



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 30, 2023

Vicki Kramer, Director
Nebraska Department of Transportation
1500 Nebraska Parkway
Lincoln, Nebraska 68502

Dear Ms. Kramer:

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 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.

These comments will also be reported in the State of Nebraska’s Statewide Single Audit Report Schedule of Findings and Questioned Costs.

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. The formal responses received have been incorporated into this letter. The responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements and, 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, 2022.

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 considered within the State’s accounting system at the end of the year. The table below details almost \$15 million in errors made by the Department:

	Description	Amount
1	The Department annually provides a worksheet of the State highway system expenses, broken down by capitalized expenses and construction in progress, in accordance with GASB 34. For fiscal year 2022, the Department inappropriately capitalized one project’s costs of \$1,947,404 when the amount should have been recorded as construction in progress. Therefore, the infrastructure capital assets were overstated.	\$1,947,404
2	For the construction in progress expenses related to #1 above, when inappropriately moving the expenses to capitalized assets, the Department failed to reduce the construction in progress expenses by \$1,440,934 for the prior-year expenses. Because those expenses were not removed, the construction in progress expenses were only understated by \$506,470.	\$506,470
3	The Aeronautics Division provides Federal funding to airports in the State. On June 30, 2022, there was \$1,121,272 that had been paid to airports but had not yet been received from the Federal government. Therefore, the amount should have been recorded as a due from the Federal government but was not, resulting in receivables being understated.	\$1,121,272
4	The Department participates in road projects that may be financed by Federal, State, and local entities. In some cases, local governments provide their share of the funding when the contract is awarded, which creates a liability for the Department called “Deposits by Locals.” In other cases, the local governments are billed on a progress basis, and the Department creates an accounts receivable owed by the local governments. During its accumulation of the Accounts Receivable from Locals and Deposits by Locals balances, the Department overstated each of the accounts by \$10,118,253 due to incorrect adjustments made to the reports from its system.	\$10,118,253
5	The Department failed to report one construction commitment project on its accrual response form to DAS. The total project was for \$1,268,672 but had \$91,336 completed during the year, which left \$1,177,336 as the amount remaining to complete.	\$1,177,336
Total		\$14,870,735

A similar finding was noted in the previous audit. The Summary Schedule of Prior Audit Findings lists the status of this finding as complete. Title 2 CFR § 200.511(a) (January 1, 2022) requires the auditee to prepare a summary schedule of prior audit findings. Per subsection (b)(2) of that same regulation, “When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the finding’s recurrence and planned corrective action, and any partial corrective action taken.”

A good internal control plan requires procedures to ensure that accurate and complete financial information is provided to State Accounting. Without such procedures, there is an increased risk of material misstatements occurring and remaining undetected.

We recommend the Department implement procedures to ensure the accuracy of the 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 are recorded into the Department’s Accounts Payable System (RPS) and are then interfaced with the State’s accounting system to record the transactions and create payments to those vendors through a Cash Fund. The vendor payments were also recorded into the Department’s Project Finance System (PFS), which allocated the project costs to the different funding sources, such as Federal, State, or local funds, and is used to request Federal reimbursement.

Due to this process, the actual funding source for the expenditures was maintained only on PFS. As a result, the State’s accounting system reflected these expenditures only as cash fund expenditures, rather than Federal fund expenditures. During the period July 1, 2021, through June 30, 2022, the Department recorded \$489,527,375 in Federal expenditures in PFS. It was also noted that the Department recorded \$31,701,306 in Airport Improvement Program federal expenditures in a cash fund within the State’s accounting system instead in a Federal fund.

The DAS State Accounting Manual, Application of Principles – Section AM-003, 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.*

The Department is not recording its activity in accordance with State Accounting policies. While the Department can obtain this information, the information systems used by the Department cannot produce this data easily and quickly. The lack of compliance with State accounting principles increases the risk for errors in financial reporting.

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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 that funding is being recorded properly.

Department Response: NDOT receives Legislative appropriation of the cash fund type and pays all expenditures with state cash funds. Specific, unique revenue object codes have been created in EnterpriseOne and are used to separately account for federal reimbursement to NDOT's cash fund. NDOT will continue to confer with the Department of Administrative Services regarding the State Accounting policy and take any follow-up actions they advise are necessary.

3. Vehicle Logs and Payroll Issues

In the prior year, the Auditor of Public Accounts (APA) received concerns through its anonymous hotline regarding a Department employee who was being paid excessive overtime. Most of the overtime related to his travel in a State vehicle rather than performing his other job responsibilities. During the APA's testing in the prior year and our follow-up procedures in the current year, the following was noted:

- The Department lacked both a comprehensive travel report form – i.e., one requiring the information specified in both Neb. Rev. Stat. § 81-1025(1) (Reissue 2014), as a best practice, and § 81-1025(2)(a) – and an overall vehicle usage policy. The Department provided a policy dated March 10, 2021; however, this policy did not require the employee to document the starting point or the destinations of the trips to determine whether the travel was appropriate and the mileage was reasonable. Additionally, the employee was required to record only an activity code that lists his or her general job duties and not the specific purpose of the travel. The activity code description was as follows:

Cost of operating the Department's equipment facilities and fleet expenses when not chargeable to a specific unit. Cost include, but are not limited to, salaries of fleet administrators, mechanics and support staff; office supplies and materials for the shop; acquisition, repair, and maintenance of shop tools and office equipment used in the shop facility; fire extinguishers for equipment; equipment/tool rentals. Building and yard costs are to be reported to the appropriate 4450 series activity. When reporting emergency work be sure to use the appropriate emergency AFE.

This code clearly does not allow the Department to determine if the specific travel performed by the employee was appropriate and reasonable.

- The employee reviewed had excessive overtime and travel hours. In the prior year, this employee logged 625.5 overtime hours. Similarly, in fiscal year 2022, the employee logged 737.25 overtime hours – an increase of 17.9%. The overtime hours worked appear to have been related primarily to excessive travel time in his Department-assigned vehicle. For example, on May 11, 2022, the employee drove 520 miles and worked 11.25 hours. If traveling at 60 miles an hour, this would result in slightly more than 8.5 hours of travel during his 11.25-hour day. Without a purpose for the travel, start and stop times, and locations travelled, the APA was unable to determine whether the travel and overtime hours worked were reasonable.

Section 81-1025(1) 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; however, it is reflective of a best practice nonetheless. Section 81-1025(2)(a) is applicable to the Department, though, 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.

Sound business practice and good internal control require adequate documentation of vehicle usage to allow for a determination that travel was reasonable and appropriate for State business.

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

We recommend the Department develop both a comprehensive travel report form and update its vehicle usage policy to include information needed in order to determine whether travel was reasonable and appropriate.

Department Response: NDOT has a Vehicle Use policy in the Department of Transportation Operating Instruction 20-06. Current policy does not require teammates assigned a state-owned vehicle to record beginning and ending destinations. NDOT acknowledges the benefit of reviewing policies and procedures to ensure travel is reasonable and appropriate. NDOT will review and update travel policies as deemed necessary.

4. Timeliness of Responses to Audit Requests

The Department failed to comply with Neb. Rev. Stat. § 84-305(2) (Cum. Supp. 2022), which requires a response to the APA’s request for audit information within three business days. The Department’s improperly delayed responses not only violated State statute but also hindered the APA’s testing and timely completion of the ACFR.

The following table contains numerous examples of the Department’s failure to respond expeditiously – in clear violation of State law – to the APA’s requests for information throughout the audit period. It should be noted, however, that the sample listing below is not comprehensive, as other examples of untimely responses by the Department could also be included.

Initial Request	Department Response	Request Fulfilled	Days Until Response	Days Until Fulfillment	Description
8/24/2022	9/2/2022	12/5/2022	7	68	Fixed Assets Policy
6/13/2022	9/2/2022	9/2/2022	57	57	Various memos for receivables & payables
8/24/2022	8/24/2022	10/18/2022	0	37	Initial request for documentation for testing on Earned Unbilled Report
8/26/2022	10/7/2022	10/7/2022	29	29	Question on projects with no billing activity on the Earned Unbilled Report
8/3/2022	8/12/2022	9/2/2022	7	22	Initial Analytical Review questions
6/9/2022	7/13/2022	7/13/2022	22	22	Follow-up on prior year finding for Interfund Transfers
8/31/2022	9/15/2022	9/28/2022	10	19	Initial request for documentation for Other Accounts Receivable testing
8/31/2022	9/15/2022	9/28/2022	10	19	Follow-up questions for Deposits by Locals testing

Initial Request	Department Response	Request Fulfilled	Days Until Response	Days Until Fulfillment	Description
7/19/2022	8/12/2022	8/12/2022	18	18	Follow-up question on documentation provided for Revenue testing
7/27/2022	8/12/2022	8/12/2022	12	12	Request for documentation for the Federal Fund Purchase Program
6/9/2022	6/28/2022	6/28/2022	12	12	Initial request for support for Revenue and Expense Detail testing
10/20/2022	11/3/2022	11/3/2022	10	10	Request for documentation for additional item tested for the Earned Unbilled Report
10/20/2022	11/3/2022	11/3/2022	10	10	June 2022 RPS to E1 Reconciliation follow-up questions
10/20/2022	11/3/2022	11/3/2022	10	10	Follow-up questions on Deposits by Locals testing
6/10/2022	6/21/2022	6/27/2022	6	10	Fixed Asset Additions Documentation request
8/1/2022	8/12/2022	8/12/2022	9	9	Initial request for documentation on the Earned Unbilled Accounts Receivable test
8/26/2022	9/8/2022	9/8/2022	8	8	Follow-up question on Earned Unbilled-Federal Project
10/7/2022	10/19/2022	10/19/2022	7	7	Request for information for June 2022 RPS to E1 Reconciliation
11/16/2022	11/29/2022	11/29/2022	7	7	Follow-up questions for Construction In Progress testing
10/12/2022	10/20/2022	10/20/2022	6	6	Request for support regarding Federal Accounts Receivable
11/1/2022	11/9/2022	11/9/2022	6	6	Initial request for information for Construction In Progress test
10/12/2022	10/19/2022	10/19/2022	5	5	Follow-up questions for Analytical Review
7/6/2022	7/12/2022	7/12/2022	4	4	Follow-up questions on Revenue testing related to highway trust
11/16/2022	11/22/2022	11/22/2022	4	4	Initial request for support for Accrued Accounts Payable test
11/30/2022	12/6/2022	12/6/2022	4	4	Additional follow-up question for Construction In Progress

Neb. Rev. Stat. § 84-305 (Cum. Supp. 2022) states, in relevant part, the following:

(1) The Auditor of Public Accounts shall have access to any and all information and records, confidential or otherwise, of any public entity, in whatever form or mode the records may be, unless the auditor is denied such access by federal law or explicitly named and denied such access by state law. If such a law exists, the public entity shall provide the auditor with a written explanation of its inability to produce such information and records and, after reasonable accommodations are made, shall grant the auditor access to all information and records or portions thereof that can legally be reviewed.

(2) Upon receipt of a written request by the Auditor of Public Accounts for access to any information or records, the public entity shall provide to the auditor as soon as is practicable and without delay, but not more than three business days after actual receipt of the request, either (a) the requested materials or (b)(i) if there is a legal basis for refusal to comply with the request, a written denial of the request together with the information specified in subsection (1) of this section or (ii) if the entire request cannot with reasonable good faith efforts be fulfilled within three business days after actual receipt of the request due to the significant difficulty or the extensiveness of the request, a written explanation, including the earliest practicable date for fulfilling the request, and an opportunity for the auditor to modify or prioritize the items within the request. No delay due to the significant difficulty or the extensiveness of any request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity. The three business days shall be computed by excluding the day the request is received, after which the designated period of time begins to run. Business day does not include a Saturday, a Sunday, or a day during which the offices of the custodian of the public records are closed.

(Emphasis added.) Additionally, Neb. Rev. Stat. § 84-305.02 (Cum. Supp. 2022) provides a criminal penalty for failure to comply the above statutory requirements, as follows:

Any person who willfully fails to comply with section 84-305 or 84-305.01, who otherwise willfully obstructs or hinders the conduct of an audit, examination, or related activity by the Auditor of Public Accounts, or who willfully misleads or attempts to mislead any person charged with the duty of conducting such audit, examination, or related activity shall be guilty of a Class II misdemeanor.

We recommend the Department implement procedures to ensure compliance with § 84-305.

Department Response: Due to a vacancy in a key position during fiscal year end, NDOT utilized available resources to fulfill the various requests as timely as possible. The key position within NDOT has since been filled and NDOT will work to ensure procedures are in compliance with § 84-305.

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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