



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Kyle Schneweis, Director
Nebraska Department of Transportation
1500 Nebraska Hwy 2
Lincoln, Nebraska 68502

Dear Mr. Schneweis:

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 Transportation (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 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.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a 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. We consider Comment Number 1 (Federal Activity Recorded In Cash Funds) to be a significant deficiency.

That comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

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. Federal Activity Recorded In Cash Funds

Vendor payments are recorded into the Department's Payment System (RPS), which then interfaces with the State's Accounting System to record the transactions and create payments to those vendors. When the Department records vendor payments for construction projects, those cost records are sent to the Department's Project Finance System (PFS), which is used to track road construction projects. PFS then allocates the project costs to the different funding sources (e.g., State funds, local funds, Federal funds). The allocation performed by PFS is then used to request Federal reimbursement.

The funding source for the expenditures is maintained only on PFS and is not recorded or maintained on the State's Accounting System. As a result, the State's Accounting System reflects these expenditures as Cash fund expenditures rather than Federal fund expenditures, as required by the Department of Administrative Services (DAS) State Accounting Manual, Application of Principles – Section AM-003, which includes the following fund types used in the State Accounting System:

- *40000 – Federal Funds – accounts for all federal grants and contracts received by the State.*
- *20000 – Cash Funds – accounts for revenues generated by specific activities from sources outside of state government and the expenditures directly related to the generation of revenues.*

During the period July 1, 2018, through June 30, 2019, the Department recorded \$323,388,726 in Federal expenditures according to the PFS system and \$323,817,518 in Federal receipts in the State Accounting System's Roads Operations Cash Fund (22700). This activity should have been recorded in a Federal fund on the State's Accounting System.

The Auditor of Public Accounts (APA) requested a reconciliation of the PFS system to the State Accounting system by funding source. The Department provided a reconciliation for \$313,167,983 or 97% of the Federal expenditures, as follows:

Program	Expenditures During FYE 6/30/2019	Amounts Reconciled by the Department	Percentage Reconciled
Highway Planning & Construction	\$ 305,627,963	\$ 303,395,594	99%
Formula Grants for Rural Areas	\$ 9,772,389	\$ 9,772,389	100%
Remaining Federal Expenditures	\$ 7,988,374	\$ -	0%
Total Federal Expenditures	\$ 323,388,726	\$ 313,167,983	97%

The reconciliation took a significant amount of time for the Department to complete and for the APA to review.

The Department is not recording its activity in accordance with State Accounting policies. While the Department is capable of obtaining this information, the information systems used by the Department cannot produce this data easily and quickly.

We recommend the Department implement procedures to ensure the Department is following State Accounting Policies and establish an adequate interface between the RPS system and the State's Accounting System to ensure the funding is recorded properly.

Department Response: NDOT's recording of federal reimbursement as a revenue in the State's Accounting System to a cash fund following the expenditure of state funds is a long-standing practice done with the knowledge of DAS State Accounting. Specific, unique revenue object codes have been created in the State's Accounting System and are used to separately account for federal reimbursement. NDOT will confer with the Department of Administrative Services regarding the State Accounting policy.

2. 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 Department gas pumps and hundreds of participating commercial vendors in Nebraska. The Voyager card can also be used in surrounding states.

Neb. Rev. Stat. § 60-3101 (Cum. Supp. 2018) establishes the use of fleet cards for State government and political subdivisions, authorizing the Nebraska State Treasurer to contract with an entity capable of operating the fleet card program on behalf of the State. Additionally, that statute directs the Department to administer the purchasing card program and allows that agency to adopt and promulgate rules and regulations as needed for the appropriate authorization of card transactions.

During the fiscal year ended June 30, 2018, the APA performed a statewide review of policies and procedures related to Voyager cards issued to State agencies and tested specific transactions made with the cards to ensure the expenditures were adequately supported and reasonable. During the statewide review, it was noted that the Department lacked formal policies and procedures for the issuance and use of the cards. For the fiscal year ended June 30, 2019, the Department still had not implemented formal policies and procedures as recommended during the previous audit.

For the fiscal year ended June 30, 2019, we ran a report of all Voyager card transactions and noted the following:

- 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 1,330 fuel purchases, totaling \$99,165, without the odometer of the vehicle being entered at the time of purchase.
- Additionally, Neb. Rev. Stat. § 81-1019(1) (Reissue 2014), states, “Any person using a bureau fleet vehicle shall, whenever possible, obtain fuel from state-owned facilities.” DAS – Transportation Services Bureau Policies and Procedures, Section 8, also requires fuel purchases in Lincoln, Nebraska, to be purchased from State-owned facilities instead of commercial vendors. The State purchases bulk fuel at a reduced price; therefore, fuel purchased at State-owned facilities reduces costs incurred by agencies. The Department had 785 fuel purchases, totaling \$31,590, which were paid to commercial vendors instead of at a State-owned fuel pump.

Good internal controls require procedures to ensure that vehicle odometer readings are tracked when making fuel purchases with Voyager cards, and fuel is purchased from State-owned facilities in Lincoln, NE, as well as from such facilities whenever possible elsewhere.

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

We recommend the Agency establish procedures to ensure compliance with State statute and/or administrative policies requiring the tracking of odometer readings when purchasing fuel with Voyager cards and purchasing fuel at State-owned facilities in Lincoln, NE, as well as from such facilities whenever possible elsewhere.

Department Response: A vehicle usage manual is being written to provide guidance to all NDOT drivers, and will be made available to other agencies. We expect to have the manual reviewed by April 1, 2020. The vehicle usage manual will provide guidance on recording odometer readings. The state fuel system requires odometer readings at the time of fueling. NDOT is developing a report to track inaccurate odometer readings, in order to identify staff that may need further training or reminders to record accurate readings.

3. NITC Information Security Policy

The Department did not have an Information Security Strategic Plan, a System Security Plan, or a Plan of Action and Milestones Report on file, as required by the NITC Information Security Policy.

Nebraska Information Technology Commission (NITC) Technical Standards and Guidelines, Information Security Policy 8-209 (July 2017), “State and agency security planning and reporting,” states the following:

The following standard and recurring reports are required to be produced by the state information security officer and each agency information security officer; these reports will reflect the current and planned state of information security at the agency:

- (1) Information security strategic plan (section 8-210);
- (2) System security plan (section 8-211); and
- (3) Plan of action and milestones report (section 8-212).

We recommend the Department work with the State Information Security officer to complete the reports required by the NITC Information Security Policy.

Department Response: NDOT has not yet completed the IT Security Plan and continues to work with the State Information Security officer on this subject. The NITC standards that are associated with what is required from a security standpoint are currently being edited. NDOT is a part of that process via the Security Architecture Workgroup (SAW). NDOT is also working with the OCIO to determine responsibilities for vulnerability scanning in general and on establishing an Application Portfolio Management, which is part of the IT Security Plan.

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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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