

**ATTESTATION REPORT
OF THE
NEBRASKA HIGHWAY COMMISSION
JULY 1, 2002 THROUGH JUNE 30, 2003**

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NEBRASKA HIGHWAY COMMISSION

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NEBRASKA HIGHWAY COMMISSION

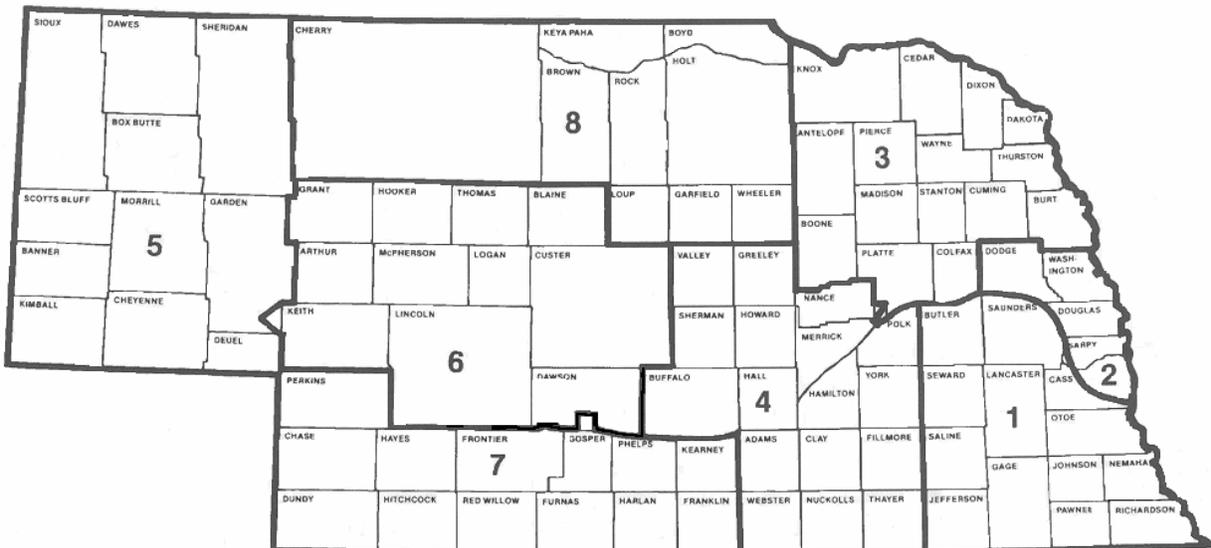
BACKGROUND

The 1953 Legislature created the seven-member State Highway Commission to advise the Director of the Department of Roads on policies to carry out the Department's duties and responsibilities. In 1987, the Legislature added another commission member and aligned commission districts to match Department of Roads districts. The Commission holds public hearings throughout the State to advise the public of Department policies and activities.

Commission members are appointed to six-year terms by the Governor with legislative approval. Members represent Nebraska's eight highway commission districts. Each member must be a U.S. citizen, at least 30 years old, and a resident of the district they represent for three years before appointment. No more than four commission members may be from the same political party. The Director of the Department of Roads is an ex-officio member of the Commission and votes to break tie votes. Commission members receive \$20 a day for conducting Commission business and are reimbursed for expenses.

Member	Represents	Term Expires
Duane W. Acklie, Lincoln (R)	District 1	Sept. 13, 2005
Ronald W. Books, North Platte (R)	District 6	Sept. 13, 2007
Jerome Fagerland, Atkinson (D)	District 8	Sept. 13, 2007
John Kingsbury, Ponca (R)	District 3	Sept. 13, 2005
Doug Leafgreen, Gering (D)	District 5	Sept. 13, 2005
Richard S. Reiser, Omaha (D)	District 2	Sept. 13, 2007
Donna M. Wanitschke, Grand Island (D)	District 4	Sept. 13, 2009
Greg Wolford, McCook (R)	District 7	Sept. 13, 2005
John L. Craig, Omaha	Director of Roads	Ex-Officio Member

NEBRASKA HIGHWAY COMMISSION DISTRICTS



NEBRASKA HIGHWAY COMMISSION

EXIT CONFERENCE

An exit conference was held April 12, 2004 with the Commission to discuss the results of our examination. Those in attendance for the Nebraska Highway Commission were:

NAME	TITLE
Shirley Schafer	Executive Secretary
Stephen Maraman	Finance Administrator
John Schulte	Accounting Manager
Greg Sattler	Internal Auditor

NEBRASKA HIGHWAY COMMISSION

SUMMARY OF COMMENTS

During our examination of the Nebraska Highway Commission, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Nebraska Information System:*** Significant areas of concern or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operational efficiency were identified.
2. ***Expense Reimbursement Documents:*** One document tested included reimbursement of \$5 for alcoholic beverages and one document included hotel charges exceeding Federal guidelines.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Commission to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Commission declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA HIGHWAY COMMISSION

COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System

Good internal control requires a plan of organization, procedures, and records, designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data, and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the "Nebraska Information System" (NIS). Two major components were the Payroll component, which went live on January 3, 2003, and the Financial component, which went live on March 1, 2003. All Nebraska Accounting System (NAS) financial data from July 1, 2002 through February 28, 2003 (excluding payroll from January through February as NIS payroll went live January 3, 2003) was converted to NIS as of March 1, 2003. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA has identified other concerns related to NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. The following are the more significant concerns or areas where improvement is needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the NAS/NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 12, 2003. This procedure would have provided control over cash and accurate financial information. The reconciliation should have been done on a monthly basis and has not been done since the implementation of NIS to ensure all financial information is correct in NIS.
- b. As of December 12, 2003, the Annual Budgetary Report and the Comprehensive Annual Financial Report have not been completed for the fiscal year ended June 30, 2003. These reports are to be prepared and presented by the Department of Administrative Services Accounting Division.
- c. A comprehensive written NIS policy and procedures manual has not been prepared. The current Nebraska Accounting System and Nebraska Employees Information System (NEIS) policies and procedures manuals only relate to NAS and NEIS and have not been updated to adjust to changes in NIS.
- d. Labor distribution - The NIS payroll application is not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to most agencies' funds, programs, and grants.

NEBRASKA HIGHWAY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Nebraska Information System** (Concluded)

- e. A detailed analysis has not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. Training provided for the implementation of NIS was limited to navigational training and did not include explanatory informational training.
- f. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only state, "Obsolete with implementation of NIS."
- g. The payroll component is not designed to promote an effective segregation of duties.
- h. Critical function access rights - Access to sensitive General Accounting functions has been provided to individuals who may not require such access as a part of their job responsibilities.
- i. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.
- j. Business continuity planning - The State has not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure.

The issues identified above are the responsibility of the Department of Administrative Services Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to the Department of Administrative Services, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

2. **Expense Reimbursement Documents**

NAS Manual, Concepts Chapter 5, Travel Expense Policies, Section 6(a), states, "No reimbursement may be made for alcoholic beverages." In a memo dated December 15, 2000 to "All Agencies, Boards and Commissions," the Director of the Department of Administrative Services, stated, "... we are recommending departments utilize the Federal maximum per diem standards as published by the government as a reasonable guideline." NAS Manual, Concepts Chapter 5, Section 11(a), states, "The employee claiming reimbursement of expenses must provide an original signature on the expense document."

During testing of ten documents we noted:

- One expense reimbursement document included reimbursement of \$5 for alcoholic beverages.

NEBRASKA HIGHWAY COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Expense Reimbursement Documents** (Concluded)

- One document was for lodging in Lincoln for five Commissioners, one night each, at a rate of \$85 per night, totaling \$425. The Federal lodging per diem amount for Lincoln was \$55, resulting in an excess totaling \$150.
- Nine documents included imaged copies of the Commissioners' signatures.

Failure to comply with guidelines increases the risk for unallowable or excessive charges.

We recommend the Highway Commission review expense reimbursement procedures to ensure the State only reimburses for allowable expenses. We also recommend the individual return the monies received for the alcoholic beverages. We further recommend lodging at establishments with rates at or below the Federal guideline. Finally, we recommend the Commission discontinue the use of imaged signatures on expense reimbursement documents.

Commission's Response:

Five dollar alcoholic beverage reimbursed - The Nebraska Department of Roads performs a pre-audit on all expense vouchers. The reimbursement request of an alcoholic beverage for \$5 was not discovered during this process, but should have been. Staff will be reminded of the importance to review expense documents for such non-allowable costs. The Department will obtain reimbursement for the \$5.

Lodging expense above "guideline" - Lodging for Highway Commissioners to attend their monthly meeting exceeded the Federal maximum per diem standards as published by the government. We consider the "guidelines" simply that. The payments made were appropriate and legal.

Imaged signatures used - The issue raised by the use of imaged signatures of commissioners on expense reimbursement documents has been discussed with the State Accountant. At his recommendation, documents will be initialed in a space following the imaged signature. This action will confirm that the amounts for which reimbursement is requested are appropriate.

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NEBRASKA HIGHWAY COMMISSION

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Independent Accountant's Report

Deann Haeffner, CPA
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We have examined the accompanying schedule of expenditures of the Nebraska Highway Commission (Commission) for the fiscal year ended June 30, 2003. The Commission's management is responsible for the schedule of expenditures. Our responsibility is to express an opinion based on our examination.

Don Dunlap, CPA
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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to financial-related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of expenditures and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Pat Reding, CPA
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In our opinion, the schedule referred to above presents, in all material respects, the expenditures of the Nebraska Highway Commission for the fiscal year ended June 30, 2003, based on the accounting system and procedures prescribed by the State of Nebraska Department of Administrative Services as described in Note 1.

Tim Channer, CPA
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In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2004, on our consideration of the Nebraska Highway Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of a financial-related audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

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April 12, 2004

Assistant Deputy Auditor

NEBRASKA HIGHWAY COMMISSION
SCHEDULE OF EXPENDITURES
For the Fiscal Year Ended June 30, 2003

EXPENDITURES:	
Personal Services	\$ 59,750
Operating	1,730
Travel	<u>24,354</u>
 TOTAL EXPENDITURES	 <u><u>\$ 85,834</u></u>

The accompanying notes are an integral part of the schedule.

NEBRASKA HIGHWAY COMMISSION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2003

1. Criteria

The accounting policies of the Nebraska Highway Commission are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107 R.R.S. 1999, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of expenditures for the Commission was obtained directly from the NIS. NIS records accounts payable as transactions occur. As such certain expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2003 includes only those payables posted to NIS before June 30, 2003 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2003 **does not** include amounts for goods and services received before June 30, 2003 which had not been posted to NIS as of June 30, 2003.

Prior to the implementation of NIS, the State utilized the Nebraska Employees Information System (NEIS) and the Nebraska Accounting System (NAS) to record transactions. NEIS was converted to NIS effective January 1, 2003, and NAS was converted to NIS effective March 1, 2003.

The NIS system does not include liabilities for accrued payroll and compensated absences.

The major expenditure object account titles established by NIS used by the Commission are:

Personal Services – Salaries, wages, and related employee benefits provided for the Executive Secretary of the Commission and \$20 per diem payments to Commissioners.

Operating – Expenditures directly related to a program’s primary service activities.

Travel – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

NEBRASKA HIGHWAY COMMISSION

NOTES TO THE SCHEDULE

(Continued)

2. State Agency

The Nebraska Highway Commission (Commission) is established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The schedule includes all expenses of the Commission.

The Nebraska Highway Commission is part of the primary government for the State of Nebraska.

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NEBRASKA HIGHWAY COMMISSION REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE SCHEDULE OF EXPENDITURES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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We have examined the accompanying schedule of expenditures of the Nebraska Highway Commission for the fiscal year ended June 30, 2003, and have issued our report thereon dated April 12, 2004. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Highway Commission's schedule of expenditures is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted a certain immaterial instance of noncompliance that we have reported to management of the Nebraska Highway Commission in the Comments Section of this report as Comment Number 2 (Expense Reimbursement Documents).

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Highway Commission's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the

schedule of expenditures and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Highway Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Nebraska Information System).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

April 12, 2004

Pat Reding, CPA
Assistant Deputy Auditor

NEBRASKA HIGHWAY COMMISSION

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of expenditures. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of expenditures and, accordingly, we express no opinion on it.

NEBRASKA HIGHWAY COMMISSION
SCHEDULE OF EXPENDITURES BY COMMISSIONER
For the Fiscal Year Ended June 30, 2003

	<u>Per Diems</u>	<u>Operating</u>	<u>Travel</u>	<u>Total</u>
Duane Acklie, Lincoln	\$ 400	\$ -	\$ 92	\$ 492
Ronald Books, North Platte	520	-	2,378	2,898
Jerome Fagerland, Atkinson	420	-	1,636	2,056
John Kingsbury, Ponca	540	-	1,353	1,893
Doug Leafgreen, Gering	460	-	3,422	3,882
Richard Reiser, Omaha	420	-	587	1,007
Donna Wanitschke, Grand Island	680	-	2,421	3,101
Greg Wolford, McCook	700	-	4,373	5,073
	<u>Salary & Benefits</u>			
Commission Secretary	55,610	-	866	56,476
Other (direct bills, miscellaneous)	-	1,730	7,226	8,956
Total	<u>\$ 59,750</u>	<u>\$ 1,730</u>	<u>\$ 24,354</u>	<u>\$ 85,834</u>