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

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Rhonda Lahm, Director
Nebraska Department of Motor Vehicles
301 Centennial Mall South, 1st Floor
Lincoln, Nebraska 68509

Dear Ms. Lahm:

We were engaged to audit 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, 2021, 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, and we have issued our report thereon dated April 28, 2022. In connection with our engagement to audit the financial statements, 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, 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 engagement to audit the financial statements as described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska Department of Motor Vehicles (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 the Department's management, is 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 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 the comment ("Lack of Segregation of Duties Over Payroll") to be a significant deficiency.

The 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 American Institute of Certified Public Accountants (AICPA) Auditing Standards AU-C Section 265B.A17, in a separate early communication letter dated July 26, 2021.

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 engagement to audit the financial statements; accordingly, we express no opinion on it. 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, 2021.

Lack of Segregation of Duties Over Payroll

The State's accounting system does not have an established segregation of duties for payroll processing. Therefore, employees with access to process payroll are able to perform all procedures without a secondary individual being required to approve transactions. Accordingly, the Department should have compensating procedures in place, such as a documented review of the final payroll register and changes to pay rates and other payroll information, by an individual without payroll access, to ensure no one individual is able to conceal errors or irregularities.

One individual was able not only to perform all payroll processes but also to review reports. There was no secondary review by an individual without payroll access to ensure expenditures were accurate and proper, including a review of the timesheet records for individuals with payroll access to ensure time recorded was paid properly.

The Department had $12,522,786 in personal service expenditures during the period July 1, 2020, through June 30, 2021.

During testing of payroll expenditures, we noted that the Department used the State's accounting system, EnterpriseOne, for timesheet entry. Exempt employees were only required to record leave used; therefore, no documentation of the hours worked, in addition to leave used, was obtained to ensure compliance with State law requiring 40-hour work weeks. Furthermore, EnterpriseOne did not accurately track who approved timesheets in the system. Supervisors could set up delegates in the system to approve timesheets and leave requests should the supervisor be unavailable. The system did not record who actually approved the timesheet. If a delegate approved an employee timesheet, the system would record the assigned supervisor as the approver. When delegates were set up for their supervisor, the delegate was then able to alter and approve his or her own timesheet, and there was no audit trail for delegates in EnterpriseOne. When a supervisor terminated, there was no record of the delegates in the system. Supervisors were also able to delete delegates without any record of the assignment.

Neb. Rev. Stat. § 84-1001(1) (Reissue 2014) states 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 similar finding was noted during the attestation for the period ended December 31, 2020.

A good internal control plan requires an adequate segregation of duties to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities. This would require someone without payroll access to perform a documented review of payroll to ensure that it is proper, including a review of timesheets and leave usage. Furthermore, good internal controls require adequate policies and procedures to ensure employees' time worked is adequately documented for compliance with State law.

Without an adequate segregation of duties, there is an increased risk of overpayments, improper payments, and errors or irregularities occurring and not being detected.

> We recommend the Department implement policies and procedures to have an individual without payroll access perform a documented review of the payroll register, timesheets, leave usage, and changes to pay rates for accuracy and reasonableness. We also recommend the Department implement procedures for exempt employees to document time worked in compliance with State law and implement procedures to document supervisory review and approval of timesheets outside of the system.

Department Response: The access of the agency employee responsible for certifying the payroll has been changed to allow for a documented review of the payroll but without access to make any changes. In addition, a process has been put in place to document that employees have complied with the provisions of Nebraska Revised Statute 84-1001(1).

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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 suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.

Kris Kucera

Kris Kucera, CPA, CFE
Assistant Deputy Auditor