



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Scott Frakes, Director
Nebraska Department of Correctional Services
P.O. Box 94661
Lincoln, Nebraska 68509

Dear Mr. Frakes:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report thereon dated January 4, 2019. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Correctional Services (Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Agency's management, are intended to improve internal control or result in other operating efficiencies.

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

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Agency, pursuant to AICPA Auditing Standards AU-C Section 265.A17, in a separate early communication letter dated September 27, 2018.

Draft copies of this letter were furnished to the Agency to provide 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 letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2018.

1. Inmate Trust Fund

During testing of the Inmate Trust Fund, we noted that the Agency lacked an adequate segregation of duties over the check writing system. One accounting clerk was primarily responsible for preparing checks from the access database. The Agency also had back-up check writers who had access to blank checks, the signatory machine, and the ability to change inmate accounts in the Corrections Information and Tracking (CIT) application. The balance of the Inmate Trust Fund at June 30, 2018, was \$4,097,775.

The Agency records much of the CIT activity in the State's accounting system, through journal entries and subsequent correcting entries. During a review of 157 correcting journal entries in fiscal year 2018, we noted that the Agency failed to enter correcting journal entries into the State's accounting system in a timely manner for 94 of the correcting journal entries, totaling \$24,594.

Good internal controls require accounting applications that maintain appropriate audit trails to document users who change, create, or delete data. Good internal controls also require an adequate segregation of duties, so no one person can both perpetrate and conceal errors or irregularities. Additionally, good internal controls require journal entries that record data in the State's accounting system to be made accurately and timely.

The absence of a proper segregation of duties, the employee's ability to make changes directly to the CIT application, and the lack of accountability within the application used to write inmate trust checks increases the risk that errors or improper payments will be made and not identified. Without a timely reconciliation process, it is difficult to identify errors between the amounts recorded in CIT and the amounts recorded in the State's accounting system.

A similar finding was noted in the prior year audit.

We recommend the Agency implement controls to ensure no one person is in a position to process transactions from beginning to end with no secondary review. We also recommend that adequate procedures be implemented to ensure journal entries are accurate and made in a timely manner.

Agency Response: Procedures have been updated so that individuals who are back-up writers do not have access to blank checks, the signatory machine and the ability to change inmate accounts in the Corrections Information and Tracking (CIT) application.

NDCS Accounting strives to complete journal entries as timely as possible. The status of journal entries for CIT are reviewed at least quarterly by the Controller or designee.

2. Timesheet Approval

The Agency's overtime-exempt employees were not required to maintain timesheets or other supporting documentation; rather, they were required only to record leave used. As a result of the Agency's policy, there was no support that all full-time employees rendered at least 40 hours of labor each week, as required by Neb. Rev. Stat. § 84-1001(1) (Reissue 2014). For one employee tested, there was no approval of timesheets, only approval of leave used. Exempt employees did not certify that they worked at least 40 hours per week.

A similar finding was noted during the previous audit.

Neb. Rev. Stat. § 84-1001(1) (Reissue 2014) states, in relevant part, 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.

In addition, a good internal control plan requires that hours worked be adequately documented via timesheets or time logs, etc., and that such documentation be kept on file to provide evidence of compliance with § 84-1001(1). Furthermore, a good internal control plan also requires the maintenance of adequate documentation to support that accrued employee sick and vacation leave was actually earned, and that the appropriate management review and approval of timesheets occurred.

Without adequate records to support hours worked and the approval of timesheets, there is an increased risk for fraudulent or inaccurate payment of regular hours and accumulation of leave.

We recommend the Agency establish a policy requiring all employees to maintain adequate documentation of hours worked, such as timesheets or certifications with supervisor approval.

Agency Response: Based on 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. The exception reporting of leave is an appropriate process for exempt employees. They are expected to work 40 hour per week, except when taking leave, and they often work more than 40 hours per week.

APA Response: As noted, State statute 84-1001(1) requires all state officers and heads of departments and their deputies, assistants, and employees to work no less than forty hours each week. Therefore, documentation should be retained, such as a certification or a detailed timesheet to document compliance with State statute.

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

This communication is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management

of the State of Nebraska and is not intended to be, and should not be, used by anyone other than the specified parties. However, this communication is a matter of public record, and its distribution is not limited.



Philip J. Olsen, CPA, CISA
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