was not previously on file. Furthermore, the banking information did not include copies of the cancelled check; we requested this separately and obtained a copy of the cancelled check for the payment tested.

Additionally, the contract agreement with NRMA required a SOC report; however, when we requested this report, the Risk Manager had to obtain it from NRMA, as it had not been received prior to our request. The User Controls identified in the SOC report were not reviewed.

The SOC report for fiscal year 2014, Complimentary User Controls, states the following:

*Controls at NRMA, Inc. cover only a portion of the overall internal control that would be of interest to user organizations. It is not feasible for the control objectives relating to transaction processing to be solely achieved by NRMA, Inc. The user organization's internal controls must also be evaluated in conjunction with NRMA, Inc.'s description of controls provided by management in this report. This section highlights certain internal control responsibilities that NRMA, Inc. believes should be present for the user organization . . . 20. Controls should be in place at the user location to review reports for completeness and accuracy. These reports should include but may not be limited to the following: a. Transaction Report – Documents all financial activity for the time period and provides details of each payment, refund, void, and recovery. b. Bank Reconciliation – Documents actual amounts debited or credited to the client's account. c. Claims and Expense Report – Provides details of all open claims for the client and provides information on current reserves, payment amounts, status, contract number, claimants, vendors, and providers for each open claim.*

There is an increased risk for the loss or misuse of State funds when third-party administrators are not adequately monitored. Total payments to NRMA during calendar year 2014 were \$4,529,434.

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**23. Monitoring Third-Party Administrators** (Concluded)

We recommend DAS obtain and review SOC reports from all third-party service centers, including ASI and NRMA. We also recommend user controls be reviewed and implemented. We further recommend DAS review the ASI funding requests to ensure payments are proper and for eligible participants.

*DAS Response: DAS will obtain and review SOC reports including recommended user controls from all third-party service centers and DAS Wellness & Benefits will review the current process that is used when processing ASI funding requests and implement a review process.*

**24. Credit Union Employees**

Three employees of the Nebraska State Employee Credit Union improperly participated in State's Health Insurance Program (Program). Credit union employees participated in the Program since, at least, 2002. As discussed in greater detail below, under Nebraska law, these individuals are ineligible for participation in the Program. This issue was noted in our 2010 Health Insurance report, but DAS did not correct the issue until fiscal year 2016. A letter dated May 4, 2015, notified the three credit union employees that their coverage and their dependent coverage currently insured on the State Health insurance Plan would end on June 30, 2015. During calendar year 2014, credit union employees and their covered dependents incurred \$131,144 in medical and prescription claims while contributing only \$30,546 to the Program.

Neb. Rev. Stat. § 84-1601 (Reissue 2014) provides, in relevant part, the following:

*(1) There is hereby established a program of group life and health insurance for all permanent employees of this state who work one-half or more of the regularly scheduled hours during each pay period, excluding employees of the University of Nebraska, the state colleges, and the community colleges. Such program shall be known as the Nebraska State Insurance Program and shall replace any current program of such insurance in effect in any agency and funded in whole or in part by state contributions.*

*(2) Temporary employees of the state who have a work assignment of at least six months' duration and who work at least twenty hours per week may purchase health insurance through the Nebraska State Insurance Program.*

All participating credit union employees were enrolled in the State's regular PPO option. Every month, the credit union sent a single check to the State to pay the premium amounts due for the three employees. This practice appears to conflict with § 84-1612, which states clearly:

*All contributions by employees under sections 84-1601 to 84-1615 shall be made by payroll deductions. As each new employee becomes eligible for coverage under sections 84-1601 to 84-1615, the Director of Administrative Services shall certify the amount to be deducted each pay period from the employee's pay under sections 84-1601 to 84-1615. When there is any change in the amount of required contribution, such change shall be similarly certified. Such amount shall be deducted each pay period by the director.*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**24. Credit Union Employees (Concluded)**

The credit union is a private cooperative association organized in accordance with the provisions of the Credit Union Act, which is set out at Neb. Rev. Stat. § 21-1701 to 21-17,116 (Reissue 2012, Cum. Supp. 2014, 2015 Neb. Laws LB 286, § 3). The credit union caters almost exclusively to governmental workers and their dependents; however, a field of membership consisting primarily of public employees does not alter the private, as opposed to the governmental, nature of the credit union. Because the credit union is a private entity, its employees cannot be classified as State employees – an essential prerequisite for participation in the Program.

We recommend DAS comply with § 84-1601 by denying Program enrollment to non-eligible individuals.

*DAS Response: This issue has been addressed. DAS contacted the Credit Union Employees that were covered under the State's Health Plan in March 2015 to inform them that their coverage would be terminated effective June 30, 2015.*

**25. Building Replacement Values**

DAS did not have adequate documentation to support the building replacement values used in assessing the depreciation surcharge and building insurance fees.

Neb. Rev. Stat. § 81-8,239.02 (Reissue 2014) provides, in relevant part, the following:

*(1) The State Insurance Fund is hereby created for the purpose of purchasing insurance to cover property, fidelity, and liability risks of the state and workers' compensation claims against the state and other risks to which the state or its agencies, officials, or employees are exposed and for paying related expenses, including the costs of administering the Risk Management Program. The fund may receive deposits from assessments against state agencies to provide insurance coverage as directed by the Risk Manager. The Risk Manager may retain in the fund sufficient money to pay for any deductibles, self-insured retentions, or copayments as may be required by such insurance policies and Risk Management Program expenses;*

*(2) The State Self-Insured Property Fund is hereby created for the purpose of replacing, repairing, or rebuilding state property which has incurred damage or is suffering other loss not fully covered by insurance and for paying related expenses. The fund may receive deposits from assessments against state agencies to provide property coverage as directed by the Risk Manager.*

Neb. Rev. Stat. § 81-1108.17(4) (Reissue 2014) states the following, in relevant part:

*The system of charges for state buildings and facilities shall include an amount sufficient to (a) accurately reflect operating costs, including routine maintenance and repair costs, and (b) fund building renewal projects under the Deferred Building Renewal Act and renovation, remodeling, and repair projects beyond the scope of the act.*

Good internal controls require procedures to ensure charges are equitable, and amounts billed are proper.

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**25. Building Replacement Values (Continued)**

The State Building Division charges agencies for space occupied in State-owned facilities. The depreciation rate component is an assessment established for building renewal projects under the Deferred Building Renewal Act, which is set out at Neb. Rev. Stat. §§ 81-173 to 81-190 (Reissue 2014). The replacement cost of each facility is multiplied by the surcharge rate (1.5% for fiscal years 2014 and 2015) to determine the depreciation surcharge. The amount is then divided by the rental square feet available in the facility to determine the rate per square foot charged.

We requested support for 4 of 29 facilities. Three of the four facilities tested did not have adequate documentation to support the replacement cost. A similar finding was noted in the 2004 report.

Facility	Building Replacement Cost	Depreciation Surcharge	Square Foot Rate
Lincoln State Office Building	\$ 86,585,388	\$ 1,298,781	\$ 3.52
Beatrice State Development Center	\$ 68,506,254	\$ 1,027,594	\$ 2.58
Grand Island Veterans Home	\$ 59,202,062	\$ 888,031	\$ 3.99

DAS uses a yearly average of three construction indexes to determine replacement cost. The index cost multiplier is applied to the previous year replacement cost to determine the current year replacement cost. We recalculated the replacement cost using historical cost and construction index rates. However, our calculations varied significantly from DAS. Building renewal assessment receipts in calendar year 2014 totaled \$8,181,684.

Building replacement values are also used to determine charges for insurance. The assessment for State building insurance was \$0.07 per \$100 of replacement value for fiscal year 2014 and fiscal year 2015. However, no receipts were collected during calendar year 2014; due to staff turnover, the billings for fiscal year 2015 were not processed until March 2015.

If building replacement values are not reasonable, the amounts charged to agencies for the depreciation surcharge and building insurance may not be equitable. Also, the amount of purchased insurance may be too high or low.

We recommend DAS maintain supporting documentation for the building replacement values used to charge agencies for depreciation surcharges and building insurance. Documentation should include historical costs support, and any additions increasing the building's value or size should be supported by copies of actual invoices or similar documentation. In addition, a comprehensive list of historical values should be maintained along with construction indexes or other calculations used to determine replacement cost.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

25. **Building Replacement Values** (Concluded)

*DAS Response: DAS State Building Division (SBD) will review the current processes that are used to annually determine the value of the buildings managed by DAS when calculating the depreciation surcharge rates and the building replacement values for insurance purposes. SBD will revise procedures, where possible, to provide the most complete calculations with the data that is available.*

26. **Support for Rent Receipts**

Neb. Rev. Stat. § 81-1108.17(4) (Reissue 2014) provides, in relevant part, the following:

*The system of charges for state buildings and facilities shall include an amount sufficient to (a) accurately reflect operating costs, including routine maintenance and repair costs, and (b) fund building renewal projects under the Deferred Building Renewal Act and renovation, remodeling, and repair projects beyond the scope of the act. The proceeds received under subdivision (a) of this subsection shall be remitted to the State Treasurer for credit to the State Building Revolving Fund. The proceeds received under subdivision (b) of this subsection shall be remitted to the State Treasurer for credit to the State Building Renewal Assessment Fund.*

Good internal control requires procedures to ensure charges are equitable, and amounts billed are proper.

The State Building Division charges agencies for space occupied in State-owned facilities. We noted 2 of 10 rent receipts tested were inaccurate.

- One agency rented 403 square feet of storage space that was not included in the lease agreement for a monthly undercharge of \$294 rent and monthly undercharge of \$66 building renewal surcharge.
- For one agency tested, the amount DAS received for the month did not agree to the lease agreement.

Monthly	Per Lease Agreement	Received	Underpaid
Rent	\$ 86,411	\$ 81,382	\$ 5,029
Building Renewal	\$ 38,797	\$ 36,539	\$ 2,258

Building rental receipts in calendar year 2014 totaled \$32,403,858. Building renewal assessment receipts in calendar year 2014 totaled \$8,181,684.

The rental rate charged to agencies for building space includes an allocation for indirect costs for administration, grounds keeping, security, and energy management. We noted DAS did not have adequate support for the allocation for Lincoln grounds or for Lincoln security. We further noted the grounds allocations was split 46% turf maintenance, 31% snow removal, and 23% parking maintenance. DAS did not have support for the split. The fiscal year 2015 indirect allocation for grounds and security was \$344,331 and \$582,246, respectively.



**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**26. Support for Rent Receipts (Concluded)**

Without good internal control procedures, there is an increased risk for agencies to be improperly charged. If allocations are not accurate, rent charges to agencies may not be equitable.

We recommend DAS implement procedures to ensure rental receipts collected are proper and agree to supporting documentation. We further recommend DAS maintain documentation to ensure allocations used to determine building rent are supported and equitable.

*DAS Response: DAS SBD will continue to review and monitor leases, any lease changes as a result of moves and other factors, and monthly rental billings. The various allocations that are included in the calculation of rental rates will be reviewed as part of the new biennial rate development process that will begin early in 2016.*

**27. State Building Division Policies Conflict with State Statute**

Neb. Rev. Stat. § 81-1108.15(3)(a) (Reissue 2014) requires the State Building Division (SBD) to perform reviews and inspections of projects for which total design and construction costs exceed \$50,000.

Title 7 NAC 7-011.01C requires that all certificates of payments for projects with total costs in excess of \$100,000 be submitted to the SBD for approval.

The SBD's current policies conflict with both of the above requirements. The current policy for reviews and inspections only requires agencies to submit quarterly reports for projects with costs that exceed \$640,000. This is clearly in excess of the \$50,000 threshold set by statute.

Furthermore, the SBD reviews and approves only those certificates of payment that exceed \$100,000. Again, this is clearly in conflict with the rules and regulations requirement that all certificates of payment must be reviewed if the total project cost exceeds \$100,000.

The SBD's policies and procedures are not in compliance with the requirements of either State statute or agency rules and regulations.

We recommend DAS follow applicable State statutes and rules and regulations.

*DAS Response: DAS has begun the process to review current SBD procedures and to work with the appropriate officials to make any necessary changes to Neb. Rev. Stat § 81-1108.15(3)(a)(reissue 2014) and Title 7 NAC 7-011.01C to ensure compliance and consistency when performing reviews and inspections of projects and/or project payments.*

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**28. Non-Certification of Workers' Compensation Claims**

Neb. Rev. Stat. § 48-1,102 (Reissue 2010) states, in relevant part, the following:

*Any final, nonappealable award or judgment in favor of a claimant under section 48-192 to 48-1,109 shall be certified by the Attorney General to the Risk Manager and to the Director of Administrative Services. The Director of Administrative Services shall promptly issue his or her warrant for payment of such award or judgment out of the Workers' Compensation Claims Revolving Fund . . . .*

The State uses a third-party administrator, F.A. Richards and Associates, Inc. (FARA), for workers' compensation claims. An escrow account was set up to allow FARA to process claims. When the Attorney General receives an order for judgment, it is sent to FARA to pay the claimant.

Each month, FARA sends DAS a list of paid claims and its bank reconciliation. DAS then pays FARA for those claims. We tested one payment to FARA from the Workers' Compensation Claims Revolving Fund with claims totaling \$1,521,089. The claims were not certified by the Attorney General to the Risk Manager and the DAS Director prior to disbursement, as required by statute. Per DAS, § 48-1,102 is outdated.

DAS is not in compliance with statute.

We recommend DAS work with the Legislature to update § 48-1,102, as necessary.

*DAS Response: DAS is using a third-party administrator to process Workers' Compensation claims. Those claims are not certified by the Attorney General. DAS will work with the Legislature and the Attorney General's Office to propose the necessary changes to Neb. Rev. Stat. § 48-1,102 to reflect the current process.*

**29. Personnel Division Rates Charged Not Supported**

The Personnel Division oversees the Employee Training Program and is responsible for determining the training course rates charged.

Good internal controls require procedures to ensure rate charges are equitable and reflect actual costs incurred. Good internal controls also require that adequate documentation be maintained to support the reasonableness of both rates charged and rate reductions.

The APA examined one agency billing totaling \$6,377. Seven training courses were noted on the billing. For three of the courses, DAS lacked adequate supporting documentation for the rates charged, as noted below:

- Defensive Driving Course – \$12 per session. For the billing examined, nine courses or \$108 was charged. DAS had 1,844 registrations during calendar year 2014 for this course.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

29. **Personnel Division Rates Charged Not Supported** (Concluded)

- “Wow, That Felt Great! The FISH Philosophy” – \$15 per session. The \$15 included a \$10 standard administration fee and a \$5 Learning Content Fee. Neither fee charged could be supported. For the billing examined, only one course or \$15 was charged. DAS had 147 registrations during calendar year 2014 for this course.
- Microsoft (Excel, Word, Outlook, and Access) courses – rates vary. All courses are charged the \$10 standard administration fee. For the billing examined, a total of \$130 in standard administration fees for the Microsoft courses was charged. Given that the standard administration fee is included in the rates of multiple training courses, we could not determine the total collected by DAS for this fee alone.

Without adequate documentation to support the reasonableness of the rates charged, there is an increased risk that charges will not be equitable, and agencies will be undercharged or overcharged for services.

We recommend DAS maintain adequate documentation to support that rates charged are equitable and reflect the actual costs incurred for services provided.

*DAS Response: DAS will continue to review procedures used to determine rates for services provided by State Personnel.*

30. **EnterpriseOne User Access**

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 4.7.2, User Account Management, states the following, in relevant 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.*

NITC Standards and Guidelines, Information Security Policy 8-101, Section 4.7.3, Privileged Accounts Management, states the following:

*The issuance and use of privileged accounts will be restricted and controlled. Processes must be developed to ensure that users of privileged accounts are monitored, and any suspected misuse is promptly investigated.*

Nebraska State Accounting Manual, AM-005, General Policies, Section 32, Terminated Employee Payroll and Finance Center ID's, states, in relevant part, the following:

## NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 30. **EnterpriseOne User Access** (Concluded)

*Each agency shall have a documented procedure to immediately disable the Payroll and Financial Center ID of an employee who has terminated employment with the agency. It is the responsibility of the agency's authorized agent to request termination of the User ID from the computer system within five working days from the termination date . . . .*

A good internal control plan includes a process to ensure terminated users' access to EnterpriseOne is removed timely.

The employee termination process begins in Workday, the State's human resource application, which then interfaces with EnterpriseOne. For two of eight terminated users tested, their EnterpriseOne access was not removed in a timely manner. The delay in deleting these two user IDs was 17 days and 21 days, respectively. Neither of these user IDs accessed EnterpriseOne after termination.

A similar finding was noted in prior reports.

Failure to terminate access to networks and applications timely creates the opportunity for both inappropriate access to State resources and unauthorized processing of transactions.

We recommend DAS manually disable employee IDs immediately upon termination. We also recommend DAS enter employee termination dates in Workday as soon as those dates are determined.

*DAS Response: DAS will review the State Accounting Manual and provide communication to all agencies, boards, and commission to ensure that they are aware of the rules.*

#### 31. **Business Continuity Planning**

COBIT 5, a business framework for the governance and management of enterprise information technology, BAI10.01, Establish and Maintain a Configuration Model, states, in part, the following:

*Establish and maintain a logical model of the services, assets and infrastructure and how to record configuration items (CIs) and the relationships amongst them. Include the CIs considered necessary to manage services effectively and to provide a single reliable description of the assets in a service.*

DSS04.03, Develop and Implement a Business Continuity Response, states, in part, the following:

*Develop a business continuity plan (BCP) based on the strategy that documents the procedures and information in readiness for use in an incident to enable the enterprise to continue its critical activities . . . . 4. Define the conditions and recovery procedures that would enable resumption of business processing, including updating and reconciliation of information databases to preserve information integrity . . .*

**COMMENTS AND RECOMMENDATIONS**

(Concluded)

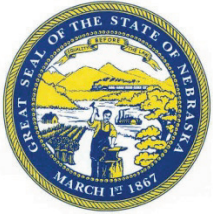
**31. Business Continuity Planning (Concluded)**

A good business continuity plan, which encompasses disaster recovery planning, includes making available reliable and useful information for decision making when faced with a disaster or other event causing, or creating the potential for, a loss of business continuity. The Office of the Chief Information Officer (OCIO) Continuity of Operations Plan (COOP) plan did not include server-specific data, such as configuration files or locations, recovery file locations, dependencies between applications, etc. That information was maintained separately by each managing team. There was a central repository setup at one time where teams could place such pertinent business continuity information; however, it was not being utilized.

When reliable and useful information is not available for business continuity purposes, there is an increased risk of downtime, or extended downtime, of vital State services. This was also reported in the prior 2014 CAFR Management Letter.

We recommend the OCIO work to continue improving business continuity and disaster recovery plans to include a central, backed up repository of all reliable and useful information for resuming State information technology resources.

*DAS Response: DAS-OCIO will continue to work to improve business continuity and disaster recovery plans. DAS has recently hired an enterprise COOP administrator to manage and facilitate the State's COOP Plan.*



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

#### INDEPENDENT ACCOUNTANT'S REPORT

Department of Administrative Services  
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Department of Administrative Services (DAS) for the calendar year ended December 31, 2014. DAS' 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, Revenues, Expenditures, and Changes in Fund Balances of DAS for the calendar year ended December 31, 2014, 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 DAS, and the appropriate Federal and regulatory agencies, and it 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.

A handwritten signature in black ink, appearing to read 'C. J. Janssen', with a long horizontal flourish extending to the right.

Charlie Janssen  
Auditor of Public Accounts

September 8, 2015

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Cash Funds</b>			
	General Fund 10000	Capitol Restoration Funds 26500-3	Building Renewal 309 Task Force Fund 26520	Resource Recycling Fund 26540
<b>REVENUES:</b>				
Appropriations	\$ 10,424,219	\$ -	\$ -	\$ -
Taxes	-	-	9,163,271	-
Intergovernmental	-	-	-	-
Sales & Charges	(580)	8,836	-	54,965
Miscellaneous				
Leases and Rentals	-	-	-	-
Contributions	-	-	-	-
Other Miscellaneous	3,450	18,649	161,303	14,807
<b>TOTAL REVENUES</b>	<b>10,427,089</b>	<b>27,485</b>	<b>9,324,574</b>	<b>69,772</b>
<b>EXPENDITURES:</b>				
Personal Services	4,315,621	-	145,755	-
Operating	5,544,946	36,440	8,093,655	32,593
Travel	16,118	-	581	-
Capital Outlay	547,534	-	-	-
Government Aid	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>10,424,219</b>	<b>36,440</b>	<b>8,239,991</b>	<b>32,593</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,870	(8,955)	1,084,583	37,179
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	3,707	345	-	-
Adjustment to Fund Balance	-	-	-	-
Deposit to General Fund	(179,121)	-	-	-
Deposit to/from Letter of Credit Fund (Note 8)	-	-	-	-
Expenditures by Other Agencies	-	-	-	-
Operating Transfers In	172,544	-	-	-
Operating Transfers Out	-	-	-	-
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<b>(2,870)</b>	<b>345</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	-	(8,610)	1,084,583	37,179
<b>FUND BALANCES, January 1, 2014</b>	<b>10,769</b>	<b>161,913</b>	<b>7,131,809</b>	<b>255,121</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ 10,769</b>	<b>\$ 153,303</b>	<b>\$ 8,216,392</b>	<b>\$ 292,300</b>
<b>FUND BALANCES CONSIST OF:</b>				
General Cash	\$ -	\$ 152,282	\$ 8,290,006	\$ 292,715
Petty Cash	50	-	-	-
NSF Items	-	-	-	-
Deposits with Vendors	10,839	6	-	10
Accounts Receivable Invoiced	-	1,015	-	-
Inventories	-	-	-	-
Due From Other Funds	-	-	-	-
Due to Vendors	-	-	(73,614)	(425)
Claims Payable	-	-	-	-
Due to Fund	-	-	-	-
Due to Government	(120)	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 10,769</b>	<b>\$ 153,303</b>	<b>\$ 8,216,392</b>	<b>\$ 292,300</b>

The accompanying notes are an integral part of the schedule.

(Continued)



**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Cash Funds (Continued)</b>				
	Vacant Building Funds 26560-1	Metro Class Development Fund 26630	Primary Class Development Fund 26640	State Building Renewal Assessment Funds 26670-1	Univ Building Renewal Assessment Fund 26680
<b>REVENUES:</b>					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	1,500,000	1,000,000	-	-
Intergovernmental	-	-	-	-	-
Sales & Charges	-	-	-	-	-
Miscellaneous					
Leases and Rentals	-	-	-	8,184,639	-
Contributions	-	-	-	-	-
Other Miscellaneous	333,308	7,873	5,246	413,868	55,070
<b>TOTAL REVENUES</b>	<b>333,308</b>	<b>1,507,873</b>	<b>1,005,246</b>	<b>8,598,507</b>	<b>55,070</b>
<b>EXPENDITURES:</b>					
Personal Services	-	-	-	176,373	3,411
Operating	157,644	-	-	8,292,767	2,548,520
Travel	-	-	-	350	-
Capital Outlay	-	-	-	(25,100)	-
Government Aid	-	1,500,000	1,000,000	-	-
<b>TOTAL EXPENDITURES</b>	<b>157,644</b>	<b>1,500,000</b>	<b>1,000,000</b>	<b>8,444,390</b>	<b>2,551,931</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	175,664	7,873	5,246	154,117	(2,496,861)
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	1,512,500	-	-	27	-
Adjustment to Fund Balance	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Deposit to/from Letter of Credit Fund (Note 8)	-	-	-	-	-
Expenditures by Other Agencies	-	-	-	-	-
Operating Transfers In	90,361	-	-	-	-
Operating Transfers Out	(91,206)	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,511,655</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>-</b>
Net Change in Fund Balances	1,687,319	7,873	5,246	154,144	(2,496,861)
<b>FUND BALANCES, January 1, 2014</b>	<b>384,802</b>	<b>524,975</b>	<b>349,864</b>	<b>21,192,272</b>	<b>4,177,801</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ 2,072,121</b>	<b>\$ 532,848</b>	<b>\$ 355,110</b>	<b>\$ 21,346,416</b>	<b>\$ 1,680,940</b>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ 2,072,121	\$ 532,848	\$ 355,110	\$ 21,493,260	\$ 1,680,940
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-
Inventories	-	-	-	-	-
Due From Other Funds	-	-	-	-	-
Due to Vendors	-	-	-	(146,844)	-
Claims Payable	-	-	-	-	-
Due to Fund	-	-	-	-	-
Due to Government	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 2,072,121</b>	<b>\$ 532,848</b>	<b>\$ 355,110</b>	<b>\$ 21,346,416</b>	<b>\$ 1,680,940</b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Cash Funds (Concluded)</b>				
	Health & Life Benefit Administration Fund 28010	World Day On the Mall Fund 28020	Tort Claims Fund 28910	Miscellaneous Claims Fund 28920	Capital Construction Fund 38000
<b>REVENUES:</b>					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ 1,650,243
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Sales & Charges	-	-	-	-	-
Miscellaneous					
Leases and Rentals	-	-	-	-	-
Contributions	10,521	-	-	-	-
Other Miscellaneous	27,962	-	8,039	22	-
<b>TOTAL REVENUES</b>	<b>38,483</b>	<b>-</b>	<b>8,039</b>	<b>22</b>	<b>1,650,243</b>
<b>EXPENDITURES:</b>					
Personal Services	368,743	-	-	-	-
Operating	491,991	-	272,404	-	1,650,008
Travel	913	-	-	-	235
Capital Outlay	-	-	-	-	-
Government Aid	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>861,647</b>	<b>-</b>	<b>272,404</b>	<b>-</b>	<b>1,650,243</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(823,164)	-	(264,365)	22	-
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	-	-	-	-	-
Adjustment to Fund Balance	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Deposit to/from Letter of Credit Fund (Note 8)	-	-	-	-	-
Expenditures by Other Agencies	-	-	-	-	-
Operating Transfers In	871,957	-	41,631	-	-
Operating Transfers Out	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>871,957</b>	<b>-</b>	<b>41,631</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	48,793	-	(222,734)	22	-
<b>FUND BALANCES, January 1, 2014</b>	<b>825,655</b>	<b>2</b>	<b>447,389</b>	<b>1,111</b>	<b>-</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ 874,448</b>	<b>\$ 2</b>	<b>\$ 224,655</b>	<b>\$ 1,133</b>	<b>\$ -</b>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ 1,232,652	\$ 2	\$ 224,655	\$ 1,133	\$ -
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-
Inventories	-	-	-	-	-
Due From Other Funds	-	-	-	-	-
Due to Vendors	(358,204)	-	-	-	-
Claims Payable	-	-	-	-	-
Due to Fund	-	-	-	-	-
Due to Government	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 874,448</b>	<b>\$ 2</b>	<b>\$ 224,655</b>	<b>\$ 1,133</b>	<b>\$ -</b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Federal Funds</b>			<b>Revolving Funds</b>	
	Federal Letter of Credit Fund 40000	DAS Federal NEMA Reimbursement Fund 46510	Public Safety Communication Fund 46520	Administration Revolving Fund 51650	State Building Revolving Funds 56500-5
<b>REVENUES:</b>					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-
Intergovernmental	350,158	-	-	-	-
Sales & Charges	-	-	-	2,120,686	621,448
Miscellaneous					
Leases and Rentals	-	-	-	-	32,832,021
Contributions	-	-	-	-	-
Other Miscellaneous	-	299	3	42,289	255,447
<b>TOTAL REVENUES</b>	<b>350,158</b>	<b>299</b>	<b>3</b>	<b>2,162,975</b>	<b>33,708,916</b>
<b>EXPENDITURES:</b>					
Personal Services	-	-	-	1,492,040	3,714,133
Operating	95,392	-	-	315,090	28,752,301
Travel	31,309	-	-	140	26,233
Capital Outlay	223,457	-	-	(4,049)	98,260
Government Aid	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>350,158</b>	<b>-</b>	<b>-</b>	<b>1,803,221</b>	<b>32,590,927</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	299	3	359,754	1,117,989
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	-	-	-	640	11,725
Adjustment to Fund Balance	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Deposit to/from Letter of Credit Fund (Note 8)	2,153,268,312	-	-	-	-
Expenditures by Other Agencies	(2,153,245,707)	-	-	-	-
Operating Transfers In	-	-	-	-	845
Operating Transfers Out	-	-	-	-	(566,778)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>22,605</b>	<b>-</b>	<b>-</b>	<b>640</b>	<b>(554,208)</b>
Net Change in Fund Balances	22,605	299	3	360,394	563,781
<b>FUND BALANCES, January 1, 2014</b>	<b>(12,994,367)</b>	<b>15,284</b>	<b>167</b>	<b>2,654,501</b>	<b>5,866,366</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ (12,971,762)</b>	<b>\$ 15,583</b>	<b>\$ 170</b>	<b>\$ 3,014,895</b>	<b>\$ 6,430,147</b>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ (4,088,691)	\$ 15,583	\$ 170	\$ 3,014,987	\$ 7,023,521
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	-	-
Deposits with Vendors	-	-	-	-	2,183
Accounts Receivable Invoiced	180,090	-	-	-	66,819
Inventories	-	-	-	-	-
Due From Other Funds	-	-	-	-	-
Due to Vendors	(9,063,161)	-	-	(92)	(662,376)
Claims Payable	-	-	-	-	-
Due to Fund	-	-	-	-	-
Due to Government	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ (12,971,762)</b>	<b>\$ 15,583</b>	<b>\$ 170</b>	<b>\$ 3,014,895</b>	<b>\$ 6,430,147</b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Revolving Funds (Continued)</b>				
	Materiel and Purchasing Revolving Funds 56510-5	Intergovernment Data Communication Fund 56520	Telecomm Revolving Fund 56530	Parking Revolving Funds 56550-1	IM Services Revolving Fund 56560
<b>REVENUES:</b>					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Sales & Charges	17,144,036	2,094,966	36,703,391	10	48,355,399
Miscellaneous					
Leases and Rentals	-	-	-	191,113	-
Contributions	-	-	-	903,132	-
Other Miscellaneous	536,212	18,534	189,428	81,019	(182,687)
<b>TOTAL REVENUES</b>	<b>17,680,248</b>	<b>2,113,500</b>	<b>36,892,819</b>	<b>1,175,274</b>	<b>48,172,712</b>
<b>EXPENDITURES:</b>					
Personal Services	3,292,842	290,517	2,988,171	135,341	13,942,090
Operating	13,932,474	1,596,521	27,363,952	729,652	36,108,003
Travel	18,055	31,769	36,123	-	47,312
Capital Outlay	572,920	850,096	6,184,390	-	1,760,996
Government Aid	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>17,816,291</b>	<b>2,768,903</b>	<b>36,572,636</b>	<b>864,993</b>	<b>51,858,401</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(136,043)	(655,403)	320,183	310,281	(3,685,689)
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	3,318	10,355	15,938	-	15,959
Adjustment to Fund Balance	(182,549)	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Deposit to/from Letter of Credit Fund (Note 8)	-	-	-	-	-
Expenditures by Other Agencies	-	-	-	-	-
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(179,231)</b>	<b>10,355</b>	<b>15,938</b>	<b>-</b>	<b>15,959</b>
Net Change in Fund Balances	(315,274)	(645,048)	336,121	310,281	(3,669,730)
<b>FUND BALANCES, January 1, 2014</b>	<b>5,856,946</b>	<b>1,225,344</b>	<b>11,203,566</b>	<b>2,217,013</b>	<b>14,912,498</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ 5,541,672</b>	<b>\$ 580,296</b>	<b>\$ 11,539,687</b>	<b>\$ 2,527,294</b>	<b>\$ 11,242,768</b>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ 5,462,601	\$ 482,301	\$ 9,492,105	\$ 2,517,768	\$ 9,906,552
Petty Cash	-	-	-	200	-
NSF Items	-	-	-	-	-
Deposits with Vendors	176,709	54	1,984	-	801
Accounts Receivable Invoiced	560,142	114,738	2,662,335	12,448	1,422,514
Inventories	340,534	-	-	-	-
Due From Other Funds	255,000	-	-	-	-
Due to Vendors	(328,818)	(16,797)	(616,737)	(3,122)	(87,099)
Claims Payable	-	-	-	-	-
Due to Fund	(924,496)	-	-	-	-
Due to Government	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 5,541,672</b>	<b>\$ 580,296</b>	<b>\$ 11,539,687</b>	<b>\$ 2,527,294</b>	<b>\$ 11,242,768</b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Revolving Funds (Continued)</b>				
	Transportation Services Revolving Funds 56570-2	Surplus Property Revolving Fund 56580	Public Safety Comm. Revolving Fund 56590	Accounting Division Revolving Fund 56650	Temporary Employee Pool Revolving Fund 58010
<b>REVENUES:</b>					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	1,325	-
Sales & Charges	78,382	301,763	1,715,180	4,326,285	5,783,702
Miscellaneous					
Leases and Rentals	6,989,844	-	5,612	-	-
Contributions	-	-	-	-	-
Other Miscellaneous	99,979	9,248	50,905	151,547	19,516
<b>TOTAL REVENUES</b>	<b>7,168,205</b>	<b>311,011</b>	<b>1,771,697</b>	<b>4,479,157</b>	<b>5,803,218</b>
<b>EXPENDITURES:</b>					
Personal Services	613,427	187,015	391,324	2,086,658	5,636,485
Operating	3,995,069	112,580	1,563,202	3,240,537	278,367
Travel	-	-	23,646	17,655	-
Capital Outlay	3,825,414	41,224	230,556	10,667	-
Government Aid	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>8,433,910</b>	<b>340,819</b>	<b>2,208,728</b>	<b>5,355,517</b>	<b>5,914,852</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,265,705)	(29,808)	(437,031)	(876,360)	(111,634)
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	1,059,171	5,938	-	1,143	-
Adjustment to Fund Balance	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Deposit to/from Letter of Credit Fund (Note 8)	-	-	-	-	-
Expenditures by Other Agencies	-	-	-	-	-
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,059,171</b>	<b>5,938</b>	<b>-</b>	<b>1,143</b>	<b>-</b>
Net Change in Fund Balances	(206,534)	(23,870)	(437,031)	(875,217)	(111,634)
<b>FUND BALANCES, January 1, 2014</b>	<b>4,380,370</b>	<b>354,347</b>	<b>2,691,338</b>	<b>4,406,414</b>	<b>1,443,164</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ 4,173,836</b>	<b>\$ 330,477</b>	<b>\$ 2,254,307</b>	<b>\$ 3,531,197</b>	<b>\$ 1,331,530</b>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ 4,212,920	\$ 374,050	\$ 2,260,245	\$ 3,407,101	\$ 939,078
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	1,794	-
Deposits with Vendors	170	852	-	505	-
Accounts Receivable Invoiced	432,233	21	535	478,952	392,452
Inventories	-	-	-	-	-
Due From Other Funds	-	-	-	-	-
Due to Vendors	(384,350)	(29,224)	(6,473)	(357,155)	-
Claims Payable	-	-	-	-	-
Due to Fund	(87,137)	(15,222)	-	-	-
Due to Government	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 4,173,836</b>	<b>\$ 330,477</b>	<b>\$ 2,254,307</b>	<b>\$ 3,531,197</b>	<b>\$ 1,331,530</b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Revolving Funds (Concluded)</b>				
	Training Revolving Fund 58030	Personnel Revolving Funds 58040-1	State Insurance Revolving Fund 58910	Workers Comp Claims Revolving Fund 58920	State Indemnification Revolving Fund 58930
<b>REVENUES:</b>					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Sales & Charges	-	650,057	3,963,491	17,195,248	238,159
Miscellaneous					
Leases and Rentals	-	4,965	-	-	-
Contributions	-	-	-	-	-
Other Miscellaneous	207	8,126	749,929	386,386	91
<b>TOTAL REVENUES</b>	<b>207</b>	<b>663,148</b>	<b>4,713,420</b>	<b>17,581,634</b>	<b>238,250</b>
<b>EXPENDITURES:</b>					
Personal Services	-	-	57,483	123,816	-
Operating	8,948	820,095	5,341,458	14,038,265	234,389
Travel	-	5,384	1,006	2,138	-
Capital Outlay	-	(18,639)	-	-	-
Government Aid	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>8,948</b>	<b>806,840</b>	<b>5,399,947</b>	<b>14,164,219</b>	<b>234,389</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,741)	(143,692)	(686,527)	3,417,415	3,861
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	-	-	357	-	-
Adjustment to Fund Balance	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Deposit to/from Letter of Credit Fund (Note 8)	-	-	-	-	-
Expenditures by Other Agencies	-	-	-	-	-
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>357</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	(8,741)	(143,692)	(686,170)	3,417,415	3,861
<b>FUND BALANCES, January 1, 2014</b>	<b>14,177</b>	<b>555,116</b>	<b>12,809,553</b>	<b>22,236,827</b>	<b>-</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ 5,436</b>	<b>\$ 411,424</b>	<b>\$ 12,123,383</b>	<b>\$ 25,654,242</b>	<b>\$ 3,861</b>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ 5,436	\$ 387,101	\$ 13,523,603	\$ 22,654,242	\$ 3,861
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	-	-
Deposits with Vendors	-	-	300,000	3,000,000	-
Accounts Receivable Invoiced	-	24,332	1,408	-	-
Inventories	-	-	-	-	-
Due From Other Funds	-	-	-	-	-
Due to Vendors	-	(9)	-	-	-
Claims Payable	-	-	(1,701,628)	-	-
Due to Fund	-	-	-	-	-
Due to Government	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 5,436</b>	<b>\$ 411,424</b>	<b>\$ 12,123,383</b>	<b>\$ 25,654,242</b>	<b>\$ 3,861</b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Trust Funds</b>				
	Master Lease Trust Funds 66510 and 66530-5	Flexible Spending Trust Funds 68010-6	Health Plan Funds 68920-1	Insurance Trust Funds 68930-9	State Employees Insurance Funds 68922 and 68960
<b>REVENUES:</b>					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Sales & Charges	-	-	-	-	-
Miscellaneous					
Leases and Rentals	-	-	-	-	-
Contributions	-	6,805,323	-	117,405	158,134,530
Other Miscellaneous	7,103	14,911	94,905	14,066	7,027,491
<b>TOTAL REVENUES</b>	<b>7,103</b>	<b>6,820,234</b>	<b>94,905</b>	<b>131,471</b>	<b>165,162,021</b>
<b>EXPENDITURES:</b>					
Personal Services	-	-	-	-	-
Operating	-	6,655,847	203,616	130,443	171,755,656
Travel	-	-	-	-	166
Capital Outlay	-	-	-	-	-
Government Aid	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>6,655,847</b>	<b>203,616</b>	<b>130,443</b>	<b>171,755,822</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,103	164,387	(108,711)	1,028	(6,593,801)
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	-	-	-	-	-
Adjustment to Fund Balance	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Deposit to/from Letter of Credit Fund (Note 8)	-	-	-	-	-
Expenditures by Other Agencies	-	-	-	-	-
Operating Transfers In	-	200,000	-	-	4,372,080
Operating Transfers Out	-	(400,000)	-	-	(5,044,037)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(200,000)</b>	<b>-</b>	<b>-</b>	<b>(671,957)</b>
Net Change in Fund Balances	7,103	(35,613)	(108,711)	1,028	(7,265,758)
<b>FUND BALANCES, January 1, 2014</b>	<b>320,861</b>	<b>633,448</b>	<b>3,613,336</b>	<b>717,227</b>	<b>39,832,692</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ 327,964</b>	<b>\$ 597,835</b>	<b>\$ 3,504,625</b>	<b>\$ 718,255</b>	<b>\$ 32,566,934</b>
<b>FUND BALANCES CONSIST OF:</b>					
General Cash	\$ 2,952,914	\$ 600,346	\$ 4,812,885	\$ 718,255	\$ 33,085,812
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	-	496
Deposits with Vendors	-	25,000	-	-	-
Accounts Receivable Invoiced	-	-	-	-	-
Inventories	-	-	-	-	-
Due From Other Funds	-	-	-	-	-
Due to Vendors	(2,624,950)	(27,369)	-	-	(428,068)
Claims Payable	-	-	(1,158,000)	-	-
Due to Fund	-	(142)	(150,260)	-	(91,306)
Due to Government	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>\$ 327,964</b>	<b>\$ 597,835</b>	<b>\$ 3,504,625</b>	<b>\$ 718,255</b>	<b>\$ 32,566,934</b>

The accompanying notes are an integral part of the schedule.

(Continued)

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2014

	<b>Distributive Funds</b>			
	State Pcard Distributive Fund 76540	Imprest Payroll Distributive Fund 76550	State Employee Assistance Fund 78010	<b>Totals (Memorandum Only)</b>
<b>REVENUES:</b>				
Appropriations	\$ -	\$ -	\$ -	\$ 12,074,462
Taxes	-	-	-	11,663,271
Intergovernmental	-	-	-	351,483
Sales & Charges	-	-	-	141,355,424
Miscellaneous				
Leases and Rentals	-	-	-	48,208,194
Contributions	-	-	-	165,970,911
Other Miscellaneous	-	-	-	10,624,551
<b>TOTAL REVENUES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>390,248,296</b>
<b>EXPENDITURES:</b>				
Personal Services	-	-	-	39,961,245
Operating	-	-	-	344,392,825
Travel	-	-	-	259,133
Capital Outlay	-	-	-	14,297,726
Government Aid	-	-	-	2,500,000
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>401,410,929</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	(11,162,633)
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	-	-	-	2,641,123
Adjustment to Fund Balance	-	-	-	(182,549)
Deposit to General Fund	-	-	-	(179,121)
Deposit to/from Letter of Credit Fund (Note 8)	-	-	-	2,153,268,312
Expenditures by Other Agencies	-	-	-	(2,153,245,707)
Operating Transfers In	-	-	-	5,749,418
Operating Transfers Out	-	-	-	(6,102,021)
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,949,455</b>
Net Change in Fund Balances	-	-	-	(9,213,178)
<b>FUND BALANCES, January 1, 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>160,429,671</b>
<b>FUND BALANCES, December 31, 2014</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 151,216,493</b>
<b>FUND BALANCES CONSIST OF:</b>				
General Cash	\$ 20,630	\$ 7,368,121	\$ 9,524	\$ 167,490,745
Petty Cash	-	-	-	250
NSF Items	-	1,628	-	3,918
Deposits with Vendors	-	-	-	3,519,113
Accounts Receivable Invoiced	-	(43,240)	-	6,306,794
Inventories	-	-	-	340,534
Due From Other Funds	-	-	-	255,000
Due to Vendors	(20,630)	(2,473,894)	-	(17,709,411)
Claims Payable	-	-	-	(2,859,628)
Due to Fund	-	(16,364)	(9,524)	(1,294,451)
Due to Government	-	(4,836,251)	-	(4,836,371)
<b>TOTAL FUND BALANCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 151,216,493</b>

The accompanying notes are an integral part of the schedule.

(Concluded)



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2014

1. Criteria

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

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of the Department of Administrative Services 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 2014), 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. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows. State Accounting does not require DAS to record all accounts receivable and related revenues in EnterpriseOne; as such, DAS' schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of December 31, 2014, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2014, **does not** include amounts for goods and services received before December 31, 2014, which had not been posted to the general ledger as of December 31, 2014.

Other liabilities are recorded in accounts entitled Due to Vendors, Claims Payable, Due to Fund, and Due to Government for DAS. 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.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

The fund types established by the State that are used by DAS 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.

**30000 – Construction Funds** – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

**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.

**50000 – Revolving Funds** – account for the operation of State agencies that provide goods and services to other departments or agencies within State government.

**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.

The major revenue account classifications established by State Accounting and used by DAS 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.

**Taxes** – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for DAS consist of cigarette taxes allocated to DAS.

**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.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

**Miscellaneous** – Revenue from sources not covered by other major categories, such as leases and rental fees, employee contributions for insurance premiums and parking fees, fees assessed for building maintenance and investment income.

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

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

**Operating** – Expenditures directly related to a program's primary service activities. Operating expenditures of the State Employees Insurance Funds include claims paid.

**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.

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

**Assets** – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to 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 fund balance. Other liabilities recorded in the general ledger for DAS' funds at December 31, 2014, included amounts recorded in Claims Payable, Due to Vendors, Due to Fund, and Due to Government. 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 fixed asset dispositions, deposits and expenditures to common funds and adjustments to fund balances.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**NOTES TO THE SCHEDULE**

(Continued)

**2. Reporting Entity**

DAS is a State agency established under and governed by the laws of the State of Nebraska. As such, DAS is exempt from State and Federal income taxes. The schedule includes all funds of DAS included in the general ledger.

DAS 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.

**5. Capital Assets**

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, DAS takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

For the CAFR, the State requires DAS 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

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**NOTES TO THE SCHEDULE**

(Continued)

**5. Capital Assets (Concluded)**

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 depreciation:

Buildings	40 years
Equipment	3 – 20 years

Capital asset activity of DAS recorded in the State Accounting System for the calendar year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Land	\$ 3,234,645	\$ 2,748,000	\$ -	\$ 5,982,645
Buildings	224,752,499	15,451,431	-	240,203,930
Equipment	134,112,586	11,020,170	5,926,325	139,206,431
Total	<u>\$ 362,099,730</u>	<u>\$ 29,219,601</u>	<u>\$ 5,926,325</u>	<u>385,393,006</u>
Less accumulated depreciation for:				
Buildings				119,582,211
Equipment				105,517,777
Total				<u>225,099,988</u>
Total capital assets, net of depreciation				<u>\$ 160,293,018</u>

DAS is responsible for certain assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include capitol-related artifacts and furnishings.

**6. Trust and Distributive Funds**

DAS is responsible for the processing of State-wide payroll and related employee and employer costs of fringe benefits, employee deductions, and payroll tax payments. Payroll costs for all agencies (including DAS) are expensed on the various agencies' books. Such funds are then transferred to State Accounting's imprest funds (a distributive fund) and distributed (a) to the employees, (b) to taxing authorities for tax withholdings and the State's FICA match, and (c) to

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**NOTES TO THE SCHEDULE**

(Concluded)

**6. Trust and Distributive Funds** (Concluded)

other entities related to payroll deductions for distribution to savings accounts, credit unions, retirement accounts, child support recipients, insurance companies, and other outside vendors. The activity for these transactions are reported directly into asset or liability accounts, only the fund balances are shown on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Two of the “other entities” paid are the State’s Insurance Trust Funds, created for employees’ payments into the flexible spending plans and for the State and employees’ share of insurance premiums. The activity for these Insurance Trust Funds (shown on this Schedule as Funds 68010-6 and 68930-9) are reflected in the Schedule.

Additionally, DAS administers the State-wide master lease program and, as a result, collects monthly payments from all participating agencies. It then remits semi-annual principal and interest payments to the trustees. This activity is not shown on the Schedule.

**7. Transfers**

DAS had Operating Transfers In of \$5,749,418 and Operating Transfers Out of \$6,102,021. The Operating Transfers In and Out were not equal because certain transfer transactions were transactions between DAS and other State agencies. Transfers included \$3,972,080 transferred from the Health History Fund 68922 to State Employee Insurance Fund 68960 to reduce the Health History Fund to the actuarially determined balance needed for claims fluctuation reserve. Fund 68922 is a sub-fund of 68960 and both are reflected in the State Employees Insurance Funds on the Schedule.

**8. Federal Letter of Credit Fund 40000**

This fund is used by the State Accounting Division to draw funds from the Federal government for all State agencies. State Accounting is responsible for the drawdown of these funds from the Federal government as requested by State agencies; however, DAS does not disburse these funds. Disbursements through this fund are recorded in the records of the agencies requesting the drawdown. DAS’s Schedule for this fund reflects their responsibility by recording the drawdown amount as Deposit to Common Fund and the agency disbursements as Common Fund Expenditures by Other Agencies. The negative fund balance is due to the delay between the time funds are disbursed by the various State agencies and the time the reimbursement is received from the Federal government through the Federal Letter of Credit Fund. The negative fund balance will be funded by future draws from the Federal government.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**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 ADMINISTRATIVE SERVICES  
**STATE SOLE SOURCE CONTRACT REPORT**  
As of December 31, 2014

Exhibit A

Agency	Contract	Vendor Name	Contract Entered	Contract Start	Contract End	Document Description	Estimated Total Amount
25	64226	UNITED HEALTHCARE OF MIDLANDS	12/19/2014	7/1/2015	6/30/2017	PHY. HEALTH MANAGED CARE	\$ 384,919,466
25	64227*	AETNA BETTER HEALTH OF NEBRASKA	12/19/2014	7/1/2015	6/30/2017	PHY HEALTH MANAGED CARE	375,536,220
25	64228*	AETNA BETTER HEALTH OF NEBRASKA	12/19/2014	7/1/2015	6/30/2017	PHY HEALTH MANAGED CARE	307,256,907
25	64632	ARBOR HEALTH PLAN	1/27/2015	7/1/2015	6/30/2017	PHY HEALTH MANAGED CARE	149,010,600
46	41005	BLUE CROSS BLUE SHIELD OF NE -	9/28/2009	10/1/2014	9/30/2016	INMATE BILLING SERVICES	121,600,000
65	44641	IBM OMAHA	6/23/2010	6/25/2014	6/30/2015	IBM ENTERPRISE SOFTWARE & SERV	34,634,984
24	41107	MORPHOTRUST USA INC - PURCHASI	10/8/2009	10/8/2009	12/31/2016	DIGITAL DRIVERS LICENSE	22,666,148
25	58361	JS3 CONSULTING LLC	10/18/2013	1/1/2014	12/31/2015		11,755,720
25	47969	CREIGHTON UNIVERSITY - ALL PAY	5/2/2011	7/1/2010	6/30/2015	CANCER RESEARCH ACTIVITIES	6,500,000
25	55399	TRUVEN HEALTH ANALYTICS INC -	3/11/2013	10/1/2013	9/30/2018	DSS, MARS, SURS RENEWAL	5,528,943
84	17153	GSI ENGINEERING NORTHERN DIVIS	3/14/2006	3/14/2006	1/23/2016	REMEDIATION SITES-CONTINUATION	5,500,000
23	58539	GEOGRAPHIC SOLUTIONS INC - PUR	11/5/2013	10/15/2013	6/30/2020	GEO SOLUTIONS REX	4,697,043
25	55677	JP MORGAN ELECTRONIC FINANCIAL	4/12/2013	3/1/2013	2/28/2018	ELECTRONIC SNAP/FOOD STAMPS	4,274,975
65	37272	COMPUWARE CORPORATION	12/16/2008	12/16/2008	12/30/2018	SOFTWARE MAINTENANCE MSA	3,474,452
65	36675	ALLEN SYSTEMS GROUP - NAPLES F	10/24/2008	10/24/2008	8/19/2015	SOFTWARE MAINTENANCE MSA	3,352,953
25	62104	MAGELLAN BEHAVIORAL HEALTH OF	8/5/2014	8/1/2014	6/30/2016	ASO SYSTEM	3,275,358
9	58532	ELECTION SYSTEMS & SOFTWARE IN	11/5/2013	7/1/2013	8/15/2017	HAVA SOFTWARE & MAINTENANCE	3,072,875
65	60537	KRONOS INC - PURCHASING	5/9/2014	4/24/2014	6/19/2019	KRONOS TIMEKEEPER-ROADS	2,502,732
65	46804	WORKDAY INC - PURCHASING	3/31/2011	3/31/2011	3/30/2015	PROCUREMENT SAAS SYSTEM	2,311,799
65	58357	PERIDOT SOLUTIONS LLC	10/17/2013	10/17/2013	6/30/2015	9.1 UPGRADE	2,292,348
25	55300	HP ENTERPRISE SERVICES LLC - P	3/4/2013	3/4/2013	2/28/2016	NESIIS	2,078,262
31	66251	CORNERSTONE TOWER SERVICE INC	6/2/2015	6/2/2015	10/31/2016		1,850,000
72	50874	INVEST NEBRASKA CORP	1/17/2012	1/17/2012	9/30/2015	4TH FLOOR NSOB	1,837,686
25	58010	NE FED FAMILIES CHILDRENS MENT	9/18/2013	9/1/2013	4/30/2015	FAMILY ADVOCACY SERVICES	1,708,441
88	63785	NATIONAL CORN GROWERS ASSOCIAT	11/18/2014	11/18/2014	6/30/2015	IN CB OFFICE	1,618,648
65	23876	INTERVOICE INC - PURCHASING	2/27/2007	2/27/2007	12/31/2039	REALCARE ADV AGREEMENT	1,441,676
65	20860	SAS INSTITUTE INC - PURCHASING	9/22/2006	9/22/2006	7/31/2016	MASTER LICENSE AGREEMENT	1,422,210
65	56468	XEROX CORPORATION - OMAHA - PU	6/14/2013	6/14/2013	12/31/2015	DEVIATION REQ FOR SVC CONTRACT	1,242,140
65	55017	OMAHA WORLD HERALD - PURCHASE	2/1/2013	2/1/2013	1/31/2016	CLASSIFIED ADVERTISING	1,207,292
65	35632	KRONOS INC - PURCHASING	9/9/2008	6/28/2009	6/27/2016	REQUESTING DPA	1,021,385
88	63218	UNIVERSITY OF NE FOUNDATION	10/8/2014	10/8/2014	6/30/2015	IN CB OFFICE	1,000,000
25	54699	NETSMART TECHNOLOGIES INC - PU	1/7/2013	1/7/2013	5/31/2016	NETSMART-COMPUTER MAINT	999,383
65	52336	NIRMA - NE INTRGOV RISK - CONT	5/30/2012	7/1/2012	6/30/2016	TPA CLAIMS	988,000
25	51940	HEALTH MANAGEMENT SYSTEMS INC	4/19/2012	4/19/2012	12/31/2017	MSS CONSORTIUM	985,000
25	46735	BLOODHOUND TECHNOLOGIES INC	12/20/2010	12/13/2010	12/12/2015	IMPLEMENT NCI CLAIMS EDITING	978,000



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES  
**STATE SOLE SOURCE CONTRACT REPORT**  
As of December 31, 2014

Exhibit A

Agency	Contract	Vendor Name	Contract Entered	Contract Start	Contract End	Document Description	Estimated Total Amount
27	43747	LUCITY INC - PAYMENTS	5/18/2010	7/1/2015	6/30/2016	SOFTWARE MAINT. TRAINING-EMAS	977,205
78	54376	APPRISS INC	11/16/2012	11/16/2012	2/11/2016	CC-13-559 APPRISS-VINE	963,180
25	62807	TRUVEN HEALTH ANALYTICS INC -	9/16/2014	6/1/2014	6/30/2015	TMSIS IMPLEMENTATION	783,046
46	61096	SATELLITE TRACKING OF PEOPLE L	6/13/2014	6/1/2014	12/31/2016	ELECTRONIC MONITORING	770,000
46	46625	CORRECTIONAL CABLE TV - PURCHA	12/8/2010	1/1/2011	12/31/2015	CABLE/SATELLITE TV	755,774
65	26114	SYBASE INC - PURCHASE ORDERS	6/6/2007	6/6/2007	9/26/2015	SOFTWARE SUPPORT AGREEMENT	693,908
84	62416	KEEP NEBRASKA BEAUTIFUL	8/21/2014	8/21/2014	12/31/2019	ASSESS GRANT APPLICATIONS	687,267
88	64194	US MEAT EXPORT FEDERATION INC	12/17/2014	12/17/2014	6/30/2015	IN CB OFFICE	684,000
65	59319	ALLEN SYSTEMS GROUP - NAPLES F	2/3/2014	2/3/2014	5/28/2022	SOFTWARE MAINFRAME MAINTENANCE	666,343
84	42342	KEEP NEBRASKA BEAUTIFUL	2/11/2010	2/11/2010	3/1/2015	KEEP NEBRASKA BEAUTIFUL	638,840
65	46289	PURESAFETY - PURCHASING	10/29/2010	6/11/2010	6/10/2015	PURESAFETY ONLINE LEARNING	613,088
65	60823	AVITAM CONSULTING INC	5/27/2014	6/1/2014	5/31/2016	CUSTOMIZATION AND DEVELOPMENT	600,000
24	48774	CASOFT INC	7/8/2011	8/27/2011	8/26/2015	IT CONSULTING-PROGRAMMING	580,000
65	50626	KRONOS INC - PURCHASING	12/20/2011	12/20/2011	12/29/2016	DCS TELESTAFF PROJECT	567,797
88	64524	US GRAINS COUNCIL	1/15/2015	1/15/2015	6/30/2015	IN CB OFFICE	564,000
88	63224	DAVID & ASSOCIATES - PURCHASE	10/8/2014	10/8/2014	6/30/2015	IN CB OFFICE	520,000
25	65510	CLEAN WELL TECHNOLOGIES INC	4/6/2015	7/21/2014	7/20/2016	ADDITIONAL WELLS	470,500
65	17128	CENTURYLINK QC - PURCHASE ORDE	3/10/2006	10/29/2010	10/30/2017	CONTRACT #OMR 1110002	462,304
65	42717	PLATTE VALLEY COMMUNICATIONS O	3/23/2010	3/31/2010	4/30/2017	TOWER	459,148
16	66502	MULTISTATE TAX COMMISSION	6/17/2015	6/17/2015	6/30/2018	AUDIT/NEXUS PROGRAM FEE	456,876
25	63444	SELECT REHABILITATION INC	10/28/2014	10/28/2014	7/31/2015	TEMPORARY THERAPY SERVICES	450,000
65	41988	WINDSTREAM COMMUNICATIONS - AL	2/3/2010	2/3/2010	1/31/2016	MPS MAINTENANCE CONTRACT	437,179
84	65236	NEBRASKA ASSOCIATION OF RESOUR	3/16/2015	3/16/2015	6/30/2020	319	425,000
23	60431	CATCH INTELLIGENCE	4/30/2014	5/1/2014	4/30/2019	IT MANAGED SERVICES	414,000
25	57789	INTERCHURCH MINISTRIES OF NEBR	8/29/2013	8/29/2013	6/30/2015	RURAL VOUCHER/HOTLINE	410,040
23	58960	GEOGRAPHIC SOLUTIONS INC - PUR	12/20/2013	1/1/2014	4/30/2017	HOSTING MOBILE APP SERVICES	403,503
23	54779	SIRIUS COMPUTER SOLUTIONS - PU	1/15/2013	1/15/2013	12/31/2015	SIRIUS SERVICE CONT	401,480
65	55019	LINCOLN JOURNAL STAR - PURCHAS	2/1/2013	2/1/2013	1/31/2015	CLASSIFIED ADVERTISING	400,000
64	62977	MORPHOTRAK INC - PURCHASING	9/22/2014	11/1/2014	10/31/2016	MORPHTRAK TWO YEAR AGREEMENT	389,277
46	36381	AMX INTERNATIONAL INC - PURCHA	10/1/2008	10/1/2008	10/1/2015	SO/MFG FOR AS PRINT SHOP	370,000
46	36433	VIGILNET COMMUNITY MONITORING	10/3/2008	4/1/2014	1/31/2015	ALCOHOL MONITORING	367,120
65	33891	ASSET MANAGEMENT SOLUTIONS LLC	6/12/2008	6/12/2008	5/15/2015	MAINTENANCE & DEV OF CAMS	360,000
25	52603	PARADIGM INC	6/18/2012	6/1/2012	12/31/2015	MEDICAL SVCS CONSULTATION	350,000
65	49620	CORNERSTONE ONDEMAND INC - PUR	9/9/2011	6/7/2010	6/7/2015	CSOD/ELEMENT K ONLINE LEARNING	350,000
64	57904	TIBURON INC - PURCHASE ORDERS	9/11/2013	9/11/2013	7/11/2016		340,054

**NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**STATE SOLE SOURCE CONTRACT REPORT**  
As of December 31, 2014

Exhibit A

Agency	Contract	Vendor Name	Contract Entered	Contract Start	Contract End	Document Description	Estimated Total Amount
88	62805	NEBRASKA CORN GROWERS ASSOCIAT	9/16/2014	9/16/2014	6/30/2015	IN CB OFFICE	328,000
25	58860	OXBOW DATA MANAGEMENT SYSTEMS	12/11/2013	7/1/2013	6/30/2015	APPLICATION DEV	325,172
25	64018	LEAGUE OF HUMAN DIGNITY INC -	12/8/2014	12/8/2014	6/30/2017	NURSING FACILITY PRE-ADM PROG	324,000
25	64218	EDIFECs INC	12/18/2014	12/18/2014	11/12/2016	HTTPS CONNECTIVITY FOR TRANSAC	321,500
31	59784	NEW FRONTIER AVIATION INC	3/20/2014	7/1/2014	6/30/2015		300,000
88	57930	IMG COLLEGE LLC - PURCHASE ORD	9/11/2013	9/11/2013	6/30/2015	IN CB OFFICE	285,614
46	55018	3M COMPANY - PURCHASING	2/1/2013	2/1/2013	1/31/2019	DLP Equip. service agreemeny	271,440
25	62090	TELLIGEN	8/4/2014	7/3/2014	7/2/2015	MD CONSULT SERVICES	260,000
84	58949	WINDSOR SOLUTIONS INC	12/18/2013	12/18/2013	12/31/2015	EXCHANGE NETWORK 2007	260,000
65	30531	SYBASE INC - PURCHASE ORDERS	12/27/2007	12/27/2007	12/31/2014	SOFTWARE SUPPORT AGREEMENT	249,015
65	20634	MICRO FOCUS US INC - PURCHASIN	9/6/2006	9/6/2006	8/30/2016	SUPPORT LINE SERVICES	234,683
65	46802	CONSOLIDATED TELEPHONE CO	12/29/2010	6/1/2010	12/31/2029		222,367
65	46801	CUSTER PUBLIC POWER DISTRICT	6/1/2010	6/1/2010	12/31/2029	BLDG & TOWER LEASE	221,863
23	58231	INFOGRESSIVE INC - PURCHASE OR	10/7/2013	9/30/2014	9/29/2015		220,968
27	64295	DATA 2 U INC	12/15/2014	12/15/2014	12/14/2015	MAINT./SUPPORT- DATA 2-U UNITS	218,250
25	46503	INFORMATIX INC - PAYMENTS	11/23/2010	10/1/2010	9/30/2015	FINANCIAL INSTITUTION DATA MAT	218,132
31	53767	K2SHARE LLC	9/17/2012	9/11/2012	9/10/2015	ANNUAL SPARS SERVICE FEE	217,500
23	52295	AVITAM CONSULTING INC	5/24/2012	5/24/2012	5/23/2015	IT CONSULTING	215,023
65	58230	BELL & HOWELL LLC - PURCHASING	10/7/2013	10/7/2013	10/4/2018	DEV. REQUEST FOR MAINT.AGREE	214,675
25	65521	NE FED FAMILIES CHILDRENS MENT	4/8/2015	4/1/2015	6/30/2015	FAMILY ADVOCACY SERVICES	208,556
65	20297	SYNCSORT, INC	8/30/2006	8/30/2006	7/6/2019	PROGRAM PRODUCT LICENSE & MNTC	205,515
25	60970	CITRIX SYSTEMS INC - PURCHASE	6/4/2014	3/15/2014	3/15/2017	CITRIX RENEWAL	200,405
25	61814	CONSORTIUM ON INNOVATIVE PRACT	7/22/2014	7/22/2014	7/30/2015		200,000
65	64647	LINCOLN JOURNAL STAR - PURCHAS	1/28/2015	2/1/2015	1/31/2016	CLASSIFIED ADVERTISING & LEGAL	200,000
23	58163	KUDER INC	10/3/2013	10/3/2013	9/30/2016		198,000
65	57139	OPEN TEXT INC	7/29/2013	8/1/2013	7/31/2019	SOFTWARE MAINTENANCE	197,851
46	47631	BLACK CREEK INTEGRATED SYSTEMS	3/28/2011	1/1/2012	12/31/2014	SECURITY SYSTEM MAINT. 2014	195,044
65	37935	VISION SOLUTIONS INC - PO'S	2/20/2009	2/20/2009	1/31/2020	DATA REPLICATION SOFTWARE MAIN	185,702
88	62806	ALLIANCE FOR THE FUTURE OF AGR	9/16/2014	9/16/2014	6/30/2015	IN CB OFFICE	183,000
25	62101	DYNAMIC INTERNET SOLUTIONS LLC	8/5/2014	7/16/2014	6/30/2015	CNPWEB FOR FOOD DIST. PROG.	180,000
25	64570	TELLIGEN	1/20/2015	1/1/2015	12/31/2017	AUTHS FOR RADIOLOGY MGT.	175,000
65	24360	SERENA SOFTWARE INC - PURCHASI	3/20/2007	3/20/2007	11/3/2022	MASTER LICENSE AGREEMENT	164,995
65	42713	RADVIEW SOFTWARE INC - PURCHAS	3/20/2010	3/20/2010	2/28/2020	STRESS TESTING SOFTWARE	160,510
31	42669	IHS GLOBAL INC - PURCHASING	3/16/2010	3/16/2010	3/31/2019	ANNUAL SUPPORT/HOSTING	156,585
65	36422	LEVI RAY & SHOUP INC	10/2/2008	10/23/2008	9/26/2020	SOFTWARE MSA	155,995

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES  
**STATE SOLE SOURCE CONTRACT REPORT**  
As of December 31, 2014

Exhibit A

Agency	Contract	Vendor Name	Contract Entered	Contract Start	Contract End	Document Description	Estimated Total Amount
25	64074	COSTING SOLUTIONS LLC	12/11/2014	12/11/2014	6/30/2015	PUBLIC ASSIST COST ALLOCATION	147,750
16	60937	MULTISTATE TAX COMMISSION	6/2/2014	7/1/2014	6/30/2015	AUDIT/NEXUS PROGRAM FEE	146,340
23	61353	GEOGRAPHIC SOLUTIONS INC - PUR	6/24/2014	6/24/2014	4/30/2017		143,150
25	61678	UNIVERSITY OF KANSAS	7/11/2014	7/1/2014	6/30/2015	DATABASE & MNGMNT SYSTEM	140,765
47	61112	BEST SOURCE	6/13/2014	6/13/2014	12/31/2014	Workflow Revamp	138,074
78	50428	MOTOROLA SOLUTIONS INC - PURCH	12/1/2011	12/1/2011	12/31/2016	CC-12-538 SFTWR SUPP-MOTOROLA	137,835
33	66169	CHM GOVERNMENT SERVICES	5/26/2015	5/18/2015	9/21/2015	FINANCIAL PLANNING & SCOPING	133,928
27	63430	BEM SYSTEMS INC	10/28/2014	10/28/2014	10/1/2015	ROW Management Systems (ARMS)	125,760
25	54627	NETSMART TECHNOLOGIES INC - PA	12/27/2012	12/14/2012	12/31/2015	ADL CNA TOUCH CHARTING	122,565
64	53494	THERMO ELECTRON NORTH AMERICAN	8/27/2012	1/29/2013	1/28/2016		120,996
25	62177	SYSTEM AUTOMATION CORP - PAYME	8/6/2014	7/1/2014	6/30/2015	LICENSURE UNIT ONLINE SYSTEM	117,675
46	60475	KALOS INC	5/5/2014	6/1/2014	5/31/2016		107,547
23	59355	SIRIUS COMPUTER SOLUTIONS - PU	2/6/2014	2/6/2014	1/31/2016		107,215
24	65801	MORPHOTRUST USA INC - PURCHASI	4/17/2015	6/30/2015	12/31/2016		103,540
25	64441	CHADRON NATIVE AMERICAN CENTER	1/9/2015	1/9/2015	6/30/2015		100,000
25	64986	WIDE RIVER LLC	2/23/2015	2/17/2015	9/29/2015	EHR - HIT	98,000
65	58377	DATABANK IMX - PAYMENTS	10/21/2013	10/21/2013	10/20/2018		97,709
64	51805	ASPECT SOFTWARE INC - PURCHASI	4/6/2012	5/1/2012	4/30/2015		86,400
25	63823	NET FOUNDATION - TELEVISION	11/21/2014	7/1/2014	5/31/2015	CO-PRODUCE PROGRAM	84,000
65	51640	VENTIV TECHNOLOGY INC - PURCHA	3/19/2012	3/19/2012	3/8/2015		78,765
64	49200	JOHNSON CONTROLS INC - PAYMENT	8/5/2011	9/1/2011	8/31/2015	ANNUAL LABOR SERVICE CONTRACT	75,668
65	64985	VENTIV TECHNOLOGY INC - PURCHA	2/23/2015	3/9/2015	12/31/2017	RISK MANAGEMENT SOFTWARE	75,471
25	62517	PHAN - PUBLIC HEALTH ASSN OF N	8/22/2014	8/15/2014	7/31/2015	PROV TA TO LOCAL HEALTH DEPTS	75,000
65	38132	VERTEX INC	3/6/2009	3/6/2009	3/31/2019	ORIGINAL CONTRACT 10374-O4	71,878
23	64200	CENTER FOR EMPLOYMENT SECURITY	12/17/2014	11/10/2014	12/31/2015		66,900
25	59246	NEBRASKA BROADCASTERS ASSC INC	1/28/2014	1/13/2014	2/13/2015	TV AND RADIO ADS	65,000
25	64313	NEBRASKA BROADCASTERS ASSC INC	12/29/2014	1/1/2015	12/31/2015	RADIO AND TV ADS	65,000
64	46363	OXFORD INSTRUMENTS AMERICA INC	11/8/2010	3/11/2011	3/10/2016	OXFORD INSTRUMENTS	62,250
88	65739	AMERICAN LUNG ASSOCIATION OF I	4/16/2015	4/16/2015	6/30/2015	IN CB OFFICE	61,000
25	62254	RESCUE SOCIAL CHANGE GROUP LLC	8/12/2014	8/1/2014	7/31/2015	CONDUCT SOCIAL MARKETING CAMPA	60,000
33	59638	TYRE, RICHARD ANDREW JOHN	3/6/2014	3/6/2014	12/31/2014	deer harvest model	59,193
25	59710	RUSHMORE GROUP LLC	3/14/2014	12/1/2013	6/30/2015	MAINT & MODIFICATION OF NEARS	57,800
65	59821	MOTOROLA SOLUTIONS INC - PURCH	3/24/2014	3/24/2014	3/20/2021	MOTOROLA SERVICES AND TRAINING	55,749
46	64289	BLACK CREEK INTEGRATED SYSTEMS	12/24/2014	1/1/2015	12/31/2015	TSCI Security system maint.	55,741
24	59635	IMG COLLEGE LLC - PURCHASE ORD	3/5/2014	8/1/2014	6/30/2015		52,000

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES  
**STATE SOLE SOURCE CONTRACT REPORT**  
As of December 31, 2014

Exhibit A

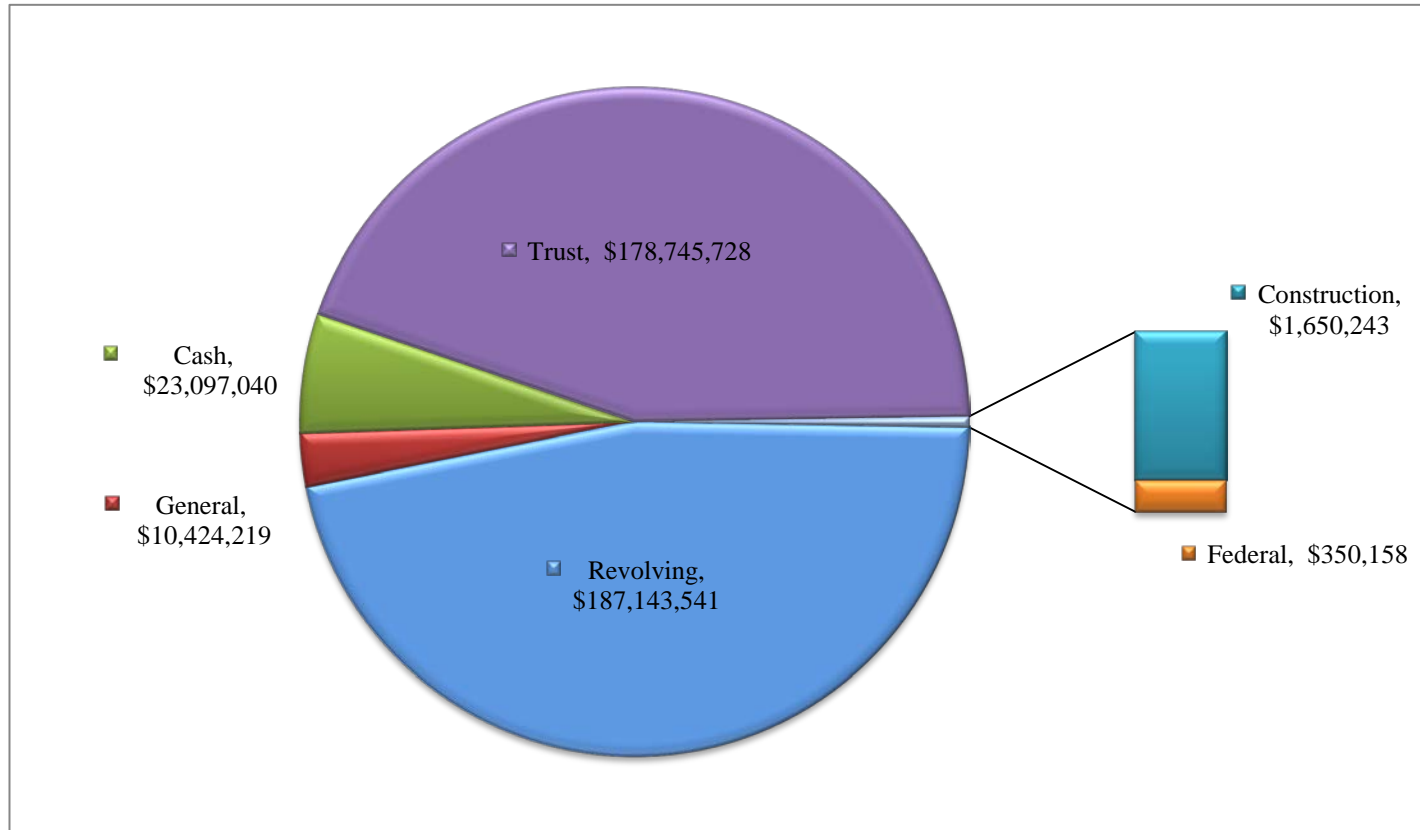
Agency	Contract	Vendor Name	Contract Entered	Contract Start	Contract End	Document Description	Estimated Total Amount
88	66411	BETTER WORLD FUND INC	6/12/2015	6/12/2015	6/30/2015	IN CB OFFICE	50,000
16	54995	PAC	1/31/2013	4/1/2013	3/31/2016		39,648
78	63640	SLEUTH SOFTWARE - PAYMENTS	11/6/2014	11/6/2014	9/30/2015	CC-15-596 IMP RMS	38,540
16	62100	GIS & HUMAN DIMENSIONS LLC	8/4/2014	8/1/2014	7/31/2015	DATA ANALYSIS AND REPORTS	38,000
78	65049	A T SOLUTIONS INC - PURCHASING	2/27/2015	2/27/2015	7/16/2018	CC-15-603 SOFTWARE MAINTENANCE	13,300
							<u>\$ 1,504,674,087</u>

\*These are both contracts entered into by DHHS through the deviation from contractual services process. There are two different services areas. Service area 1 includes Cass, Dodge, Douglas, Gage, Lancaster, Otoe, Sarpy, Saunders, Seward and Washington counties. Service Area 2 includes the remaining 83 Nebraska counties.

**Summary by Agency**

Agency	Agency Name	Estimated Total Amount
9	Secretary of State	\$ 3,072,875
16	Dept of Revenue	680,864
23	Dept of Labor	6,867,280
24	Dept of Motor Vehicles	23,401,688
25	Dept of Health & Human Services	1,260,817,181
27	Dept of Roads	1,321,215
31	Military Dept	2,524,085
33	Game & Parks Commission	193,121
46	Dept of Correctional Services	124,492,667
47	Education Telecommunications	138,074
64	Nebraska State Patrol	1,074,645
65	Dept of Administrative Services	64,294,482
72	Dept of Economic Development	1,837,686
78	NE Commission on Law Enforcement	1,152,855
84	Dept of Environmental Quality	7,511,107
88	Corn Dev. & Marketing Board	5,294,262
		<u>\$ 1,504,674,087</u>

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES  
**Expenditures by Fund Type**  
For Calendar Year 2014



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

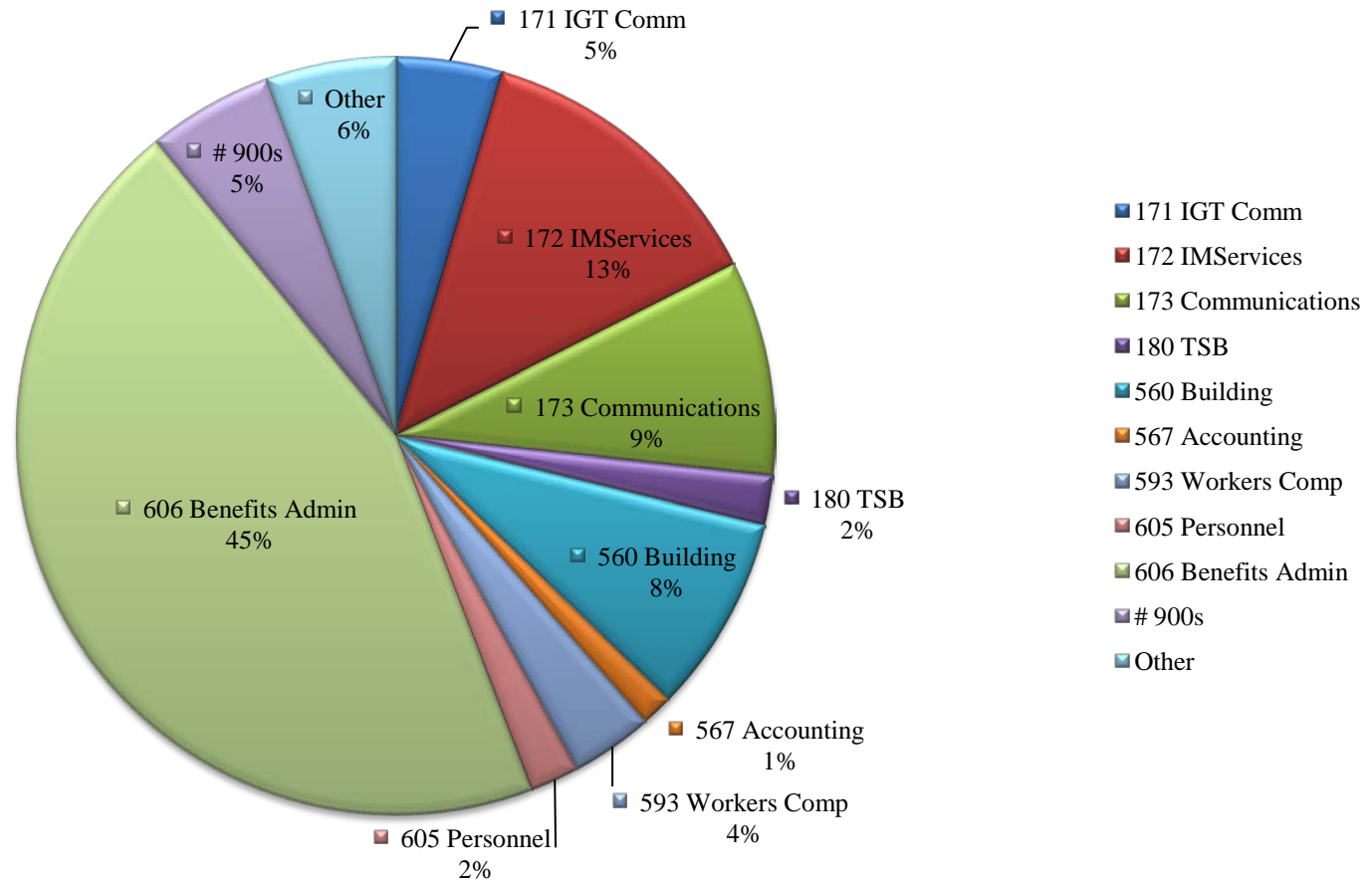
**Expenditures by Program**

For Calendar Year 2014

#	Program	Expenditures	%	#	Program	Expenditures	%
49	Departmental Administration	\$ 1,803,222	*	901	State Capitol Improvements	\$ 619,009	
101	Chief Information Officer	760,720	*	904	State Patrol Crime Lab FAC	653,470	
170	Intergovernmental Communication	2,768,903	1%	917	Capitol Courtyard Fountains	72,063	
171	Supporting Services-Materiel	18,189,704	5%	922	Capitol HVAC Replacement	222,084	
172	IMServices Division	51,858,401	13%	935	Public Safety Comm Towers	610,177	
173	Communications Division	36,572,636	9%	941	Administrative Services -LB309	2,285,591	
180	Transportation Service Bureau	8,433,910	2%	942	Corrections - LB309	2,018,315	
245	Public Safety Comm System	2,222,360	1%	945	Game & Parks - LB309	377,612	
509	Budget Administration	1,081,766	*	946	Historical Society - LB309	306,555	
535	Risk Management	407,931	*	947	DPI / HHSS - LB309	5,469,136	
560	State Building Division	33,806,664	8%	948	Military - LB309	28,906	
567	Accounting Division	5,355,517	1%	949	State Colleges - LB309	4,505,301	
573	Operations - LB309	347,980	*	950	UNK - LB309	433,321	
591	Tort Claims	1,805,966	*	951	UNL - LB309	1,625,276	
592	Indemnification Claims	658,431	*	952	UNO - LB309	1,097,008	
593	Workers' Comp Claims	13,908,842	3%	953	UNMC - LB309	260,100	
594	State Insurance	5,247,393	1%	955	Peventative Maint/Training	150,004	
605	Personnel Division	8,423,807	2%	962	Education Facility - LB309	55,525	
606	Benefits Administration	179,607,375	45%	969	ETV - Allocation	143,549	
608	Employee Relations	364,925	*	970	DNR - Allocation	12,000	
672	Primary Class Dev	1,000,000	*	972	State Patrol - LB309	43,949	
673	Metropolitan Class Dev	1,500,000	*	973	Crime Commission - LB309	76,180	
685	Capitol Commission	3,781,207	1%	980	HHS Utility Improvements-Statewide	77,532	
				982	State Capitol Elevators	360,606	
					Subtotal 900's	21,503,269	5%
					Total all Programs	\$ 401,410,929	

\* less than 1%

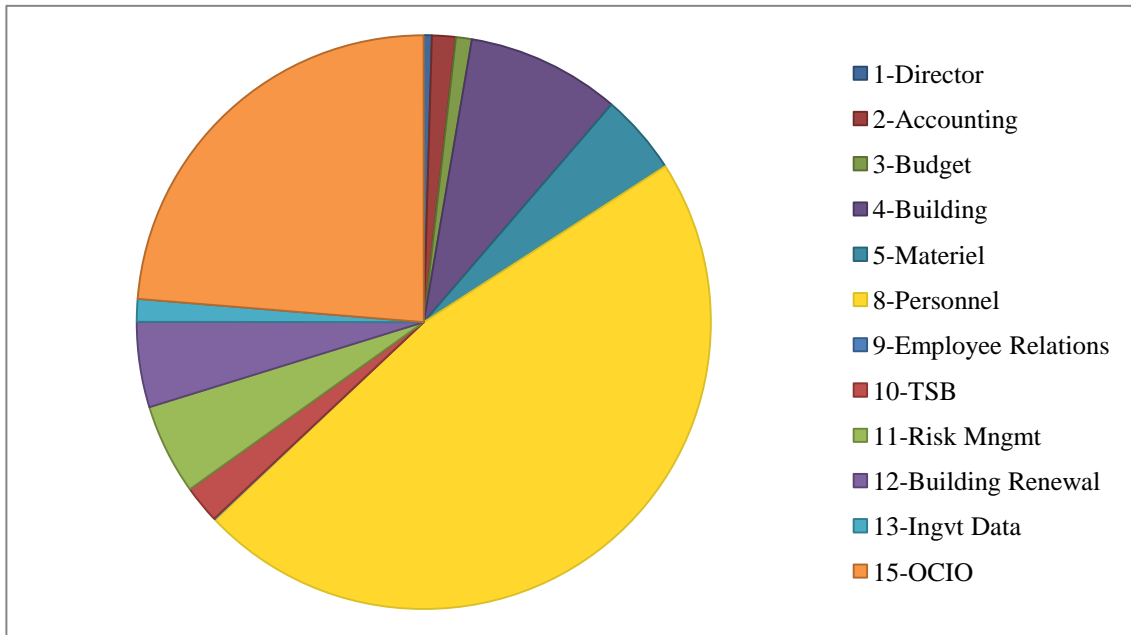
NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES  
**Expenditures by Program**  
For Calendar Year 2014



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

**Expenditures by Division**

For Calendar Year 2014



<b>Division</b>	<b>Expenditures</b>
1-Director	\$ 1,803,221
2-Accounting	5,355,516
3-Budget	3,581,766
4-Building	34,537,666
5-Materiel	18,189,704
8-Personnel	188,031,182
9-Employee Relations	364,924
10-Transportation Services Bureau	8,433,910
11-Risk Management	22,028,562
12-Task Force for Building Renewal	19,236,311
13-Intergovernmental Data	5,054,969
15-Office of the Chief Information Officer	94,793,198
	<u>\$ 401,410,929</u>