



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen  
State Auditor

Charlie.Janssen@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
auditors.nebraska.gov

September 11, 2020

John Hilgert, Director  
Nebraska Department of Veterans' Affairs  
301 Centennial Mall South, 4<sup>th</sup> floor  
Lincoln, Nebraska 68509

Dear Mr. Hilgert:

This letter is provided pursuant to AICPA Auditing Standards AU-C Section 265B.A17, which permits the early communication of audit findings due to their significance and the urgent need for corrective action. The audit work addressed herein was performed as part of the fiscal year ended June 30, 2020, Comprehensive Annual Financial Report (CAFR) audit. This communication is based on our audit procedures through April 30, 2020. Because we have not completed our audit of the fiscal year 2020 CAFR, additional matters may be identified and communicated in our final report.

In planning and performing our audit of the State's financial statements as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the State's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, 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.

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

We noted certain internal control or compliance matters related to the activities of the Nebraska Department of Veterans' Affairs (Department), or other operational matters, which are presented below for your consideration. The following comment and recommendation, which has been discussed with the appropriate members of the agencies and their management, is intended to improve internal control or result in other operating efficiencies.

Draft copies of this letter were furnished to the Department to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, the auditor does not express an opinion on it. Such response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2020.

### **Payroll Reconciliation**

The Department used the Kronos payroll application to track employees' hours worked and leave used. The Department's employees entered their hours worked and leave used, and Department supervisors reviewed and approved the hours recorded in Kronos. The Department had a memorandum of agreement with the Department of Administrative Services (DAS) – Shared Services to process the payroll after the Department approved employees' time in Kronos.

DAS was responsible for: 1) the interface of Kronos data to EnterpriseOne (E1), the State's accounting system, which was used to process employee paychecks; 2) the review of interface reports to ensure all hours recorded in Kronos were recorded in E1; and 3) processing all payroll adjustments in E1, at the direction of the Department. The Department paid over \$32 million in wages during the period July 1, 2019, through June 30, 2020.

During testing of two biweekly pay periods, we noted the following:

- The Department did not perform a reconciliation to ensure the payroll processed by DAS was correct, including a review to ensure all hours recorded in Kronos were recorded and processed through E1.
- The Department did not have procedures to reconcile the payroll register to the E1 general ledger to ensure payroll expenditures were recorded accurately.
- The Auditor of Public Accounts (APA) tested the DAS reconciliation for two pay periods and noted that time records from Kronos were not recorded in E1, and the errors were not corrected in a timely manner. One employee was underpaid \$174 because 7.25 overtime hours, 7 shift differential hours, and 0.25 regular hours recorded in Kronos were not included in the interface to E1. The hours were recorded to a non-payroll business unit, which caused the error during the interface.

Additionally, three employees had payroll adjustments that were unreasonable:

- One employee was paid for 16 holiday hours for Thanksgiving and Black Friday twice, on the January 3, 2020, and February 14, 2020, paychecks. The 16 hours should have been paid only once and, as a result, the employee was overpaid \$193.
- One employee was underpaid \$334. DAS recorded an incorrect adjustment that reduced the employee's hours from 40 to 9.6, which caused the underpayment of 30.4 hours.
- One employee's sick and vacation leave was adjusted because she was not accruing leave at the proper rate. DAS reduced leave based on a calculation provided by the Department; however, the Department's calculation understated the sick and vacation leave hours by 1.59 hours.

Title 273 NAC 10-013 (October 30, 2006) states the following:

*All types of leave are granted in proportional amounts for part-time employees. Agencies shall use the budgeted percentage of the annual FTE when calculating leave earnings for part-time employees.*

A good internal control plan and sound business practices require procedures to ensure that data interfaced from the Kronos payroll application is reconciled to E1 to confirm that payroll is correct and agrees to the final payroll posted by DAS. Those same procedures should ensure also that adjustments to employee pay are reviewed to confirm the adjustments are proper.

Without such procedures, there is an increased risk of errors not being detected in a timely manner.

We recommend the Department work with DAS to ensure that all Kronos pay data is accurately recorded and processed through E1. We also recommend the Department implement procedures to reconcile the final payroll register to the E1 general ledger. Lastly, we recommend the Department implement procedures to ensure any adjustments made by DAS are proper.

*Department Response: NDVA thanks the APA for identifying these areas of concern. A process has been put in place to reconcile the payroll register to the E1 general ledger to ensure payroll expenditures are recorded accurately. Additionally, NDVA will work with our partners at DAS Shared Services Payroll to identify and implement procedures to ensure that all pay data from Kronos is accurately processed through E1 and to ensure that when adjustments are needed and errors identified that they are corrected in a proper and timely manner.*

\* \* \* \* \*

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 the Department, 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.



Zachary Wells, CPA, CISA  
Audit Manager