



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 17, 2025

Rob Jeffreys, Director  
Nebraska Department of Correctional Services  
PO Box 94661  
Lincoln, Nebraska 68509

Dear Mr. Jeffreys:

We have audited, in accordance with the 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, 2025, 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 17, 2025. 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 Correctional Services (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.

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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.A18, in a separate early communication letter dated June 30, 2025.

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, 2025.

## **1. Payroll Issues**

To track work time and duties for personnel, the Department uses the Kronos system, which then interfaces with the State's accounting system. In fiscal year 2025, the Department had payroll expenditures of \$256,379,413 for 2,825 employees. We noted the following items related to payroll:

- The Department's 333 overtime-exempt employees are required to record only leave used. Consequently, there was no documentation that all full-time employees rendered at least 40 hours of labor each week, as required by Neb. Rev. Stat. § 84-1001(1) (Reissue 2024), which 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.*

This issue has been noted since fiscal year 2005.

- For two employees tested, the Department inaccurately paid a shift differential that was not in accordance with the provisions of the labor contracts between the State of Nebraska and the Fraternal Order of Police, Nebraska Protective Services, Lodge 88 (FOP), or the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees. The Department paid \$571,579 in total shift differential payments during fiscal year 2025. Both labor contracts require the following:

*Bargaining unit members on duty and working fifty percent or more of a shift between the hours of 6:00 p.m. and 6:00 a.m. shall receive sixty cents per hour shift differential for all hours worked on that shift.*

The Kronos system calculates shift differential based on the employee's scheduled hours and not on the hours worked; however, the labor contracts appear to require payment for all hours actually worked. The Kronos calculation at issue caused employees to receive the shift differential incorrectly on days that they failed to work more than 50% of their shift between 6:00 p.m. and 6:00 a.m. Similarly, the same flawed methodology caused the employees to miss shift differential payments when they worked more than 50% of their shift between 6:00 p.m. and 6:00 a.m.

This issue has been noted since fiscal year 2024.

- Employees assigned to four job codes tested associated with Corrections Corporals, Corrections Unit Case Managers, Corrections Officers, and Legal Aide I, received shift differential pay ranging from \$0.60 per hour to \$3 per hour depending on the shift. However, the labor contracts did not approve such pay. For one quarter tested, the employees in those positions received \$2,083 in shift differential pay erroneously.

One temporary employee received shift differential pay as a Legal Aide I because he manually entered the shift differential on his own timecard, resulting in an overpayment of \$376 to him since being hired in May 2024. This was not caught during the supervisory or payroll review processes.

- One temporary employee was paid an extra 44 hours on one paycheck tested, resulting in an overpayment of \$957. This was the result of a manual alteration that duplicated, from 11 to 22, the number of hours worked on each of four separate days. On a second paycheck tested, the employee entered 55 work hours associated with 5 days prior to the work being performed. Neither of these timecards were reviewed by the employee's supervisor.
- The FOP labor contract, effective July 1, 2023, through June 30, 2025, authorized 5% additional compensation for employees working out-of-class; however, it contained no provision for additional compensation if such work fell on a holiday. The Department paid employees working out-of-class both the authorized 5% additional compensation and an additional unsupported 2.5% compensation if the work was completed on a holiday. The holiday working out-of-class payroll expenditures for the Department in fiscal year 2025 totaled \$745.

This issue has been noted since fiscal year 2022.

A proper system of internal control requires procedures to ensure that employees are paid for time worked and receive pay only as authorized by the applicable labor contracts. Those procedures should ensure also that hours worked are supported by timesheets or other documentation, which should be kept on file to provide evidence of compliance with § 84-1001(1). Additionally, such procedures should also require proper approval of employee timecards to ensure the hours recorded are accurate and do not contain additional hours or pay types, such as shift differential, that the employee is not eligible to receive.

Without such procedures, there is an increased risk for unauthorized pay to employees and noncompliance with State law.

We recommend the Department implement procedures to ensure: 1) employees are paid shift differential based on actual time worked and not the scheduled hours; 2) hours worked are supported by timesheets or other documentation, which should be kept on file to provide evidence of compliance with § 84-1001(1); 3) employee timecards are appropriately reviewed; and 4) employee timecards do not contain duplicate hours or improper pay types, such as an unauthorized shift differential. We further recommend the Department review the noted pay codes and employee timecards for the remaining quarters of fiscal year 2025 and 2026 and work to recover any overpayments.

*Department Response: Based on the Fair Labor standards Act, exempt employees must receive the full salary for any week in which the employee performs any work without regard to the number of days or hours worked, unless exceptions are met. The exception reporting of leave is an appropriate process for exempt employees. They are expected to work 40 hours per week, except when taking leave, and often work more than 40 hours per week.*

*In addition, NDCS Payroll strives to ensure proper review of timecards, as well as accuracy in recording all payroll entries. If any discrepancies are identified during these reviews, the Department will take prompt corrective action, including recovery of any overpayments, in accordance with applicable regulations and internal controls.*

**APA Response: As noted, Neb. Rev. Stat. § 84-1001(1) requires all state officers and heads of departments and their deputies, assistants, and employees to work no less than forty hours each week. Therefore, documentation should be retained, such as a certification or a detailed timesheet to document compliance with State statute.**

## **2. Capital Asset Errors**

The Department is responsible for recording information regarding capital assets into the State's accounting system. We noted the following errors with the Department's recording procedures:

The following errors were noted with the Electronic Health Records (EHR) system asset:

- The acquired date was entered into the accounting system as September 30, 2024; however, per Legislative testimony, the system went live on March 26, 2024. The Department was unable to provide documentation to support a go live date of September 30, 2024.
- The asset was entered into the accounting system to an incorrect asset item code for Computer Hardware and Equipment with a useful life of five years, rather than IT Software Equipment with a useful life of three years. The combination of the first error above and this error caused an understatement of accumulated depreciation of \$582,534 and depreciation expense of \$350,132.
- When adding costs to the asset, the Department credited incorrect object accounts, resulting in \$360,397 being recorded erroneously as a current expense.

The following errors were noted with the Nebraska State Penitentiary Fire Alarm System Replacement asset:

- The acquired date was entered into the accounting system as January 1, 2025; however, we observed two certificates of substantial completion for the project. The first provided a substantial completion date of August 8, 2024, while the second provided a substantial completion date of October 9, 2024. The Department was unable to provide either documentation for the correct date or support for why an acquired date of January 1, 2025, was used. Using the October 2024 date would result in a \$10,636 understatement of depreciation expense.
- When adding costs to the asset, the Department credited incorrect object accounts, resulting in \$1,309,486 being recorded erroneously as a current expense.

Other Incorrectly Recorded Asset Costs

We noted four assets that did not contain the correct asset cost:

Tag Number	Description	Department Errors	Amount Error
46W92990L	New Prison Site	In fiscal year 2024, the Department paid \$17,534,346 to purchase land and buildings for a new prison site, and it was noted that the associated assets were overstated by \$328,100. In fiscal year 2025, the Department “swapped” out the asset for a new land asset at the same cost; however, the asset cost was not appropriately updated for the prior year error, resulting in an understatement of the asset by \$21,901.	\$ 21,901
46W578	Ice and Water Dispenser	Asset had an acquired date of July 31, 2024; however, costs totaling \$8,539 had not been attached at the time of fieldwork in October 2025.	\$ 8,539
46W579	Ice and Water Dispenser	Asset had an acquired date of August 2, 2024; however, costs totaling \$8,539 had not been attached at the time of fieldwork in October 2025.	\$ 8,539
46AADM519	12 Passenger Van	Asset had an acquired date of June 24, 2025; however, costs totaling \$10,400 had not been attached at the time of fieldwork in October 2025.	\$ 10,400
<b>Total</b>			<b>\$ 49,379</b>

A proper system of internal control requires procedures to ensure the following: 1) all costs are recorded accurately in the accounting system and capitalized in a timely manner; 2) acquisition dates and asset item codes are recorded accurately; 3) assets are properly recorded to the correct asset category; 4) costs are capitalized promptly upon completion of the project; 5) adequate supporting documentation is maintained; and 6) accurate object accounts are used for proper financial statement presentation.

Without such procedures, there is an increased risk for material misstatement of the financial statements and footnote disclosures.

A similar finding was noted in the prior year.

We recommend the Department implement procedures to ensure the following: 1) all costs are recorded accurately in the accounting system and capitalized in a timely manner; 2) acquisition dates and asset item codes are recorded accurately; 3) assets are properly recorded to the correct asset category; 4) costs are capitalized promptly upon completion of the project; 5) adequate supporting documentation is maintained; and 6) accurate object accounts are used for proper financial statement presentation.

*Department Response: NDCS Accounting is committed to maintaining accurate and reliable financial records through strong internal controls and adherence to established accounting standards. Procedures have been thoroughly reviewed with all applicable team members to ensure costs are recorded correctly and in a timely manner. This includes proper classification under the correct asset category and object codes, accurate acquisition dates, and retention of adequate supporting documentation for all transactions.*

### **3. Inventory Reconciliation Procedures**

The Department failed to reconcile its Cornhusker State Industries (CSI) inventory balances during the year to the State's accounting system to ensure the accounting records were complete and accurate for financial reporting for the fiscal year ended June 30, 2025.

As of June 30, 2025, the inventory balance reported in the CSI inventory ledgers was \$3,365,973. However, the same balance reported in the State's accounting system was \$3,714,739, an overstatement of \$348,766.

A proper system of internal controls requires procedures to ensure the value of inventory recorded in the account system is complete and accurate. This would include procedures to ensure the inventory listings are verified and reconciled to the State's accounting system.

Without such procedures, there is an increased risk of not only materially incorrect inventory balances being shown on the financial statements but also the loss or theft of inventory items.

A similar finding was noted in the prior year.

We recommend the Department generate detailed inventory listings and verify that these amounts reconcile to the accounting system.

*Department Response: NDCS recognizes the importance of reconciling inventory balances to the State's accounting system to ensure completeness and accuracy of financial reporting. The Department is committed to maintaining accurate records and ensuring compliance with financial reporting requirements going forward by generating detailed inventory listings on a regular basis and performing reconciliations between inventory records and the State's accounting system to verify accuracy and completeness.*

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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 results of that testing, and not to provide an opinion on the effectiveness of the 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, CPA, CFE  
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