



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, 2020, 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 17, 2020. 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. The comment and recommendation, which has been discussed with the appropriate members of Department management, is 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 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. 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 comment and recommendation contained herein. Any formal response received has been incorporated into this letter. 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 Issues

The Department used the Kronos system to track work time and duties for personnel, which then interfaced with the State's accounting system. The Department had a procedure for reviewing the interface between the two systems; however, in October 2019, an error occurred that resulted in one employee being paid for 75 hours, instead of only 0.75 hours, of overtime. Not identified by the review process, the resulting overpayment of \$898 was reported by the employee. Although the Department and the employee were aware that a repayment was required, none was made until June 2020, after the Auditor of Public Accounts (APA) inquired about it. Additionally, the Department calculated incorrectly the amount the employee was to repay.

Furthermore, the employee elected to have an additional \$10 withheld for Federal income tax, which was not included in the Department's calculation, resulting in the employee overpaying by \$10.

Finally, the Department's overtime-exempt employees were required to record only leave used. There was no support, therefore, 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). That statute 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 except any week in which a paid holiday may occur.

A good internal control plan requires procedures to ensure that employees are paid only for time worked, and any payroll errors are identified and corrected in a timely manner. Those procedures should ensure also that hours worked are supported by timesheets or other documentation, which should be kept on file to provide evidence of compliance with § 84-1001(1).

Without such procedures, there is an increased risk for not only payment of incorrect hours but also noncompliance with State law.

A similar finding was noted in the previous audit.

We recommend the Department implement procedures to ensure: 1) employees are paid only for time worked, and any payroll errors are identified and corrected in a timely manner; and 2) hours worked are supported by timesheets or other documentation, which should be kept on file to provide evidence of compliance with § 84-1001(1).

Department Response:

Payroll Issues

As indicated, an employee was overpaid in error and was not corrected until notified by the Auditor of Public Accounts. NDCS' payroll division was aware of this error when notified by the applicable employee. A payroll processing employee indicated she had corrected this error to management, but did not do so. This employee left NDCS' employment during that time period.

NDCS' audit process includes an interface analysis reconciliation. Additionally, a random selection of employees is run to test their payroll at the hourly level, to include all applicable human resources team members.

NDCS supervisory team members, to specifically include the payroll division, will strive to ensure that applicable team members in fact make any needed payroll corrections.

Timesheet Approval

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.

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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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