

State Auditor Mike Foley Cites Deficient Accounting Practices in the Department of Administrative Services

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State Auditor Mike Foley released an audit report today of the Material Division of the Department of Administrative Services (DAS). The Material Division handles the bidding and awarding of hundreds of millions of dollars in State contracts.

The audit is critical of the division for questionable bidding practices, inadequate recordkeeping, erroneous accounting, and failure to provide requested information to the auditors.

“The taxpayers of Nebraska deserve better than what is occurring here,” said Foley.

At the inception of the audit, the audit team selected a sample of contracts to be examined and requested all DAS file materials relating to the bidding and awarding of those contracts, including the evaluators’ scorecards. Despite State law requiring the retention of all documentation used in the awarding of State contracts, DAS personnel routinely do not maintain such documentation.

For example, the auditors sought to examine the evaluators’ scorecards for a \$13.8 million dollar contract to Modern Methods, Inc., for photocopying equipment. Though not initially provided, the missing scorecards were later found by one of the auditors within a DAS folder that had been withheld from the auditors. The scores on the discovered scorecards did not match the published scores on the DAS website, apparently indicating that the wrong bidder had been awarded the contract.

DAS personnel maintain that the contract was awarded properly, but discrepancies in the supporting documentation raise doubts.

The audit team found widespread problems with the manner in which DAS recorded contract information into the State’s computerized accounting system.

The auditors tested two dozen contracts and found that, in almost every instance, some of the basic contract information was incorrect. The problems included incorrect contract start dates and end dates, amendments and extensions not recorded, and dollar estimates of total contract expenditures wildly off the mark.

For example, a \$3.6 million dollar contract with the Omaha Paper Company was entered into the system as having total estimated expenditures of over \$10.8 million with no reasonable explanation for the discrepancy.

The auditors also found an \$8.9 million contract for asphaltic road oil, which was awarded after DAS received only two bids, despite State law requiring three bids on contracts of that size. Official DAS procedures for awarding contracts with fewer than three bids were ignored by the agency.

The Nebraska State accounting system provides for a vital contract monitoring technique known as the contract usage report, which tracks all State contract expenditures to ensure that vendors are not paid more than what is specified by the terms of the contracts.

However, DAS does not properly implement or monitor the contract usage report, and the auditors identified over \$12 million in actual payments made to vendors that exceeded the dollars shown as having been paid according to the contract usage report. The excessive payments may have related to other contracts with the same vendors or have simply been overpayments for which there is little or no explanation.

The Material Division of DAS is largely funded by fees assessed to other State agencies. The auditors found millions of dollars of errors and discrepancies in the manner in which DAS charges those fees, resulting in some State agencies paying too much and other agencies paying too little. These errors resulted in excessive fees being collected by DAS, which distorted the budgeting process for the other State agencies.

The audit report also discloses accounting errors made by DAS for employees who terminated their State government service. Four former DAS employees from the Material Division were overpaid at the time of their termination, with one of these receiving a paycheck after termination which he

did not earn. Other overpayments included unearned holiday pay, unearned retirement contributions, and unearned health insurance premiums. DAS did not recover the overpayments.

A copy of the letter and attachments can be found on the State Auditor's web site (see link below) under "What's New"

<http://www.auditors.nebraska.gov>