



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 30, 2023

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

Dear Ms. Lahm:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund (except the Enterprise Fund – Unemployment Insurance), and the aggregate remaining fund information of the State of Nebraska (State), and we were engaged to audit the business-type activities and the Enterprise Fund – Unemployment Insurance, as of and for the year ended June 30, 2022, 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 January 30, 2023. 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 matter that is 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.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph herein and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that have not been identified.

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 265.A17, in a separate early communication letter dated September 27, 2022.

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. The formal response received has been incorporated into this letter. The response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, 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, 2022.

EnterpriseOne Timesheets

The Department used the State's accounting system, EnterpriseOne, for timesheet entry. In prior audits, it was noted that employees exempt from the Fair Labor Standards Act were required to record only leave used; therefore, no documentation of the hours worked, in addition to leave used, was obtained to ensure compliance with Neb. Rev. Stat. § 84-1001(1) (Reissue 2014). That statute 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.

During fiscal year 2022, the Department implemented a procedure to correct this issue. All exempt employees are now required to complete documentation after the fiscal year end, certifying that 40 total hours per week were worked or compensated by leave/holiday hours for that fiscal year. During testing of this procedure, it was noted that one of three exempt employees terminated during the fiscal year and did not complete the certification form.

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. If a delegate approved an employee timesheet, the system would record the assigned supervisor as the approver. Therefore, the system did not record the actual approver of the timesheet. Furthermore, there was no audit trail for delegates in EnterpriseOne.

Additionally, delegates could alter and approve their own timesheets, and supervisors were able to delete delegates without any record of the assignment. Consequently, the Department lacked a compensating control for documenting the actual approver of timesheets.

The Department's payroll expenditures for the fiscal year ended June 30, 2022, totaled approximately \$13 million, which was for 243 employees, of whom approximately 36 were exempt.

A similar finding was noted during the previous audit.

A good internal control plan requires procedures to ensure the adequate documentation of both employee time worked, confirming thereby compliance with § 84-1001(1), and the supervisory review of timesheets.

Without such procedures, there is an increased risk of not only loss of State funds but also statutory noncompliance.

We recommend the implementation of procedures to ensure the adequate documentation of both employee time worked, confirming thereby compliance with § 84-1001(1), and the supervisory review of timesheets. For all employees terminated during the fiscal year, those procedures should require completion of a certification of hours worked, filled out at the time of termination, for the period

of employment. Until EnterpriseOne is updated to allow for tracking accurately those who approve timesheets, moreover, the procedures should require the documentation of supervisory review and approval of timesheets outside of the system.

Department Response: The Department has implemented a resignation/termination checklist to ensure exempt employees certify compliance with Nebraska Revised Statute 84-1001(1). The Department of Administrative Services is aware of the needed changes to Enterprise One for accurate tracking of timesheet approval. The Department of Motor Vehicles has no authority to make changes to the Enterprise One System.

APA Response: While we understand that the Department cannot make changes to EnterpriseOne, our recommendation for the Department to develop procedures to track timesheet approval outside of EnterpriseOne is necessary as it is the Department's responsibility to ensure timesheets are appropriately approved.

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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