



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Scott Frakes, Director
Nebraska Department of Correctional Services
PO 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, 2019, in accordance with auditing standards generally accepted in the United States of America and the 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 December 19, 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 (Department) 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 Department management, are intended to improve internal control or result in other operating efficiencies.

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

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

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. However, material weaknesses may exist that have not been identified.

Draft copies of this letter were furnished to the Department 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, 2019.

1. Inmate Trust Fund

During testing of the Inmate Trust Fund, we noted that the Department lacked an adequate segregation of duties over the check-writing system. One accounting clerk was primarily responsible for preparing checks from the access database; however, the database was accessible to multiple individuals within the Department, including several accounting staff. Five individuals had access to the blank checks and the signatory machine, and the database provided no audit trail to document users who created, changed, or deleted a record. The balance of the Inmate Trust Fund at June 30, 2019, was \$4,443,926. Per discussion with the Department, a new web-based check writing system was being developed; however, it had not been implemented at the time of the audit.

Good internal controls require procedures to ensure the following: 1) an adequate segregation of duties exists, so no one person can both perpetrate and conceal errors or irregularities; and 2) accounting applications provide appropriate audit trails to document users who change, create, or delete data.

Without such procedures, there is an increased risk that errors or improper payments will be made and not identified.

A similar finding was noted in the previous audit.

We recommend the Department implement procedures to ensure that an adequate segregation of duties exists, so no one person can both perpetrate and conceal errors or irregularities. Those same procedures should ensure also that accounting applications provide appropriate audit trails to document users who change, create, or delete data.

Department Response: Procedures were updated so 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, specifically when turnover of accounting employees occur. Since the time of testing, the new web-based check writing system had been implemented and is operational. The system provides the applicable audit trails.

2. Timesheet Approval

The Department's overtime-exempt employees were not required to maintain timesheets or other supporting documentation for time worked; rather, they were required only to record leave used. Supervisor approval was given only for leave used, and employees were not required to certify that they worked at least 40 hours per week. Consequently, 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), which says 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.

The Department's payroll expenditures for the fiscal year ended June 30, 2019, totaled approximately \$1.127 million. This included both exempt and non-exempt employees, totaling approximately 2,500 employees, of which approximately 390 were exempt.

A good internal control plan requires procedures to ensure that hours worked are adequately documented by timesheets or other supporting documentation, which should be kept on file to provide evidence of compliance with § 84-1001(1). Those same procedures should ensure also that adequate documentation is maintained to support that accrued employee sick and vacation leave was actually earned, and the appropriate management review and approval of timesheets occurred.

Without such procedures, there is an increased risk for not only payment of fraudulent or inaccurate employee work and leave hours but also the inability to support compliance with § 84-1001(1).

A similar finding was noted in the previous audit.

We recommend the Department implement procedures to ensure hours worked are adequately documented by timesheets or other supporting documentation, which should be kept on file to provide evidence of compliance with § 84-1001(1). Those same procedures should ensure also that adequate documentation is maintained to support that accrued employee sick and vacation leave was actually earned, and the appropriate management review and approval of timesheets occurred.

Department 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 exceptions are met. The exception reporting of leave is an appropriate process for exempt employees. They are expected to work 40 hours per week, except when taking leave, and they often work more than 40 hours per week.

APA Response: According to Neb. Rev. Stat. § 84-1001(1), all employees are required to render 40 hours of labor each week. Without adequate time records, such as detailed timesheets or certifications of hours worked, the Department has not documented compliance with State law.

3. Voyager Card Issues

For the purchase of fuel, service, maintenance and repair of its vehicles and equipment, the State of Nebraska (State) uses Voyager Fleet Systems Inc. (Voyager) cards, which are essentially credit cards issued through US Bank. The Voyager cards are used for electronic purchases at Nebraska Department of Transportation gas pumps and hundreds of participating commercial vendors in Nebraska. The Voyager card can also be used in surrounding states.

We ran a report of all Voyager card transactions for the fiscal year ended June 30, 2019, and noted the following issues for the Department:

- Nearly all of the Voyager cards are assigned to a vehicle, a piece of equipment, or a State shop. Voyager cards assigned to a specific vehicle usually require the State employee to enter a vehicle identification number and the odometer reading of the vehicle before the card can be used. This serves as a monitoring tool to ensure the fuel purchased is for the proper vehicle. The Department made 85 fuel purchases, totaling \$3,726, without the odometer of the vehicle being entered at the time of purchase.
- Additionally, 114 fuel purchases, totaling \$15,893, in Lincoln, NE, were not made at State-owned facilities, and no incident reports required by the Department's own policy for such purchases were provided for our review.

The Department's Voyager card policy states, in relevant, part the following:

Most State fueling stations are now serviced by an automated pump system that asks for specific vehicle information including PIN number and odometer reading. The exact odometer reading shall be used when fueling, following the prompts provided by the pump display.

* * * *

Vehicles inside the Lincoln city limits must be fueled at State fueling locations. In the event of an emergency or if it would cause undue overtime usage, a Lincoln based vehicle may be fueled at a location other than State fueling locations, however an Incident Report must be completed detailing the specific reason and forwarded to the Deputy Director – Administrative Services.

A similar finding was noted during the previous audit.

Good internal controls require procedures to ensure that odometer readings are tracked when purchasing fuel with Voyager cards, and fuel purchases in Lincoln, NE, are made at State-owned facilities.

Without such procedures, there is an increased risk for not only the misuse or waste of public funds or resources but also noncompliance with administrative policies.

We recommend the Department implement procedures to ensure odometer readings are tracked when purchasing fuel with Voyager cards, and fuel purchases in Lincoln, NE, are made at State-owned facilities.

Department Response: Policy and procedure are in place for staff to record odometer readings when purchasing fuel with Voyager cards, as well as situations involving purchase of fuel in Lincoln, Nebraska. This information is included with vehicle check-out logs. Staff will be reminded of the applicable policy and procedure. Additionally, NDCS is implementing an audit process to address these issues.

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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 Department 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 Department.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Department, 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.



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