

STATE OF NEBRASKA  
Auditor of Public Accounts



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March 7, 2007

Mr. John Gale  
Nebraska Secretary of State  
State Capitol, Suite 2300; 2<sup>nd</sup> Floor  
Lincoln, Nebraska 68509-4608

Dear Mr. Gale:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 6, 2007. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the Federal Office of Management and Budget (OMB) Circular A-1 33 (the Single Audit) and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control matters related to the activities of the Secretary of State (the Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Agency's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

Our comments and recommendations for the year ended June 30, 2006, are shown on the following pages.

## **COMMENT RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS**

### **1. Capital Asset Coding**

Sound accounting practice and good internal controls require procedures be in place to ensure purchases are coded properly for presentation in the financial statements.

The Agency did not properly record the purchase of election equipment on NIS. The purchase of the equipment was recorded on NIS as a negative receipt rather than as an expenditure. This resulted in an understatement of revenues and expenditures of \$6,460,570.

The Department of Administrative Services, State Accounting Division corrected this discrepancy during the preparation of the basic financial statements. However, when purchases are not properly coded, there is an increased risk the financial statements are misstated.

We recommend the Agency implement procedures to ensure purchases are properly coded for presentation in the financial statements.

*Agency's Response: When the contract for the election equipment was set up in NIS (Nebraska Information System), DAS Materiel inadvertently coded the contract to a receipt object account rather than expenditure accounts. Thus, when invoices were recorded against the contract the system automatically debited a receipt object account in error. Our Agency has since notified DAS Materiel and the NIS contract has been correctly coded. All subsequent purchases of election equipment have been correctly coded. In addition, the Agency has implemented internal control procedures to ensure correct coding of revenues and expenditures in NIS.*

## **COMMENT RELATED TO THE SINGLE AUDIT**

### **Finding #06-09-01**

**Program:** CFDA 90.401 Help America Vote Act – Equipment

**Federal Grantor Agency:** Election Assistance Commission

**Criteria:** OMB Circular A-133 requires the auditee to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. CFR Title 41, Volume 3, Section 105-71.132 requires a State to use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 requires each agency to annually make or cause to be made an inventory of all property belonging to the State of Nebraska. In addition, each State agency shall tag, mark, or stamp all such property belonging to the State of Nebraska.

**Condition:** The Agency did not properly tag the equipment purchased under the Help America Vote Act (HAVA) Title II as property of the State of Nebraska; there were no policies or procedures established for a periodic inventory of the property; and the equipment was not properly recorded on the Nebraska Information System (NIS) as capital assets.

**Questioned Costs:** None.

**Context:** The Agency purchased approximately \$10 million in equipment during fiscal year 2006. The equipment was purchased by the State and distributed to the counties; however, the Agency indicated the State retained title to the equipment.

**Cause:** The equipment was purchased less than one year ago and the Agency had not yet established policies and procedures for control of the property.

**Effect:** There is an increased risk of loss or misuse of State and Federal monies when equipment is not properly controlled.

**Recommendation:** We recommend the Agency establish policies and procedures for a periodic inventory of equipment and ensure equipment is properly tagged and recorded on NIS.

**Management Response:** The Agency has developed a plan to inventory and tag all vote tabulation equipment with State Property identification tags. We anticipate tagging this equipment beginning February 2007.

**Corrective Action Plan:** Location visits during 2007 will include application of State Property identification tags.

**Contact:** Neal Erickson, Deputy Secretary of State for Elections

**Anticipated Completion Date:** September 2007

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 Agency 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 you.

This report is intended solely for the information and use of the Agency, the Governor and State Legislature, federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this report is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.



Pat Reding  
Assistant Deputy Auditor



Don Dunlap  
Assistant Deputy Auditor