



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 17, 2009

John A. Gale
Nebraska Secretary of State
State Capitol, Suite 2300
Lincoln, NE 68509-4608

Dear Secretary Gale:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We have also audited the State's compliance with requirements applicable to major Federal award programs and have issued our report thereon dated February 10, 2009. 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-133 (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 or compliance matters related to the activities of the Nebraska 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 the 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.

The following are our comments and recommendations for the year ended June 30, 2008.

COMMENTS RELATED TO THE SINGLE AUDIT

Finding #08-09-01

Program: CFDA 90.401 – Help America Vote Act – Allowable Costs/Cost Principles & Equipment

Grant Number & Year: #BU9824588, April 2003

Federal Grantor Agency: Election Assistance Commission

Criteria: OMB Circular A-87 Attachment A, Section C 1.j. requires costs charged to Federal programs to be adequately documented. OMB Circular A-133 requires the auditee to maintain internal controls over Federal programs that provide reasonable assurance 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. Title 41 CFR 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. Good internal control requires maintaining adequate supporting documentation for purchases and maintaining an accurate listing of all equipment purchased with Federal grant funds.

Condition: During our testing of equipment records we noted the following:

- The number of voting machines received and the number of voting machines paid for did not agree.
- The purchase cost recorded on NIS was incorrect for seven items.

Questioned Costs: \$60,207

Context: Our prior audit noted the Agency did not have all equipment properly inventoried, tagged, and entered into NIS. Our follow-up for fiscal year 2008 noted the following:

- The amount paid for voting machines in fiscal year 2006 was for the number of voting machines contracted for; however, the vendor sent a different number of machines. The contract was for 172 M100 machines and 159 were received, a difference of 13 machines with a total variance of \$60,207.
- During the fiscal year, the Agency made significant progress to inventory, tag, and enter equipment into the Nebraska Information System (NIS). As of June 30, 2008, the Agency had entered 1,565 election machines into NIS; however, the purchase cost for seven machines was entered incorrectly. The purchase cost for four items was recorded as \$8,230 which appears to be the purchase cost of two Automark machines. The purchase cost of one machine was recorded as \$9,262 which appears to be the purchase cost of two M100 machines. The purchase cost for another machine was recorded as \$12,345 which appears to be the purchase cost of three Automark machines. The purchase cost for another machine was recorded as \$59,365 which appears to be the purchase cost of one M650 machine and one Automark machine.

Cause: An error was made in the payment for election equipment. The initial purchase cost of equipment was entered as a lump sum and subsequently adjusted to individual tag numbers by numerous journal entries. Minor errors were made when adjusting the purchase cost of items recorded on NIS.

Effect: There is an increased risk of loss or misuse of funds when incorrect payments are made to vendors and accurate inventory records are not maintained.

Recommendation: We recommend the Agency ensure proper payments are made to vendors and ensure the NIS listing reflects the correct purchase costs for those items that appear to have an incorrect purchase cost recorded.

Management Response: The Agency concurs that the number of voting machines received differed from the number paid for. We have requested a refund from the vendor in the amount of \$60,207 which will be deposited into the HAVA cash fund. We anticipate receiving the refund no later than February 28, 2009.

The Agency concurs that when inputting 1565 fixed asset items into the State's Nebraska Information System (NIS) fixed asset module, 7 items were assigned an incorrect cost. The financial records and corresponding federal funds were not affected by the dollar amounts entered into the fixed asset module. The total number of items entered incorrectly amount to a .0045 percent error which is not material to the financial statements or to this federal program. The Agency respectfully requests this finding be removed from this report and be noted as an exit item only. The Agency does not feel that there is any danger of loss or misuse of federal funds as a result of a clerical error in the fixed asset portion of the State's accounting system.

Corrective Action Plan: We have requested a full refund from the vendor in the amount of \$60,207. This payment will be deposited into the HAVA fund no later than February 28, 2009. Internal controls over payables and staff in charge of approving HAVA transactions have changed since this error occurred in 2006. Current internal controls would have required the number of equipment items received match to the number paid for. Therefore, no changes to current policies or procedures are necessary within the Agency to prevent such errors from occurring in the future.

All errors will be corrected within NIS by February 28, 2009.

Contact: Suzanne Hinzman, Deputy Secretary of State for Finance and Human Resources

Anticipated Completion Date: February 28, 2009

Auditor's Response: There was a prior report finding noting issues regarding inventory records for equipment and due to the errors noted, we feel the issue has not been fully resolved and therefore should be reported to the Federal Agency.

Finding #08-09-02

Program: CFDA 90.401 – Help America Vote Act – Reporting

Grant Number & Year: #BU9824588, April 2003

Federal Grantor Agency: Election Assistance Commission

Criteria: OMB Circular A-133 § 300 requires the State to prepare the Schedule of Expenditures of Federal Awards (SEFA) in accordance with section 310 including total Federal awards expended for each individual Federal program and the CFDA number. Good internal control requires procedures to ensure the SEFA is properly presented.

Condition: The SEFA amount was incorrectly reported. We informed Administrative Services and the Agency of the errors and the SEFA was subsequently adjusted.

Questioned Costs: None

Context: The Agency reports expenditures for the SEFA to Administrative Services. Administrative Services compiles the information for all agencies and reports to the auditor. The amount initially reported was \$1,200,910. The corrected SEFA amount was \$1,484,790. The variance was \$283,880.

Cause: Receipt amounts were included.

Effect: Noncompliance with Federal regulations.

Recommendation: We recommend procedures be implemented to ensure Federal expenditures are properly reported in accordance with OMB Circular A-133.

Management Response: We agree that a clerical error occurred when presenting the SEFA amount to Administrative Services. The SEFA amount was subsequently adjusted to reflect the correct amount of expenditures.

Corrective Action Plan: This was a clerical error only. Subsequent reports run to obtain SEFA amounts will be limited to expenditure accounts only.

Contact: Suzanne Hinzman, Deputy Secretary of State for Finance and Human Resources

Completion Date: The SEFA amount has already been corrected.

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 letter is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this letter 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.

Signed Original on File

Pat Reding
Assistant Deputy Auditor

Signed Original on File

Don Dunlap
Assistant Deputy Auditor