NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Jason Jackson, Director
Nebraska Department of Administrative Services
1526 K Street, Suite 240
Lincoln, Nebraska 68508

Dear Mr. Jackson:

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 Administrative Services (DAS) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of DAS 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 a certain deficiency in internal control that we consider to be a material weakness and other deficiencies 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 consider Comment Number 1 (Errors in CAFR Preparation), Comment Number 2 (Unemployment Insurance Fund Issues), and Comment 3 (Agency Accrual Errors) 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 4 (Lack of Financial Statement Reconciliation) to be a significant deficiency.

These comments 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 DAS, pursuant to AICPA Auditing Standards AU-C Section 265B.A17, in a separate early communication letter dated September 17, 2020.

Draft copies of this letter were furnished to DAS 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. Errors in CAFR Preparation

The Department of Administrative Services (DAS), State Accounting Division (DAS – State Accounting), prepares the State of Nebraska Comprehensive Annual Financial Report (CAFR). The financial statements were not accurate and were not prepared in accordance with governmental accounting standards. Additionally, there was not an adequate secondary review to ensure that entries were accurate prior to being submitted to the Auditor of Public Accounts (APA) to audit. As a result, DAS materially misstated financial statement entries, footnote disclosures, and other supporting documentation, requiring numerous adjustments and revisions.

The table below summarizes the amount of over **$21 billion** in errors for the fiscal year ended June 30, 2020. These errors would affect multiple line items and financial statements of the CAFR. This amount is particularly concerning because an audit is performed by testing only a limited number of transactions; therefore, it is reasonable to assume that additional errors went undetected.

	Description	Dollar Error	Reason
Financial Statement Errors:			
1	Agency Fund Financials – Local Gov't	$ 677,475,089	Insufficient procedures to properly record activity
2	Unemployment Insurance (UI) Fund	$ 593,574,567	See separate Comment Number 2
3	Capital Asset & Construction in Progress	$ 270,395,854	See separate management letter dated 12/17/20
4	DHHS Receivable & Payable Accruals	$ 106,690,440	See separate Comment Number 3
5	University & State College Statements	$ 45,667,244	Elimination entries were not properly recorded
6	Accounts Receivable Analysis	$ 41,698,414	Amounts not recorded & errors
7	Beginning Balance Adjustments	$ 34,203,495	Amounts not recorded & errors
8	Permanent Funds Restricted Principal	$ 26,595,342	Not all activity included in entry, similar to FY 2019
9	Special Revenue Equity Analysis	$ 18,270,954	Misclassified as restricted
10	Accounts Payable Analysis	$ 17,162,625	Duplicated 7 batches & improper accrual for 1 entry
11	Agency Fund Financials – Other	$ 16,288,423	Securities lending collateral/obligations overstated
12	Liability Due to Federal Government	$ 14,376,307	Duplicate entry
13	Securities Lending	$ 9,096,340	Reversing entries caused misstatements
14	Securities Lending Activity Miscoding	$ 6,103,202	Recorded to wrong fund
15	Accounts Payable Analysis	$ 5,321,701	One agency not accounted for
16	Transfers	$ 4,535,004	Misclassified as expenditures
17	Net Pension Expense Allocation	$ 4,331,000	Allocation was not proper by function
18	Bond Proceeds	$ 3,801,307	Duplicate entry & overstatement of offset account
19	Federal Fund Expenditures	$ 3,113,400	Overstated due to duplicate entry

	Description	Dollar Error	Reason
20	Compensated Absences	$ 3,016,510	Errors in the calculation
21	Equity Analysis	$ 2,864,600	Staff error overstating beginning balance & receivable
22	Retainage Payable	$ 2,531,252	Amounts not recorded
23	HSS Fund – Due to Fund Balance	$ 1,874,084	Existing balance from FY 2018 not reversed
24	General Fund – Deposits Balance	$ 1,874,084	Existing balance from FY 2018 not reversed
25	Federal Accounts Payable	$ 1,847,905	Understated due to misclassification
26	Private Purpose Trust Funds – Other	$ 1,707,798	See separate Comment Number 5
27	Highway Fund – Accounts Receivable	$ 1,329,989	Existing balance from FY 2017 not reversed
28	Receivable from Federal Government	$ 1,315,331	Overstated due to errors in agency accruals
29	Improper Adjusting Entry	$ 1,130,553	APA-proposed adjustment was recorded improperly
30	HSS Fund – Due from Fund Balance	$ 1,074,640	Existing balance from FY 2019 not reversed
31	General Fund - Cash Balance	$ 1,002,893	Existing balance from FY 2018 not reversed
32	Highway Fund Receivables	$ 554,074	Was not updated for change in the receivable
33	Highway Fund Revenues	$ 316,500	Recorded as due to vendor, but should be tax revenue
34	Donated PPE	$ 292,392	Insufficient staff review causing overstatement
35	Agency Fund Financials – Other	$ 170,719	Liability miscoding
36	Due to Fund Allocation Analysis	$ 85,103	Amounts not recorded
37	Loan Activity Reclassification	$ 26,625	Not included
38	Due to Fund/Accounts Payable Analysis	$ 19,350	Amounts not recorded
39	Federal Fund Elimination Entry	$ 15,585	Amounts not recorded
	Total Financial Statement Errors	**$ 1,921,750,695**	
Footnote Errors:			
40	Deposits & Investments Portfolio	$ 13,272,497,979	Misclassification in the credit ratings
41	Noncurrent Liabilities	$ 49,000,000	Understated Increases/Decreases due to staff error
42	Receivables Net of Allowances	$ 40,000,000	Not updated for adjustments to agency accruals
43	Construction Commitments	$ 9,772,582	See separate management letter dated 12/17/20
44	Lease Commitments	$ 9,410,000	Improper future lease calculations
	Total Footnote Errors	**$ 13,380,680,561**	
Other Errors:			
45	Budgetary Schedule – Cash Fund	$ 4,937,400,000	Errors in the calculation
46	Budgetary Schedule – General Fund	$ 906,848,771	One fund was missing
47	Reconciliation of Revenues	$ 123,146,381	Reconciliation did not agree to accounting system
48	Workers Compensation Allocation	$ 85,457,705	Analysis did not include all activity
49	OIP Income Reconciliation	$ 3,263,107	Did not agree to E1, one entry was not posted
50	Cash & Cash Equivalents Reconciliation	$ 2,625,191	FDIC coverage not documented adequately
51	Fund and Business Unit Coding	$ 270,000	Staff did not set up the funds/functions appropriately
52	Bank Reconciliation Procedures	$ 6,756	Improper reconciling items & lack of timely review
	Total Other Errors	**$ 6,059,017,911**	
	TOTAL ERRORS	**$ 21,361,449,167**	

Several errors noted above required multiple revisions before the documentation was presented accurately, causing significant time and work by the APA. The following are a few examples of such corrections – keeping in mind that the list of revisions is far from comprehensive.

- For #1, the agency fund financials for local government required four revisions. The APA identified all of the errors and brought them to the attention of DAS. During one revision to fix an error of $595,000, DAS made an additional error of $674,660,800 that went undetected by its staff.

- For #6, the APA was provided with four versions of the accounts receivable analysis. DAS did not perform a complete review of all accounts receivable, causing significant revisions.

- For #7, the APA was provided with six versions of the beginning balance adjustment analysis. DAS did not perform a complete review of all prior period adjustments, miscoded transactions, and duplicated activity within the entry.

- For #41, the APA was provided with at least three versions of the noncurrent liabilities footnote. One of the revisions was due to the miscalculation of claims payable. The APA had brought up the issue for DAS to review in July 2020, as well as multiple times thereafter; however, when the footnote was received, the issues had not been addressed.

- For #45 and #46, the APA was provided with four versions of the budgetary schedules. General Fund activity was not reported accurately, as one fund was missed. Additionally, the Cash Fund reconciliation had to be revised several times for errors in the computation.

Per Neb. Rev. Stat. § 81-1125.01 (Reissue 2014), the CAFR must be completed "at least twenty days before the commencement of each regular session of the Legislature[.]" For the fiscal year 2020 audit, the CAFR was due on December 17, 2020. In order to ensure that the CAFR would be completed timely, the APA requested a list of items to be prepared by DAS – State Accounting and submitted to the APA for testing. Of those requested items, 72 were submitted more than seven days after the dates specified on the list, ranging from 8 to 70 days late. Of the late items, 17 were due in November but not provided until December – two of them being delayed until December 9, 2020, six business days prior to the due date of the CAFR. Furthermore, the first draft of the CAFR was due on December 1, 2020, but not provided until December 8, 2020. The APA received seven versions of the draft report prior to completion of the audit.

During the audit, we also noted the following procedural issues:

- We noted two instances of equipment financed through the Master Lease Program (Program) being assigned a useful life in the State's accounting system that was shorter than the financing period of the lease. The Office of the Chief Information Officer (OCIO) financed $2,755,000 of laptops and hardware storage equipment and assigned the assets a useful life of three years within the State's accounting system; however, the financing period of the leases were four and five years. Per the State of Nebraska's Master Lease Purchase Program Policy (February 12, 2003), repayment terms "Will be negotiated for each equipment group with a term not to exceed the expected life of the equipment being leased." (pg. 3)

- The statistical section of the report was not accurate for several schedules and required revisions. The Ten Largest Employers had incorrect employment totals; the Public Higher Education Institutions Total Fall Headcount Enrollment numbers did not agree to the prior CAFR; and the Operating Indicators by Function was not updated timely for State Patrol traffic stops.

- The bank reconciliation performed by DAS had several reconciling items that were incorrect or not followed up on in a timely manner. Some of those reconciling items dated back to 2011. Additionally, $79,825 in unapplied cash transactions needed to be reviewed and resolved. Lastly, there was no secondary review by supervisory staff to ensure the reconciliation was accurate and complete.

Similar findings related to errors in the preparation of the CAFR have been noted since the fiscal year 2007 audit. DAS – State Accounting did make correcting entries for all material amounts proposed by the APA.

Good internal control and sound business plans require procedures to ensure: 1) an adequate review of draft financial reports and information used to prepare the CAFR, including the information provided by other State agencies; and 2) sufficient staffing resources to meet the requirements of State statute.

Without such procedures, there is an increased risk that material misstatements may occur and remain undetected.

We recommend DAS implement procedures to ensure internally prepared information is complete, accurate, and submitted timely to the auditors. This includes preventing the reoccurrence of mistakes made in multiple prior years. Staff must be adequately trained to accomplish this. We also recommend DAS utilize resources to work with State agency personnel to ensure accrual information is supported and has a sound accounting base.

DAS Response: State Accounting agrees that staff training will increase the completeness, accuracy, and timeliness of prepared CAFR information. The size of the CAFR preparation team was increased by 20 percent. Forty percent of the CAFR team prepared report information for the first time, and all teammates gained valuable experience. Training will continue leading up to and through the next CAFR cycle.

State Accounting will partner with the APA and provide agency specific training specifically in the areas of preparing accounts payable and receivable accruals, and capital asset information. DAS intends to partner with agencies to increase their internal resources dedicated to preparing CAFR information. Additional efficiencies will be realized from updated CAFR preparation software placed into production on January 27, 2021.

2. Unemployment Insurance Fund Issues

DAS lacked procedures to ensure the Unemployment Insurance (UI) Proprietary Fund financial statements were presented accurately for the CAFR. Both DAS and the Nebraska Department of Labor (NDOL) performed entries within the accounting system to generate the financial statements. However, those financial statements required material adjustments.

For the errors detailed in the table below, the APA proposed adjustments to ensure that the financial statements would be reflected properly. Due to the implementation of limited or no corrective actions, similar issues have been reported since the 2018 audit.

Description	Misstatement Amount	Reason
Benefits Payable	$ 296,242,317	The NDOL benefits payable was not calculated accurately. Assumptions using the last three months of claims paid in the fiscal year were used to calculate the estimate. However, this inflated the payable, as only $12 million had been paid through November 18, 2020, and NDOL indicated it had caught up in the payments to individuals. Neither NDOL nor DAS identified the issue until it was raised by the APA and corrected at that time.
CARES Act Due to/from Funds	$ 167,908,114	The State approved the replenishment of the UI fund with CARES Act funds on July 9, 2020, for benefits paid from March 15 through June 30, 2020. DAS did not record the activity in the FY 2020 UI financial statements until questioned by the APA, at which time the amount was recorded as a due to fund in the Federal fund and due from fund in the UI fund and corresponding revenue.
Benefits Payable/ Benefits Receivable	$ 93,242,673	NDOL entered a payable and receivable twice in the accounting system, creating negative balances in both of $93 million. Neither NDOL nor DAS performed procedures to identify the issue in the trial balance. DAS corrected the error after the APA proposed an adjusting entry.

Description	Misstatement Amount	Reason
EUISAA (Emergency Unemployment Insurance Stabilization and Access Act) Revenue/Payable	$ 12,145,290	Revenue of $6,072,645 and a payable to the Federal government for $4,128,834 were recorded in the UI fund, instead of the Federal fund. Furthermore, transfers of $1,943,811 between the funds should have been eliminated. The APA proposed an adjustment, but DAS did not record the correcting entry.
Payable/ Receivable Eliminations	$ 11,436,600	NDOL recorded a payable and receivable within the UI fund in the accounting system. DAS did not have procedures to eliminate the activity for the financial statements. DAS corrected the error after the APA proposed an adjusting entry.
Expenditures/Benefits Payable	$ 6,175,059	NDOL did not ensure transfers in and out agreed between funding sources. DAS reclassified inappropriately the remaining difference as an expenditure for $6,175,059. The proper entry should have reduced benefits payable, as the payable established by NDOL on June 30 should have been eliminated due to timing differences in the general ledger. DAS corrected the error after the APA proposed an adjusting entry.
CWC Receivable	$ 3,022,038	NDOL records a Combined Wage Claim receivable annually in a separate account code in the accounting system. The receivable for fiscal year 2020 of $3,022,038, was not recorded until brought to its attention by the APA. DAS did not perform procedures to identify the lack of the receivable.
Other Revenues/ Accounts Payable	$ 1,659,773	A prior year entry was reversed in fiscal year 2020, causing the balances in other revenues and payables to be improper. DAS corrected the error after the APA proposed an adjusting entry.
Accounts Payable/ Benefits Payable	$ 1,564,450	A prior year entry was reversed in fiscal year 2020, causing a negative balance in accounts payable. The proper entry should have reduced benefits payable, as the payable established by NDOL on June 30 should have been eliminated due to timing differences in the general ledger. DAS corrected the error after the APA proposed an adjusting entry.
Transfers/Due to Funds	$ 130,853	DAS eliminated a transfer out, as the corresponding transfer in was not recorded until the following fiscal year by NDOL. The timing issue had been discussed with both DAS and NDOL for several years, but no corrections have been performed to categorize the activity correctly.
Accounts Receivable	$ 47,400	NDOL recorded allowances for doubtful accounts of $47,400 within the accounting system; however, these are not reflected correctly in the financial statements by DAS.
Total Misstatement	**$ 593,574,567**	

Lastly, the NDOL calculated a benefit overpayment receivable based on a report from its benefit system. The report was for established overpayments as of June 30, 2020, for $8.6 million. During fiscal year 2020, due to the COVID-19 pandemic, the NDOL paid over 10 times the annual benefits for unemployed individuals as in a normal year. As noted in the separate early communication letter to NDOL dated December 16, 2020, the NDOL was behind in its review and research of potential fraudulent claims, totaling nearly $37 million. The NDOL and DAS did not consider further receivables and subsequent payables to the Federal government as necessary for the financial statements. It could only be assumed there would be other unrecorded receivables and subsequent payables not yet accounted for in the benefit system. Neither NDOL nor DAS could come up with a reasonable estimate due to unknown factors, including lack of research performed to identify further fraudulent claims. Therefore, no further receivable or payable was recorded in the financial statements, requiring a disclaimer of opinion to be issued by the APA.

Good internal controls and sound accounting practice require procedures to ensure that documentation used to prepare the financial statements is accurate and complete.

Without such procedures, there is an increased risk for material misstatement of the financial statements.

> We recommend DAS work closely with NDOL to implement procedures for the proper calculating and reporting of the UI fund for the CAFR. Furthermore, we recommend DAS implement procedures for staff review of documentation, including the trial balance, when completing the financial statements.

DAS Response: NDOL and DAS administrations experienced unprecedented challenges brought about by the COVID-19 pandemic. Those challenges, coupled with the implementation of a new unemployment benefits system, hindered the reporting process.

State Accounting will work with NDOL to refine existing procedures for reporting Unemployment Insurance CAFR numbers. NDOL has already implemented new reporting elements in the unemployment benefits system specific to CAFR reporting.

3. Agency Accrual Errors

DAS required State agencies to report accounts receivable and accounts payable accrual items, which were not contained within the State's accounting system, for inclusion in the CAFR by August 14, 2020. DAS approved an extension for the Nebraska Department of Health and Human Services (DHHS) to September 15, 2020, even after the APA's discouragement due to pervasive errors with the accruals in past audits. Even with the extension, DHHS did not provide all of its accrual response forms until October 8, 2020, and never provided its construction in progress accrual response form.

DAS lacked procedures for obtaining support for, as well as reviewing for accuracy, the accrual information submitted; instead, due to inaccurate information provided by DHHS, DAS prepared and posted journal entries containing material errors. Those faulty journal entries required adjustments to be proposed by the APA to ensure that financial reporting was accurate. Due to the implementation of limited or no corrective actions, similar issues have been reported since the 2007 audit.

For the errors detailed in the table below, the APA proposed adjustments to ensure that the financial statements would be reflected properly. All the proposed adjustments were posted by DAS.

Description	Misstatement Amount	Reason
Disproportionate Share Hospital (DSH) Payable	$ 53,789,443	DHHS provided two incorrect versions of the payable prior to the APA determining the final proposed adjustment. The first calculation included only $851,431, materially understating the payable.

Description	Misstatement Amount	Reason
Medicaid Drug Rebate (MDR) Receivable	$ 18,717,003	DHHS provided two incorrect versions of the receivable prior to the APA determining the final proposed adjustment. The first version significantly understated the payable due to, in part, the reporting being as of July 31, 2020, instead of June 30, 2020.
Patient & County Billings Payable	$ 8,738,172	DHHS overstated the receivable, mainly due to incorrect and unsupported allowances for doubtful accounts.
Managed Care Organization (MCO) Payable	$ 6,308,703	DHHS reported the payable incorrectly on its accrual response form, and DAS posted the entry after DHHS claimed to have informed DAS of the error.
State Rx Payable	$ 5,809,508	DHHS reported the payable on its accrual response form, but the payable was already recorded in the accounting system. This doubled the payable.
NFOCUS Receivable	$ 5,336,634	DHHS overstated the receivable due to, in part, not including an allowance for doubtful accounts for Supplemental Nutrition Assistance Program (SNAP) overpayments.
Third Party Liability (TPL) Receivable	$ 5,028,526	DHHS overstated the receivable due to miscalculating the estimate over 12 months instead of 45 days.
Program Integrity (PI) Receivable	$ 1,535,016	DHHS provided three incorrect versions of the receivable prior to the APA determining the final proposed adjustment.
NFOCUS Payable	$ 736,463	DHHS used incorrect Federal matching percentages, causing the misstatement.
Indirect & Direct Medical Education (IME/DME) Payable	$ 690,972	DHHS used incorrect Federal matching percentages, causing the misstatement.
Total Misstatement	**$ 106,690,440**	

Good internal controls and sound accounting practice require procedures to ensure that documentation used to prepare the financial statements is accurate and complete.

Without such procedures, there is an increased risk for material misstatement of the financial statements.

> We recommend DAS work closely with DHHS to train staff and implement procedures for properly calculating and reporting accruals for the CAFR, including fixing repeated errors. Furthermore, we recommend DAS implement procedures for the review of documentation prior to use in financial reporting. Additionally, we recommend DAS ensure all accruals are remitted timely, reducing extensions of the due dates thereof.

DAS Response: State Accounting agrees that an increased understanding of proper calculation and reporting of accruals is necessary for the DHHS staff. State Accounting did reduce the extension given to DHHS for reporting 2020 accruals and will continue to work with DHHS to get their accruals remitted timely.

State Accounting will partner with the APA and provide specific training on the payables and receivables noted above. DAS intends to partner with DHHS to increase their internal resources dedicated to preparing CAFR information.

4. Lack of Financial Statement Reconciliation

Once more, DAS failed to reconcile the Schedule of Expenditures of Federal Awards (SEFA) to the financial statements. Expenditures of $2.9 billion were recorded to the Federal fund in the financial statements for the fiscal year ended June 30, 2020.

Good internal controls require procedures for reconciling the SEFA to the financial statements to ensure that the schedule and financial statements are complete and accurate.

Without such procedures, there is an increased risk of the SEFA or the financial statements being inaccurate and those inaccuracies going undetected.

A similar finding was noted in the previous audit.

> We recommend DAS implement procedures for reconciling the SEFA to the financial statements.

DAS Response: State Accounting is currently working on a reconciliation between the 2020 SEFA and 2020 CAFR.

5. Enable Savings Plan

The Nebraska State Treasurer (State Treasurer) administers the State of Nebraska's Enable Savings Plan (Nebraska Plan). Starting in November 2016, the State Treasurer entered into an agreement with the State of Alabama to provide administration, operation, and maintenance of the Alabama Enable Savings Plan (Alabama Plan). For the CAFR, the Nebraska Plan is presented in the Private Purpose Trust Fund financial statements. The Alabama Plan is presented in the Agency Fund financial statements. However, the plans were not audited separately by the independent certified public accountant, as required for the CAFR. Instead, they were audited and presented as one plan in the audited financial statements.

During the previous audit, the APA recommend that DAS ensure the Alabama Plan is audited for the CAFR. Instead, DAS attempted to create separate financial statements for the Alabama Plan, using cash basis reports provided by the State Treasurer. This did not include any of the audited accrual entries for receivables and payables where necessary. The financial statements prepared by DAS required three revisions, as transfers were not eliminated, the ending balance was not recorded properly, and there were errors in the investment classifications. It was apparent that conversations did not take place with the State Treasurer for the separate audit of the plans.

The Alabama Plan's ending balance at December 31, 2019, was $1,495,175.

Good internal controls require procedures to ensure that the financial statements are presented properly.

Without such procedures, there is an increased risk of material misstatement of the financial statements.

> We recommend DAS implement procedures to ensure fiduciary activity is complete and reported accurately in the financial statements. Additionally, we recommend DAS work with the State Treasurer to establish an audit of the Alabama Plan.

DAS Response: State Accounting will meet with the State Treasurer to discuss the recommendation for a separate audit on the Alabama Plan.

6. Payroll and Benefit Issues

In addition to not following requirements pertaining to one employee's raise and another employee's benefits, DAS lacked support for a surcharge to other agencies. These items are detailed below:

- There was no documentation to support how the 24% surcharge to agencies for SOS Temporary Program employees was determined.

- One employee received a 2.3% raise without the performance review required by the Nebraska Association of Public Employees (NAPE) Labor Contract.

- DAS permitted one employee to enroll for health insurance outside of the designated election period.

Section 11.2 of the July 1, 2019, through June 30, 2021, NAPE labor contract provides the following:

> *On July 1, 2019, all employees, excluding those specified in Section 11.2.1, shall receive a two percent (2%) salary increase to their annual full-time equivalent salary base. <u>An additional salary increase of three tenths of a percent (0.3%) shall be available to those whose performance has been scored at least satisfactory by their agency for the past calendar year.</u> These increases, where applicable, shall be calculated simultaneously for a total of two and three tenths (2.3%) salary increase to their annual full-time equivalent salary base*

(Emphasis added.) The DAS 2019-2020 Benefits Option Guide states the following:

> *Following your initial 30-day enrollment period for benefits, you can only change your benefit elections for health, dental, vision, and FSA plans during the state's annual Open Enrollment period or when you experience an IRS qualifying life event (see next page for list of qualifying life events).*

A good internal control plan requires procedures to ensure: 1) support is maintained for the determination of surcharge amounts under the SOS Temporary Program; 2) employee raises are granted in accordance with applicable provisions of the NAPE labor contract; and 3) enrollment for employee health insurance conforms to the requirements of the agency's governing Benefits Option Guide.

Without such procedures, there is an increased risk for not only loss of State funds but also insufficient or exorbitant surcharges and noncompliance with provisions of the NAPE labor contract and Benefits Option Guide.

> We recommend DAS implement procedures to ensure surcharges are calculated appropriately and supported, and benefit and payroll procedures comply with applicable requirements.

DAS Response: State Accounting will work with State Personnel to ensure the SOS Temporary Program surcharge is appropriate and supported. DAS will work to prevent the unique circumstances which led to the noted benefit and payroll exceptions.

7. <u>Postage Deposits</u>

DAS failed to ensure that the amount of postage deposits held for each agency complies with statutes. As of June 30, 2020, there was $668,982 in postage deposits recorded in the accounting system.

Neb. Rev. Stat. § 81-167 (Reissue 2014) states the following:

> *Each state officer, department, commission, board, bureau, court or other agency, occupying quarters in the Capitol Building or any state building which may hereafter be located adjacent thereto, shall advance to the materiel division of the Department of Administrative Services, a sum estimated to be sufficient to cover his, her or its postage <u>for at least one month but never to exceed two months' average use</u> as determined by the materiel division. On the first day of each month, the materiel division shall send a statement to each state officer, department, commission, board, bureau, court or other agency of their mailings during the month, and each state officer, department, commission, board, bureau, court or other agency shall remit by warrant to the materiel division the amount of such statement. No overdrafts shall be permitted. If the original amount advanced to the materiel division for postage is not sufficient to cover the postage, additional advances shall be made by the respective state officer, department, commission, board, bureau, court or other agency.*

(Emphasis added.) DAS lacked a formal process for reviewing postage deposits to ensure compliance with the above statute.

To start, DAS performed a partial review of the postage deposits in 2017, relying upon only the January and February 2017 postage billings for comparison. During that review, DAS used the two-month **<u>total</u>** and compared it to the postage balances on hand. However, § 81-167 requires the postage balance to be no more than a two months' **<u>average</u>** usage on hand.

Furthermore, a number of agencies have had the same postage balances for over 15 years. DAS did not perform a calculation to determine the average monthly balance by agency, nor did it analyze postage over an extended period to ensure that the 2017 review was reasonable. Several agencies perform renewals biannually, and reviewing only a two-month period may under or overstate the analysis. After the 2017 review, DAS made no changes to agency balances, even though – per its own flawed analysis – some agencies had variances of up to approximately $181,000.

Good internal controls require procedures to ensure that agency postage deposits are made as required by § 81-167, and those balances are reviewed periodically.

Without such procedures, there is an increased risk of not only excessive or insufficient postage deposits but also noncompliance with State statute.

> We recommend DAS implement procedures to ensure agency postage deposits comply with State statute and are subject to periodic review. Any excess deposit monies should be returned to the appropriate funds.

DAS Response: State Accounting is currently working on a review of the State statute and the current agency postage deposits to determine the actions needed.

* * * * *

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 DAS 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 DAS.

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

Kris Kucera

Kris Kucera, CPA, CFE
Audit Manager