



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 17, 2020

Moe Jamshidi, Interim Director
Nebraska Department of Transportation
1500 Nebraska Hwy 2
Lincoln, Nebraska 68502

Dear Mr. Jamshidi:

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 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 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 certain deficiencies in internal control that we consider to be significant deficiencies.

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.

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

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Department, pursuant to AICPA Auditing Standards AU-C Section 265B.A17, in a separate early communication letter dated September 11, 2020.

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, 2020.

1. Federal Activity Recorded in Cash Funds

Vendor payments were recorded into the Department's Payment System (RPS), which then interfaced with the State's Accounting System to record the transactions and create payments to those vendors through a Cash Fund. These payments were then entered into the Department's Project Finance System (PFS), which allocated the project costs to the different funding sources (e.g., State funds, local funds, Federal Funds) and used to request Federal reimbursement.

Due to the process above, the funding source for the expenditures was maintained only on PFS and was not recorded or maintained on the State's Accounting System. As a result, the State's Accounting System reflected these expenditures as Cash Fund expenditures rather than Federal Fund expenditures, as required by the DAS State Accounting Manual, Application of Principles – Section AM-003, which includes the following funds 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, 2019, through June 30, 2020, the Department recorded \$467,005,790 in Federal expenditures according to PFS. The Department did not complete a full reconciliation of the Federal expenditures reported for the fiscal year ended June 30, 2020. The Department planned to reconcile the remaining programs for the Statewide Single Audit.

A similar finding was noted in the previous audit.

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 State Accounting Policies are followed and establish an adequate interface between RPS and the State's Accounting System to ensure the funding is being 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 EnterpriseOne and are used to separately account for federal reimbursement. Since these are state expenses at the time of payment and state cash funds are used, there is not a need to record federal information to the expenditure. After the state expenses are identified in NDOT's Project Finance System for potential federal reimbursement, the federal information is recorded there. This practice was established long ago as a reflection of the fact that the federal reimbursement could take place months and even years following the initial state expense. NDOT will continue to confer with the

Department of Administrative Services regarding the State Accounting policy and take whatever follow-up actions they advise are necessary. Also, due to a retirement in a key position, there was some confusion in terms of timing and when the State Auditor's Office wished to have the full reconciliation of Federal expenditures completed. NDOT staff were prepared to complete the reconciliation but believed there would be additional follow-up from the State Auditor's Office of when that information was needed.

NDOT has conferred with Federal Highway Administration (FHWA) Nebraska Division financial staff and received assurances from them that they are confident that NDOT can provide expenditure summaries from NDOT's systems by CFDA number that agrees to FHWA records. Further, assurances have been received that NDOT has proper accounting controls in place from their federal perspective. They've advised NDOT is able to provide information that enables FHWA to reconcile from total project costs of the project to federal reimbursed costs and verify that the reimbursement was done at the appropriate federal participation percentage.

NDOT does recognize that improvements could be made to the internal financial systems. In fact, NDOT has recently completed a financial systems modernization roadmap, which will guide future enhancement and/or replacement of some of the existing legacy systems, including the potential for NDOT to use the State's accounting system, EnterpriseOne, directly in the future. FHWA will be invited to participate in the modernization efforts. NDOT will communicate more effectively with the Auditor's Office in the future with respect to the timing of submission of the federal fund reconciliation and is also working toward automation using the existing internal financial systems that allow the reconciliation to be provided more timely.

APA Response: According to the DAS State Accounting manual, activity related to Federal grants, including Federal expenditures and reimbursements, should be recorded in a Federal fund. These expenditures are actual Federal expenditures and the current process performed by the Department does not recognize these Federal expenditures in the State Accounting system. The Department is not in compliance with the State's policies. As for the reconciliation, the Auditor of Public Accounts (APA) requested the Department's reconciliation in August 2020 and had several follow up correspondence, but did not receive a completed reconciliation prior to the completion of the Comprehensive Annual Financial Report audit.

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 State gas pumps and hundreds of participating commercial vendors in Nebraska. The cards can be used also in surrounding states.

Neb. Rev. Stat. § 60-3101 (Cum. Supp. 2018) 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. The law implementing the purchasing card program was adopted in 2013. However, for the fiscal year ended June 30, 2020, the Department still had not updated its formal policies and procedures from 1997, despite recommendations to do so in the previous two audits.

The Auditor of Public Accounts reviewed a report of all Voyager card transactions during the period July 1, 2019, through April 20, 2020, and noted the following:

- The Department made 1,115 transactions, totaling \$72,881, without the odometer reading being entered at the time of purchase. The Department claimed to use Kronos and Passport to monitor if vehicle usage was appropriate. The odometer readings taken with staff timekeeping were considered the reading of record, and fueling odometer readings were reviewed only if there was a request by the Department's Human Resources personnel or if vehicle maintenance records indicated there was an issue. The Department was unable to provide documentation that any monitoring was performed.

- 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 made from State-owned facilities instead of from commercial vendors. Nevertheless, the Department made 662 fuel purchases, totaling \$25,944, in Lincoln from other than State-owned facilities.

Good internal controls require procedures to ensure that vehicle odometer reading are tracked when making fuel purchases with Voyager cards, and such fuel purchases are made from State-owned facilities when possible or required.

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 Department implement 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. We also recommend the Department ensure that its policies are updated for current practices.

Department Response: Neb. Rev. Stat. § 81-1019, as cited in the Auditor’s CAFR Management Letter, references the term “bureau fleet vehicle”. NDOT operates under Nebraska Highway and Bridge laws and has additional authority granted to it with respect to fleet vehicles. Neb. Rev. Stat. § 39-1355, grants NDOT with the authority to purchase lease, employ, or acquire by other means, all needed road materials, machinery, equipment, supplies, services, and labor necessary for the construction, reconstruction, maintenance, and control of the state highway system. As such, NDOT does not operate any bureau fleet vehicles under the authority of the Transportation Services Bureau. However, NDOT acknowledges the need to update policies and procedures. NDOT is revising the Fleet Credit Card and Fuel System Manual and other internal operating instructions, which are expected to be published before the end of February 2021. The updated documents will direct that odometer readings be collected at the time of fueling. These updated policies will also include a recommendation to purchase fuel from State-owned facilities in Lincoln when possible or feasible as a best practice and similar to as is required for vehicles owned and operated by the Transportation Services Bureau. To assist in the tracking of odometer readings, an odometer audit report is being created and is expected to be available no later than spring 2021 that will be used to review issues with drivers.

APA Response: The Department did not have updated formal policies and procedures. In regards to the fuel purchases from non-State owned facilities, the APA referred to Neb. Rev. Stat. § 81-1019(1) for perspective of criteria for the Department to consider implementing for their regulation of fleet vehicles.

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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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