NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 18, 2024

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

Dear Ms. Kramer:

We have audited, 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, 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, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2024. In planning and performing our audit of the financial statements, we considered the State's system of 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 audit 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 certain deficiencies in internal control 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 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 (Capital Asset Issues) and Comment Number 2 (Year-End Financial Information Errors) to be significant deficiencies.

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 management letter were furnished to the Department 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 management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The responses were not subjected to the other auditing procedures applied in the audit of 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, 2024.

1. <u>Capital Asset Issues</u>

The Department is responsible for recording information regarding capital assets into the State's accounting system, as well as reporting other capital asset-related information to the Department of Administrative Services – State Accounting Division (State Accounting) for proper financial statement and footnote presentation.

Capital asset balances for land, buildings, and equipment recorded in the Department's systems did not agree to the balances recorded in the State's accounting system. The Department failed to provide detailed listings of the assets from its system and also failed to complete a reconciliation of the two systems. The table below shows the variances between these systems.

Capital Asset	Value per Department	Value per State's Accounting System	Variance
Land	$ 599,926,094	$ 596,293,976	$ 3,632,118
Buildings	$ 123,844,381	$ 144,265,233	$ (20,420,852)
Equipment	$ 314,040,153	$ 362,122,288	$ (48,082,135)
Totals	**$ 1,037,810,628**	**$ 1,102,681,497**	**$ (64,870,869)**

For purposes of the assets presented in the State's financial statements, the Department's values are used for land, but the State's accounting system amounts are used for buildings and equipment. As testing is performed on the amounts in the State's accounting system, no formal adjustments to the financial statements were proposed for the variances.

Additionally, the Department failed to include the costs for 11 assets in the accounting system. Two of the assets had costs greater than the capitalization threshold set by State Accounting, resulting in additions and depreciation additions being understated by $14,960 and $1,893, respectively. These amounts were included in adjustments proposed by the Auditor of Public Accounts (APA) and posted by State Accounting.

A proper system of internal control requires procedures to ensure that 1) Department asset values are reconciled to the State's accounting system, thus ensuring accurate information is presented in the financial statements; 2) a full asset listing is available and reviewed to ensure all assets are accounted for; and 3) costs are added to assets in a timely manner.

Without such procedures, there is an increased risk of material misstatement to the financial statements, which might remain undetected.

> We recommend the Department implement procedures to ensure that the capital asset amounts reported in the financial statements are complete and accurate. These procedures would include implementing a reconciliation between their system and the State's accounting system, developing a complete asset listing, and reviewing the no cost integrity reports within the accounting system to ensure all costs are appropriately attached.

Department Response: NDOT agrees and will implement stringent procedures to ensure that the capital asset amounts reported in the financial statements align precisely with the records in the state's accounting system.

2. Year-End Financial Information Errors

State Accounting is responsible for the preparation of the State's Annual Comprehensive Financial Report (ACFR) and requires all State agencies to determine and report receivable and payable amounts, along with other financial information not already included within the State's accounting system at the end of the year.

The table below details over $14 million in errors made by the Department in the financial information reported to State Accounting.

Description	Amount
Retainage payable includes liabilities due to contractors/vendors for amounts to be paid once a project is completed. The Department's retainage payable calculation failed to account for prior period adjustments recorded in the State's accounting system during fiscal year 2025, resulting in retainage payable being overstated by $8,271,969. After the Department worked with State Accounting, an adjustment of $2,748,471 was still necessary.	$ 8,271,969
Accounts Receivable from the Federal government are amounts the Department has paid and requested from the Federal government but have not yet received. The Department understated this receivable by $6,129,788 because it reported only amounts requested from the Federal government in July 2024 and did not include amounts requested during August and September 2024 that were still outstanding as of June 30, 2024. An adjustment for this error was made by State Accounting.	$ 6,129,788
Total Errors	**$ 14,401,757**

The APA proposed, and State Accounting recorded, adjustments related to these errors so that the State's financial statements were materially correct.

A similar finding was noted in the previous three audits.

The APA identified other accounting issues and financial statement errors that did not require formal adjustments to the financial statements, either due to the insignificance of the dollar amount or the Department correcting the error before a formal adjustment was proposed, as described in the table below:

Description	Amount
The Department incorrectly recorded a $4 million purchase of property rights as a legal related expense, when it should have been recorded to land, buildings, & other assets. The Department corrected the error after the APA's inquiry and, therefore, no formal adjustment was proposed.	$ 4,000,000
The Department annually calculates a payroll additive rate, which is a percentage rate used to distribute employee payroll costs based on certain leave, health insurance, retirement, and other employer benefits to all work activities on an equitable basis. Costs are allocated from the State Highway Trust Fund to various other funds. The Department miscoded the journal entries to allocate the payroll additive to the Department's various funds. Instead of recording the journal entry to the same payroll expense accounts from the original payroll posting, the Department recorded the allocation entries to operating expense accounts. This resulted in the payroll expenditures in the State Highway Trust Fund being overstated by $1,803,507 and operating expenditures in that fund being understated by the same amount. Additionally, various other funds also had operating expenditures overstated, and payroll expenditures understated totaling that same amount. There was no financial statement impact as the expenditures were presented together in the same major fund and function on the financial statements.	$ 1,803,507
Accounts Receivable from Others includes receivables from local governments, railroads, other states, and individuals who have been billed for damages to State property. The Department understated this accrual by $90,707 because they did not account for all receivables as of June 30, 2024.	$ 90,707
Total Unadjusted Errors	**$ 5,894,214**

A proper system of internal control requires procedures to ensure complete and accurate financial information is provided to State Accounting for financial statement presentation. 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. This would include a documented review and approval of the reported accruals by both the Budget and Finance Manager and the Chief Financial Officer.

Department Response: No agency funds were expended due to year-end reporting errors; consequently, no funds ever left the agency. NDOT will maintain rigorous oversight and ensure a thorough review of accruals each fiscal year.

NDOT promptly corrected the $4,000,000 recording error related to the purchase of property rights, and no formal adjustment was proposed by the APA.

The $1,803,507 payroll additive issue had no impact on the financial statements, as the expenditures were consolidated within the same major fund and function. This issue has since been addressed and will remain accurate moving forward.

Regarding the retainage payable, the requested adjustment was reduced by the APA from $8,271,969 to $2,748,471.

APA Response: These were errors that were not detected by the Department and corrected only after the APA brought it to their attention which is why they are reported in the management letter.

3. Vehicle Logs and Payroll Issues

In fiscal year 2021, the APA first received concerns, through its anonymous hotline, regarding a Department employee who was paid excessive overtime, most of which related to his travel in a State vehicle rather than performance of other job responsibilities. During the APA's testing in the prior three fiscal years and our follow-up procedures in the current year, the following was noted:

Travel Policies
As noted in the previous fiscal years, 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 2024), as a best practice, and § 81-1025(2)(a) – and an overall vehicle usage policy.

The Department previously 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. An updated policy, dated September 6, 2023, was subsequently provided; however, this updated policy still lacked such a requirement.

Employees were required to record only an activity code that lists their general job duties and not the specific purpose of the travel. For example, the following two activity codes were recorded by the employee on the days traveled for two months tested:

Activity Code Title	Description
Supervision	Includes salaries and expenses of Maintenance Superintendents and Maintenance Foremen when doing work not directly chargeable to a specific activity.
Instruction and Training	All costs, including salaries, personal expenses such as meals, lodging, transportation; tuition and registration fees, books and other related materials to provide or attend schools and training sessions; and reimbursement of professional membership dues.

Clearly, these codes do not allow the Department to determine if the specific travel performed by the employee was appropriate and 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; nevertheless, it is reflective of a best practice. 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.*

<u>*Excessive Overtime and Travel Hours*</u>

The employee reviewed continued to have excessive overtime paid to him, which appears to have been related primarily to extensive travel time in his Department-assigned vehicle. The following table shows a summary of his overtime paid in the last three fiscal years:

	FY 2022	FY 2023	FY 2024
Total Overtime Hours	737	667	368
Total Hours Paid	2,905	2,754	2,449
Total Overtime Pay	$29,041	$27,152	$17,386
% of Overtime Hours vs Total Hours	25%	24%	15%

The following are only two examples showing that the majority of the employee's days consisted of driving:

- On August 23, 2023, the employee drove 459 miles and worked 10 hours. If traveling at 60 miles per hour, this would result in more than 7.5 hours of travel during his 10-hour day.

- On March 19, 2024, the employee drove 485 miles and worked 12 hours. If traveling at 60 miles per hour, this would result in more than 8 hours of travel during his 12-hour day.

Without a specific purpose for the travel, start and stop times, and locations traveled, the APA was unable to determine whether the travel and overtime hours claimed were reasonable.

<u>*Purchase Card Transactions*</u>

The APA also reviewed 20 purchase card transactions of the employee during fiscal year 2024 and noted that nine of the purchases were made on dates that the employee was not working. The Department provided explanations for why these purchases were made while the employee was not working, but these explanations could not be supported by documentation. Additionally, it does not appear reasonable for this employee to have purchased items when not working, when four other employees at the same location had purchase cards and could have made them.

The table below is provided to summarize the nine purchase card transactions that were made during non-working hours and explanations as to why the purchase occurred.

Transaction Date	Transaction Amount	Items Purchased	Explanation Provided
10/18/2023	$ 1,995	Chain Saw Rental, Chains, Carrying Cases, Oil	*Picked up on the way through.*
11/30/2023	$ 3,102	Oil Cooler	*Special Order. Paid after order date when received.*

Transaction Date	Transaction Amount	Items Purchased	Explanation Provided
12/1/2023	$ 2,146	Bulk Bolts, Nuts, and Other Parts	*Traveling Salesman - Calls employee to confirm order before it is placed. Even though employee is not working and/or on vacation he still answers his phone and will confirm the order.*
12/4/2023	$ 15	Spade Terminal	*Item missed on previous invoice.*
12/8/2023	$ 340	Fan Blade & Valve	*Air compressor went down, so called to get the parts.*
12/15/2023	$ 1,232	Loctite Sticks	*Traveling Salesman - Calls employee to confirm order before it is placed. Even though employee is not working and/or on vacation he still answers his phone and will confirm the order.*
12/21/2023	$ 1,275	Drill Bits, Fittings, Utility Knife, etc.	*Thinks he reached out to the salesman to let him know NDOT needed to place this order as one of the staff reached out to him letting him know the items were needed.*
12/28/2023	$ 2,027	Bulk Clamps, Grommets, and Other Parts	*Getting Lexington setup. Traveling Salesman - Calls employee to confirm order before it is placed. Even though employee is not working and/or on vacation he still answers his phone and will confirm the order.*
12/29/2023	$ 1,575	Bulk Socket Set Screws, Hoses, Nuts and Bolts, and Other Parts	*Getting Lexington setup. Traveling Salesman - Calls employee to confirm order before it is placed. Even though employee is not working and/or on vacation he still answers his phone and will confirm the order.*

As of October 4, 2024, the individual in question is no longer employed with the Department.

A proper system of internal control requires procedures to ensure adequate documentation is available to support the following: 1) vehicle usage – to ensure a proper review and determination regarding whether all employee travel is reasonable and appropriate for State business; and 2) purchasing card expenditures – to ensure that purchases were reasonable and necessary.

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. Additionally, when purchases are made when an employee is not working, there is an increased risk of purchases made for personal use.

> We recommend the Department develop both a comprehensive travel report form and update its vehicle usage policy to include more specific information needed for determining whether travel is reasonable and appropriate. We also recommend the Department increase its review of and control over purchasing card usage to prevent personal purchases.

Department Response:

<u>Travel Policies:</u>
NDOT manages a fleet of 1,200 passenger vehicles and over 10,000 pieces of heavy equipment, primarily assigned to field personnel statewide.

NDOT acknowledges the need for enhanced procedures to document, monitor, and review in-state travel usage. To address this, NDOT is piloting Automatic Vehicle Location (AVL) technology for passenger vehicles to record travel start/stop times and locations. Additionally, the department has strengthened employee education on travel policies, incorporating training into annual development events and hosting a dedicated workshop for District Office personnel.

<u>Excessive Overtime and Travel Hours:</u>
The field teammate identified in the audit was a Highway Mechanic District Supervisor overseeing the district's fleet and mechanics across 15 communities. Their duties included statewide travel for equipment deliveries, repairs, and pickups from NDOT's fleet headquarters.

Their travel and overtime were pre-approved and necessary. While some overtime was reduced, it couldn't be fully eliminated due to the role's demands in fleet maintenance and winter operations. Overtime hours significantly decreased in FY24 compared to FY23 and FY22 by redistributing duties and eliminating certain tasks following the March 7, 2023, ACFR.

NDOT will enhance managerial oversight of overtime through a new Business Intelligence Dashboard, allowing district management to track usage while providing agency-wide access to executive leadership. The department is also evaluating pre-approval procedures for employees in roles or projects with high overtime demands.

As noted by the APA, this teammate is no longer with the department.

<u>Purchase Card Transactions:</u>
NDOT will enhance oversight of purchasing card transactions to ensure cardholders comply with the department's purchasing card policies and guidelines.

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It should be noted that this letter is critical in nature, as it contains only our comments and recommendations and does not include our observations on any strengths of the Department.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* 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.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of State's internal control over financial reporting or compliance.

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

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