



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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March 7, 2013

Carlos Castillo, Director
Department of Administrative Services
State Capitol, Room 1315
Lincoln, Nebraska 68509-4664

Bo Botelho, Materiel Administrator
DAS – Materiel Division
301 Centennial Mall South, Mall Level
Lincoln, Nebraska 68509-4847

Dear Mr. Castillo and Mr. Botelho:

We have audited the basic financial statements of the State of Nebraska (the State) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, and have issued our report thereon dated January 16, 2013. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the basic financial statements of the State, 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 an internal control or compliance matter related to the activities of the Nebraska Department of Administrative Services – Materiel Division (the Agency) or other operational matters that are presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Agency's management, is intended to improve internal control or result in other operating efficiencies.

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.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comment and recommendation included in this letter. The formal response received has been incorporated into this letter. The response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next audit.

The following comment and recommendation has been identified for the year ended June 30, 2012:

Incorrect Amounts Received from Contractor for the Value of Recycled Paper

In June 2003, the State solicited proposals for the purpose of selecting a qualified contractor to provide on-site secure document shredding, which it awarded to Shredding Solutions, Inc. for the period covering August 1, 2003, though June 30, 2006. That contract included the option to renew for two additional one-year periods as mutually agreed upon by the parties. The contract was renewed and extended, as follows:

Contract Renewal/Extension	Time Period
First Renewal	August 1, 2006 through July 31, 2007
Second Renewal	August 1, 2007 through July 31, 2008
Third Renewal	August 1, 2008 through July 31, 2009
Fourth Renewal	August 1, 2009 through July 31, 2010
Fifth Renewal	August 1, 2010 through July 31, 2011
First Extension of Fifth Renewal	August 1, 2011 through August 31, 2011
Second Extension of Fifth Renewal	September 1, 2011 through November 30, 2011

In August 2011, the State again solicited proposals for an on-site document shredding contract. This contract was awarded to Shredding Solutions, Inc. in November 2011, for the period December 1, 2011, through November 30, 2012.

And finally, in October 2012, the State solicited proposals for the same services and awarded the contract to Shredding Solutions, Inc. for the period January 10, 2013, through January 9, 2014, with the option to renew in four, one-year periods, as mutually agreed upon by all parties.

Under the terms of the contract, the State pays Shredding Solutions, Inc., for each pound of paper it shreds. The amount per pound varies by location, but for the most recent contract, the State pays Shredding Solutions, Inc., \$.08 per pound in Lincoln and Omaha, and generally, \$.16 per pound in other locations. Since May 2010, the State has paid Shredding Solutions, Inc., the following amounts:

Month/Year	Payment Amount
May 2010	\$ 6,824.67
June 2010	\$ 4,680.50
July 2010	\$ 8,062.77
August 2010	\$ 3,036.69
September 2010	\$ 6,228.29
October 2010	\$ 5,217.07
November 2010	\$ 5,606.46
December 2010	\$ 6,702.35
January 2011	\$ 4,204.72
February 2011	\$ 5,142.70
March 2011	\$ 5,094.95
April 2011	\$ 6,165.96
May 2011	\$ 8,927.98
June 2011	\$ 5,179.22
July 2011	\$ 3,432.58
August 2011	\$ 5,599.73
September 2011	\$ 5,388.92

Month/Year	Payment Amount
October 2011	\$ 3,444.13
November 2011	\$ 3,544.91
December 2011	\$ 2,433.76
January 2012	\$ 5,180.04
February 2012	\$ 3,855.50
March 2012	\$ 1,246.18
April 2012	\$ 956.98
May 2012	\$ 1,717.41
June 2012	\$ 624.91
July 2012	\$ 819.18
August 2012	\$ 2,650.90
September 2012	\$ 2,592.73
October 2012	\$ 750.13
November 2012	\$ 1,243.11
December 2012	\$ 1,249.87
January 2013	\$ 594.20
Total Paid	\$ 128,399.50

All of the requests-for-proposals (RFP) contain similar language that is found in RFP 3755Z1, Section B, Current Practice, which was released in August 2011, requiring the vendor to remit to the State the value of the recycled paper:

“Shredded paper is to be recycled and any value of the recycled paper will be returned to the State of Nebraska Resource Recovery Fund (Nebraska Statute 81-1188). This will be based on the price per pound for the Chicago Market, at the beginning of each month, multiplied by the total number of pounds shredded for that month.”

In Section B(1)(f), the RFP goes on to say:

“A check for the amount of recycled shredded paper is required to be submitted to AS Materiel Division, Recycling Manager by the 10th of the month for the previous month’s total.”

The State received the following amounts from Shredding Solutions for the value of the recycled paper shredded from May 2010 through December 2012:

Date Entered into Accounting System	Accounting System Payee/Explanation	Month that Recycled Paper was Collected	Amount Received
10/13/2010	RECY-MAY 10 SHREDDING CK 5601	May 2010	\$ 827.78
10/13/2010	RECY-JUNE 10 SHREDDING CK 5601	June 2010	\$ 940.26
12/29/2010	RECYC-SHREDDING SOLUTIO CK5666	July 2010 and additional for May 2010	\$ 1,088.58
2/23/2011	RECYC-SHREDDING SOLUTI CK 5708	August and September 2010	\$ 2,801.77
3/8/2011	Recy Shredding Solutions #5726	October 2010	\$ 720.25
5/27/2011	RECY Shredd Solu Ck# 5780	December 2010 to March 2011	\$ 3,260.17
3/6/2012	RECYC SHRED SOLU CK 6571	April 2011 (Note 1)	\$ 1,065.60
4/5/2012	RECY Shredd Solutions Ck# 6615	May 2011 (Note 1)	\$ 1,556.19
5/11/2012	RECY SHREDDING SOLUTNS CK 6671	June and July 2011	\$ 1,470.05
6/26/2012	RECY SHREDDING SOLUTION CK6720	August, September, and October 2011	\$ 2,487.23
11/27/2012	RECY Shreddin Solution Ck#6953	November 2010	\$ 915.01
11/27/2012	RECY Shredd Solutions Ck#6952	November 2011 through October 2012	\$ 114.34
11/27/2012	RECY Shredd Solutions Ck#6954		\$ 25,686.03
12/18/2012	RECY Shredd Solutions Ck#6985	November 2012 (Note 2)	\$ 2,401.35
1/14/2013	RECY Shredd Solutions Ck#7005	December 2012 (Note 2)	\$ 1,463.72
Total			\$ 46,798.33

Note 1: After the Agency conducted an internal audit of the amounts received from the vendor, the Agency repaid the vendor \$331.67 for April 2011 and \$672.56 for May 2011, as noted in **Exhibit A**.

Note 2: The Agency conducted its internal audit in November 2012. The APA did not obtain documentation to indicate which months the December 2012 and January 2013 amounts received applied to. It was assumed they were for the November and December 2012 recycled paper.

It is clear from the above table that timely payments to the State of Nebraska were not being made.

In mid-November 2012, almost five months after the last payment was received in June 2012 from Shredding Solutions, Inc., the Auditor of Public Accounts (APA) discovered that no further payments to the State had been remitted for the value of the recycled paper. The APA then contacted the Agency with questions regarding this contract, including the timeliness of payments received from Shredding Solutions, Inc.

At that time, the Agency conducted an “internal audit” of payments received from Shredding Solutions, Inc., which required the vendor to make a correcting payment to the State of Nebraska in the amount of \$25,800.37, which was received by the State on November 27, 2012, covering the periods November 2011 through October 2012. The following is a copy of the spreadsheet provided by the Agency, as a result of this “internal audit”:

Month Payment Applies To	Pounds Recycled	Pounds Converted to Tons	Price Per Ton	Monthly Payment	Total Check submitted	Corrected Pounds Recycled	Corrected Pounds Converted to Tons	State of NE's Calculation		Amount Owed to Shredding Solutions
May-10	66,222	33.111	\$ 25.00	827.78	\$ 1,768.04			\$ 827.78		
Jun-10	75,221	37.6105	\$ 25.00	940.26				\$ 940.26		
July 2010 and addl for May	83,486	41.743	\$ 25.00	\$ 1,088.58	\$ 1,088.58			\$ 1,043.58	Note 1	
Aug-10	88,742	44.371	\$ 25.00	\$ 1,109.27	\$ 2,801.77			\$ 1,109.28	Note 2	
Sep-10	135,400	67.7	\$ 25.00	\$ 1,692.50				\$ 1,692.50		
Oct-10	57,625	28.81	\$ 25.00	\$ 720.25	\$ 720.25			\$ 720.25		
Nov-10	73,201	36.6	\$ 25.00	\$ 915.01	\$ 915.01			\$ 915.00	Note 2	
Dec-10	62,961	31.481	\$ 25.00	\$ 787.01	\$ 3,260.17			\$ 787.02	Note 2	
Jan-11	63,986	31.99	\$ 25.00	\$ 799.83				\$ 799.75	Note 2	
Feb-11	65,720	32.86	\$ 25.00	\$ 821.50				\$ 821.50		
Mar-11	68,146	34.07	\$ 25.00	\$ 851.83				\$ 851.75	Note 2	
Apr-11	85,248	42.624	\$ 25.00	\$ 1,065.60	\$ 1,065.60	58,713	29.357	\$ 733.93	Note 3	\$ 331.67
May-11	124,495	62.2475	\$ 25.00	\$ 1,556.19	\$ 1,556.19	70,690	35.345	\$ 883.63	Note 3	\$ 672.56
Jun-11	64,109	32.0545	\$ 25.00	\$ 801.36	\$ 1,470.05			\$ 801.36		
Jul-11	53,495	26.7475	\$ 25.00	\$ 668.69				\$ 668.69		
Aug-11	73,632	36.816	\$ 25.00	\$ 920.40	\$ 2,487.23			\$ 920.40		
Sep-11	66,770	33.385	\$ 25.00	\$ 834.63				\$ 834.63		
Oct-11	58,576	29.288	\$ 25.00	\$ 732.20				\$ 732.20		
Nov-11	50,392	25.196	\$ 75.00	\$ 1,889.70				\$ 1,889.70		
Dec-11	79,075	39.538	\$ 70.00	\$ 2,767.66	\$ 25,800.37			\$ 2,767.66		
Jan-12	88,268	44.134	\$ 70.00	\$ 3,089.38				\$ 3,089.38		
Feb-12	73,464	36.732	\$ 70.00	\$ 2,571.24				\$ 2,571.24		
Mar-12	65,670	32.835	\$ 75.00	\$ 2,462.63				\$ 2,462.63		
Apr-12	51,359	25.679	\$ 75.00	\$ 1,925.96				\$ 1,926.00	Note 2	
May-12	56,684	28.342	\$ 70.00	\$ 1,983.94				\$ 1,983.94		
Jun-12	81,813	40.906	\$ 70.00	\$ 2,863.42				\$ 2,863.49	Note 2	
Jul-12	66,125	33.062	\$ 65.00	\$ 2,149.03				\$ 2,149.10	Note 2	
Aug-12	79,351	39.676	\$ 55.00	\$ 2,182.18				\$ 2,182.18		
Sep-12	65,400	32.7	\$ 30.00	\$ 981.00				\$ 981.00		
Oct-12	62,282	31.141	\$ 30.00	\$ 934.23			\$ 934.23			

Total Paid \$ 42,933.25

\$ 41,884.06

Note 1: An additional \$45.00 was paid in July of 2010 and was attributable to May of 2010. No documentation is available for the additional payment of \$45.00.

Note 2: Difference in amounts is due to rounding when converting from pounds to tons.

Note 3: During the internal audit performed of payments received from Shredding Solutions, overpayments were noted due to subtotals added to the totals in error on the Shredding Solutions monthly reports.

APA Note 4: The column titled "Monthly Payment," represents amounts received by the State from Shredding Solutions, Inc.

As seen in the above calculation completed by the Agency, the price per ton of the recycled paper changed from the \$25 that had been charged from at least May 2010 through October 2011 (yellow highlight on previous page) to a varying price per ton in the \$25,800.37 correcting payment made by Shredding Solutions, Inc. (red highlight on previous page).

The APA requested copies of the price per pound from the Chicago Market at the beginning of each month that was used in the calculation of the value of recycled paper. Upon receiving this information, the APA confirmed that the price used from at least May 2010 through October 2011 did not agree to the Chicago Market prices. The APA's calculation, compared to the actual amounts received is included in **Exhibit A**.

The Agency indicated that the vendor may have believed there to be a verbal agreement to provide the \$25 per ton of recycled paper. The individual who is believed to have entered into this verbal agreement for the Agency is no longer employed by the Agency. There is no documentation to support the \$25 per ton paid by the vendor, which conflicts with the written agreement. The Agency provided emails from 2007 that indicated they were aware they were only being paid \$25 per ton for recycled paper. The following individuals previously held the position of State Recycling Coordinator during that time:

Name	Period
Aaron Boucher	April 2006 to December 2008
Christy Eichorn	April 2004 to January 2006
Charles Wink	September 2002 to November 2003

The APA contacted all three of these individuals, and each of them claimed to have no knowledge of any verbal agreement with the vendor.

Therefore, based on the APA's calculations, using the price per pound from the Chicago Market provided by the Agency, it appears Shredding Solutions, Inc., owes the State an additional \$33,387.48.

A good internal control plan requires procedures to ensure contract terms are complied with and to ensure amounts owed are accurate and received timely. Without proper monitoring procedures, there is an increased risk the State will not receive all amounts due.

We recommend the Agency review its contract monitoring procedures to ensure all contracts are properly monitored, the correct amounts are received, and payments are made timely. We also recommend the Agency consider whether the amounts that did not comply with contract provisions should be recovered.

Agency's Repsonse: The Materiel Division of the Department of Administrative Services is currently and will continue to review our practices, policies and procedures, including internal controls, in order to increase the effectiveness, efficiency and transparency of the State Purchasing Bureau. We will place special emphasis on contract management; stressing the importance of contract monitoring, contract compliance and vendor compliance with all our employees.

* * * * *

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 the Agency.

This report 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 and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

Pat Reding, CPA, CFE
Assistant Deputy Auditor

Department of Administrative Services – Materiel Division
Shredding Solutions

Exhibit A

Agency Prepared										APA Prepared					
Month Payment Applies To	Pounds Recycled	Pounds Converted to Tons	Price Per Ton	Monthly Payment <i>Note 4</i>	Total Check submitted	Corrected Pounds Recycled	Corrected Pounds Converted to Tons	State of NE's Calculation		Amount Owed to Shredding Solutions	APA's Price Per Ton Per Chicago Market	Pounds Converted to Tons from DAS	APA's Calculated Monthly Payment	Difference APA & DAS Calculation	
May-10	66,222	33.111	\$25.00	\$827.78	\$1,768.04			\$827.78			\$70.00	33.111	\$2,317.77	\$1,489.99	
Jun-10	75,221	37.6105	\$25.00	\$940.26				\$940.26			\$65.00	37.6105	\$2,444.68	\$1,504.42	
July 2010 and addl for May	83,486	41.743	\$25.00	\$1,088.58	\$1,088.58			\$1,043.58	<i>Note 1</i>		\$55.00	41.743	\$2,295.87	\$1,252.29	
Aug-10	88,742	44.371	\$25.00	\$1,109.27	\$2,801.77			\$1,109.28	<i>Note 2</i>		\$55.00	44.371	\$2,440.41	\$1,331.13	
Sep-10	135,400	67.7	\$25.00	\$1,692.50				\$1,692.50			\$55.00	67.7	\$3,723.50	\$2,031.00	
Oct-10	57,625	28.81	\$25.00	\$720.25	\$720.25			\$720.25			\$65.00	28.81	\$1,872.65	\$1,152.40	
Nov-10	73,201	36.6	\$25.00	\$915.01	\$915.01			\$915.00	<i>Note 2</i>		\$65.00	36.6	\$2,379.00	\$1,464.00	
Dec-10	62,961	31.481	\$25.00	\$787.01	\$3,260.17			\$787.02	<i>Note 2</i>		\$65.00	31.481	\$2,046.27	\$1,259.25	
Jan-11	63,986	31.99	\$25.00	\$799.83				\$799.75	<i>Note 2</i>		\$70.00	31.99	\$2,239.30	\$1,439.55	
Feb-11	65,720	32.86	\$25.00	\$821.50				\$821.50			\$85.00	32.86	\$2,793.10	\$1,971.60	
Mar-11	68,146	34.07	\$25.00	\$851.83				\$851.75	<i>Note 2</i>		\$95.00	34.07	\$3,236.65	\$2,384.90	
Apr-11	85,248	42.624	\$25.00	\$1,065.60		\$1,065.60	58,713	29.357	\$733.93	<i>Note 3</i>	\$331.67	\$95.00	29.357	\$2,788.92	\$2,054.99
May-11	124,495	62.2475	\$25.00	\$1,556.19	\$1,556.19	70,690	35.345	\$883.63	<i>Note 3</i>	\$672.56	\$95.00	35.345	\$3,357.78	\$2,474.15	
Jun-11	64,109	32.0545	\$25.00	\$801.36	\$1,470.05			\$801.36			\$95.00	32.0545	\$3,045.18	\$2,243.82	
Jul-11	53,495	26.7475	\$25.00	\$668.69				\$668.69			\$95.00	26.7475	\$2,541.01	\$1,872.32	
Aug-11	73,632	36.816	\$25.00	\$920.40	\$2,487.23			\$920.40			\$100.00	36.816	\$3,681.60	\$2,761.20	
Sep-11	66,770	33.385	\$25.00	\$834.63				\$834.63			\$100.00	33.385	\$3,338.50	\$2,503.87	
Oct-11	58,576	29.288	\$25.00	\$732.20				\$732.20			\$100.00	29.288	\$2,928.80	\$2,196.60	
Nov-11	50,392	25.196	\$75.00	\$1,889.70				\$1,889.70							
Dec-11	79,075	39.538	\$70.00	\$2,767.66				\$2,767.66							
Jan-12	88,268	44.134	\$70.00	\$3,089.38	\$25,800.37			\$3,089.38							
Feb-12	73,464	36.732	\$70.00	\$2,571.24				\$2,571.24							
Mar-12	65,670	32.835	\$75.00	\$2,462.63				\$2,462.63							
Apr-12	51,359	25.679	\$75.00	\$1,925.96				\$1,926.00	<i>Note 2</i>						
May-12	56,684	28.342	\$70.00	\$1,983.94				\$1,983.94							
Jun-12	81,813	40.906	\$70.00	\$2,863.42				\$2,863.49	<i>Note 2</i>						
Jul-12	66,125	33.062	\$65.00	\$2,149.03				\$2,149.10	<i>Note 2</i>						
Aug-12	79,351	39.676	\$55.00	\$2,182.18				\$2,182.18							
Sep-12	65,400	32.7	\$30.00	\$981.00				\$981.00							
Oct-12	62,282	31.141	\$30.00	\$934.23				\$934.23							
Total Paid <i>Note 4</i>				\$42,933.25	DAS Total			\$41,884.06			APA Calculation of Additional Amounts Owed Based on Contract Rates			\$33,387.48	

Note 1: An additional \$45.00 was paid in July of 2010 and was attributable to May of 2010. No documentation is available for the additional payment of \$45.00.

Note 2: Difference in amounts is due to rounding when converting from pounds to tons.

Note 3: During the internal audit performed of payments received from Shredding Solutions, overpayments were noted due to subtotals added to the totals in error on the Shredding Solutions monthly reports.

APA Note 4: The total paid, as reflected by the Agency, represents amounts received by the State from Shredding Solutions, Inc.

APA Note 5: The Agency paid Shredding Solutions, Inc., the \$331.67 and \$672.56 overpayment for April and May 2011 on December 5, 2012. (See red box above.)