



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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John R. Selmer, Director
Nebraska Department of Transportation
1500 Nebraska Hwy 2
Lincoln, Nebraska 68502

Dear Mr. Selmer:

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 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 the Department's 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 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 Comment Number 1 ("Year-End Financial Information Errors") 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 American Institute of Certified Public Accountants (AICPA) Auditing Standards AU-C Section 265B.A17, in a separate early communication letter dated July 30, 2021.

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. Any formal responses received have been incorporated into this letter. Such responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on them. 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, 2021.

1. Year-End Financial Information Errors

The Department of Administrative Services (DAS), State Accounting Division (State Accounting), prepares the State of Nebraska Annual Comprehensive Financial Report (ACFR) and requires all State agencies to determine and report payable and receivable amounts and other financial information not contained within the State's accounting system at the end of the fiscal year. A good internal control plan requires agencies to have adequate procedures for the reporting of accurate and complete financial information to State Accounting. During testing of various information prepared by the Department, we noted the following issues:

- The Department reported retention of \$135,059,161 owed to the contractor working on the Lincoln South Beltway project as of June 30, 2021. However, the Department should have reported \$148,022,184, an understatement of \$12,963,023.
- The Department understated the Federal accounts receivable and related revenues by \$11,638,767.
- The Department also overstated the Federal accounts receivable in the prior year by \$1,742,931, which essentially caused the beginning balance to be overstated and the current year's revenue to be understated.
- The Department overstated its Local accounts receivable and deposits by locals by \$5,058,687 because the same project recorded a receivable and a payable on the same report.
- The Department understated the beginning balance for the GASB Statement No. 34 infrastructure reporting by \$1,072,482. The report information originally provided was not correct and required revisions, which increased the balance.

Without adequate procedures for the proper reporting of financial information, there is an increased risk of material misstatements occurring and remaining undetected.

We recommend the Department implement procedures to ensure the accuracy of the ACFR financial information reported to State Accounting.

Department Response: NDOT concurs with the adjustments to the reported amounts and will work to refine our process for capturing information reported to DAS State Accounting for ACFR reporting at fiscal year-end.

2. 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 them 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 Department of Administrative Services (DAS) State Accounting Manual, Application of Principles – Section AM-003, which includes the following fund 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, 2020, through June 30, 2021, the Department recorded \$483,818,138 in Federal expenditures according to PFS.

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 that policies set out by DAS in the State Accounting Manual 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. Legislative appropriations are also of the cash fund type. Specific, unique revenue object codes have been created in EnterpriseOne and are used to separately account for federal reimbursement to NDOT's cash fund. 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.

3. Vehicle Logs and Payroll Issues

On June 3, 2021, the APA received concerns through its anonymous hotline regarding a Department employee. The concerns alleged that this employee was being paid excessive overtime, most of which was for driving a State vehicle rather than performing other tasks. In response to these concerns, the APA requested certain information from the Department. Upon review of the documentation received, the APA identified the following issues:

- Per the timecard reports, the employee was paid \$23,945 for 626 hours of overtime in fiscal year 2021. The total hours worked (regular plus overtime hours) in fiscal year 2021 was 2,383 hours.
- On April 27, 2021, the Department's vehicle log showed that the employee drove 303 miles in 7 hours, from 6:30 a.m. to 1:30 p.m. The timecard showed that he worked from 6:30 a.m. to 5:39 p.m., or 11.25 hours. However, he was also paid for 10 hours of sick leave, for a total of 21.25 hours on this day.

- Per the vehicle log, the employee took 71 trips between December 10, 2020, and July 15, 2021, traveling a total of 19,759 miles. Per the employee’s timecard reports for this period, the employee received overtime pay on 28 of the 71 trips – 231 hours for a total of \$11,813. In all, the employee spent 408 hours driving out of 820 total hours worked during this period, averaging just under 50%. The vehicle log did not list either the starting or ending destination, nor the purpose of the trips.
- A total of 17 fuel purchases were made at State fuel facility locations for days on which no trips were recorded on the vehicle log.

Neb. Rev. Stat. § 81-1025(1) (Reissue 2014) states the following:

Each operator of a bureau fleet vehicle shall report the points between which the bureau fleet vehicle traveled each time used, the odometer readings at such points, the time of arrival and departure, the necessity and purpose for such travel, the license number of such vehicle, and the department to which such vehicle is assigned.

The above statutory mandate is not applicable to the Department, which maintains its own fleet of vehicles. Nevertheless, § 81-1025(2)(a) (Reissue 2014) is applicable to the Department, and it says the following:

Each operator of a special-use vehicle as prescribed in section 81-1011 or a motor vehicle in which a state agency other than the bureau holds the title shall follow the policy and use the travel report form which shall be established by the director or designated head of the state agency owning such vehicle. The form shall include, but not be limited to, the name of the operator, the license number of the vehicle, the total daily mileage or total hours of daily operation, and any other information the director or designated head deems relevant.

The Department lacks both a comprehensive travel report form – i.e., one requiring the information specified in both § 81-1025(1), as a best practice, and § 81-1025(2)(a) – and an overall vehicle usage policy.

The lack of either a comprehensive travel report form or an overall vehicle usage policy increases the risk for not only misuse of public property and unnecessary excess pay to employees but also noncompliance with State statute.

We recommend the Department develop both a comprehensive travel report form and an overall vehicle usage policy. In doing so, the Department should ensure also that employees do not receive paid leave for hours during which work, including driving a State vehicle, was performed.

Department Response: NDOT acknowledges the benefit of implementing policies and procedures such as are cited in the recommendation. NDOT is among the state agencies that manages and holds title to its own fleet of vehicles as is referenced in 81-1025. NDOT has a Vehicle Use policy in the Department of Transportation Operating Instruction 20-06. NDOT’s Operations Division has developed a Standard Operating Procedure (SOP) which includes a usage audit report that is to be used by each Division or District to verify that employees are correctly reporting vehicle usage and mileage. NDOT’s Operations Division will be enhancing its oversight of the Divisions and Districts in this process. NDOT formerly logged departure and arrival locations and purpose of the trip in the Lucity asset management system. When NDOT began using new information systems for employee timekeeping and equipment usage logging, limitations in those systems led to that particular information no longer being collected. However, NDOT is in the process of assessing options for a new maintenance management system which would allow logging of this information.

With respect to the payroll issue identified, NDOT has addressed the incorrect sick leave usage that was cited. System changes have been implemented and reports developed in the Kronos timekeeping system that will prevent future similar instances.

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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, CPA, CFE
Assistant Deputy Auditor