EXECUTIVE SUMMARY
ATTESTATION REPORT OF THE NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
JULY 1, 2013 THROUGH DECEMBER 31, 2014

The Auditor of Public Accounts (APA) recognizes and thanks the audit staff who worked diligently on the demanding and complicated task of examining the Department of Correctional Services (Department) for the period July 1, 2013, through December 31, 2014. Due to its complexity, such an examination would be difficult under even the best of circumstances; however, an already trying task was made all the more frustrating by a pronounced lack of oversight of financial records on the part of the Department. This attestation report points to a critical lack of accountability, primarily in oversight of financial activity at the Department, the inordinate use of manual processes, and the lack of communication between facilities. The consequences to the Nebraska taxpayers of these shortcomings include dramatic overpayments, excessive expenditures, and insufficient accountability by the Department. Though the Department has been under new directorship since February 2, 2015, and the majority of these activities occurred under the previous administration, we hope this report will be given serious consideration, and steps will be taken to ensure financial accountability and internal controls are improved.

More than 175 pages in length, the attestation report addresses in great detail 60 findings pertaining to the lack of financial accountability within the Department. Some of the most striking of those findings are presented briefly in this executive summary.

However, in order to obtain a complete understanding of all of the report findings, including the details of those addressed herein, we encourage you to read the full report.

The key report findings relate to these six basic areas:

- Department Operations
- Pharmacy
- Medical Services
- Inmate Funds
- Canteen
- Cornhusker State Industries

Department Operations

Lack of oversight and poor communication by the Department resulted in overpayments, missing monies, excessive overtime payments resulting in unnecessary costs to the State, and numerous manual and duplicate administrative processes that proved time consuming and costly. The following is a brief summary of these findings:

- The Department lacked procedures to ensure the $17,392,629 invoiced from Blue Cross Blue Shield (BCBS) for inmate medical claims from off-site medical providers was proper. This resulted in a $369,504 overpayment by the Department. Through our finding, the Department has since requested reimbursement. See Exhibit A. Furthermore, the Department did not obtain the BCBS Service Organization Control (SOC) Report to review BCBS's controls or to ensure the Department had adequate complimentary controls. See Comments 1 and 27.
- The Department did not adequately track $2,648,410 of funds held in the Inmate Welfare, Club, and Religious Accounts. The State's accounting system contained 186 business units with balances used for Inmate Welfare, Club, and Religious Accounts; however, the Department tracked only 90 of those units, totaling $75,427. See Comment 2.

- The Department unnecessarily paid its employees for 58,820 hours, totaling over $1,000,000, during the examination period. Employees were allowed to use leave to accumulate more than 40 hours during a work week and the Department paid them at the standard rate for those additional hours. For example, an employee might work 35 hours and then use 8 hours of vacation leave in the same week to be paid for a total of 43 hours, rather than reducing the leave used and only paying the employee for 40 hours. See Comment 4.
- The Department spent or obligated $11,121,866 on 477,824 hours of overtime worked and compensatory time earned by 2,420 of its employees during the examination period. Additionally, the Department's overtime policies conflict with relevant provisions of the State's employee labor contract. See Comments 5 and 32.
- Supply inventory counts conducted by the APA revealed variances between facility inventory records and the inventory items actually on hand. Among those variances were 351 lbs of beef round flats valued at $811 and 100 lbs of hamburger valued at $245, all of which were missing. Facilities were inconsistent with how inventories were tracked, as some used electronic methods and others used manual cards. See Comment 9.
- The Department received Federal grants of $203,761 on November 4, 2011, and $153,466 on October 22, 2012. However, these funds were not used to offset General Fund expenditures, as intended, until March 21, 2014 – some 28 and 17 months, respectively, after they were received and crossing fiscal years. See Comment 12.
- The Department was unable to provide support for the $11,100 and $1,300 recorded as petty cash in General Fund and Canteen Funds, respectively. Several accounts were maintained at various locations; however, $2,300 was unaccounted for by the Department. In addition, as of July 2015, no reconciliation had been performed on the Inmate Trust Fund bank account since October 2014. Check signers for the emergency cash and Inmate Trust accounts included terminated employees, and the OCC emergency cash account was not set up under the State's Federal Tax Identification Number (FTIN). See Comment 14.
- At December 31, 2014, the Department could not locate 86 fixed assets with a total value of $193,886. These included TVs, monitors, cameras, computers, and other items. See Comment 15.
- As of December 31, 2014, the Department inaccurately listed 38 assets – 6 tracts of land, 17 buildings, and 15 other fixed assets – in EnterpriseOne, the State's accounting system at a value of $1, instead of their actual cost or fair market value. Furthermore, the Department had two buildings with no cost associated with them. There was a lack of adequate segregation of duties over assets, as one employee was capable of maintaining asset records, adding and removing assets from the records, and ensuring all items purchased were added to asset records. This also results in the value of State assets not being reflected correctly in the overall financial records. See Comment 34 and 48.
- The Department processes and controls were insufficient to ensure expenditures were properly made for the following:
    - $10,106,941 paid to Cardinal Health for medications and medical supplies. Additionally, the Department made no effort to ensure that contractual discounts were received for certain purchases. See Comment 7.
    - $450,661 paid to Satellite Tracking of People (STOP) for electronic monitoring of parolees during the examination period. This was caused by parolees failing to pay the required electronic monitoring fees with no inquiry by the Department, resulting in the Department covering that expense. Additionally, for two invoices tested, the Department was overbilled $45 and overpaid $899 for electronic monitoring due to not reviewing the billing details for accuracy. See Comment 24.

- Numerous payments made for medical provider invoices. During testing, improper payments were noted which included an overpayment of $10,950 to a vendor for 73 hours of service not actually rendered and another vendor was overpaid $6,169 for ambulance services. See Comment 28.
- $1,076,941 paid to the Department of Administrative Services (DAS) - Transportation Services Bureau (TSB) for the use of State vehicles during the period tested. Numerous errors were noted during testing of the logs, including one for which the Department overpaid mileage by $1,359. See Comment 33.
- $61,266 paid to Kalos Inc. for the Central Pharmacy inventory application, maintenance, and access to the software. The Department lacked a process for verifying the number of users accessing the system agreed to the monthly invoice. See Comment 38.
- $652,236 paid to the DAS for temporary employees. Testing noted that a review of all temporary employee timesheets compared to billing was not being done. See Comment 49.

- The Department lacked sufficient internal controls to ensure that receipts were handled, deposited, and recorded properly, placing public funds at risk of loss or misappropriation. See Comment 16.
- Numerous coding errors were made in EnterpriseOne. Those errors, which involved single transactions for as much as $186,629, consisted of designating money for the wrong funds, recording the incorrect amounts, and failing to make timely journal entries. See Comment 17.
- The Department utilized numerous manual processes to carry out a variety of its day-to-day functions. Manual processes were used to record the following: inmate medical records; inmate medication distributions; inmate checks issued; inmate funds receipted; inventories of food, clothing, and supplies; inmate time cards; and the rates charged for items sold through Cornhusker State Industries (CSI). This overall lack of automation increases not only the risk of human error but also the amount of staff time spent on low-yield work. See Comment 19.
- Due to inadequate training, a temporary employee shredded pay-related personnel records for an estimated 298 employees. See Comment 20.
- Each Department facility has an Employee Activity Account (EAC) comprised of money raised by employees for their own use. However, three accounts were under the State's FTIN, and commissions from the facility break room vending machines, located on State property, are deposited into the EAC accounts. All funds under the State's FTIN are understood to be State funds and subject to the control of the State Treasurer. See Comment 30.
- State statute allows the Department to retain a portion of an inmate's earnings from on-site private venture employment or community work release programs to pay for the costs of his or her incarceration (maintenance fee). During the examination period, the Department collected $177,119 and $1,234,022 for private venture and work release maintenance fees, respectively. No documentation existed to support how the maintenance fee rates were determined. See Comment 37.
- The Department has been recycling discarded inmate soft drink cans at its facilities and depositing the proceeds into its own accounts. This was not in compliance with the State Government Recycling Management Act. However, after the APA brought this issue to light, legislation was passed by the 104th Legislature and, as of August 30, 2015, the Department is no longer prohibited from recycling inmate cans. During the period tested, however, the Department was also recycling other items, including empty chemical drums, scrap metal, and used cooking oil, and depositing the proceeds into its own accounts. This is not in compliance with the State Government Recycling Management Act. See Comments 42 and 43.

- The Department's overtime-exempt employees were not required to maintain timesheets or other documentation to show they rendered at least 40 hours of labor each week, as required by State statute. Rather, they were required to record only leave used. See Comment 45.
- For fiscal year 2014, the Department exceeded its appropriated personal service spending authority by $426,660. See Comment 46.
- The Department lacked a written policy for the review of employee on-call hours. For two employees tested, moreover, the Department had no documentation on file to support the on-call hours paid. See Comment 47.
- The Department lacked policies and procedures regarding employee shift times and shift differential pay to ensure compliance with the terms of the State's employee labor contract. Consequently, the APA found numerous discrepancies between the amount of shift differential paid to employees and what was required under the labor contract. See Comment 52.
- Eight of 35 purchases tested that should have been reported on the State Contracts Database, as required by statute and a DAS memorandum, were not. Among them were purchase orders for a $36,942 dishwasher and a $28,310 color printer. See Comment 55.
- The Department lacked documentation to support that 5 of 10 Central Warehouse inventory adjustments tested were proper or approved. During the examination period, Central Warehouse adjustments related to physical inventory counts increased inventory by $132,407 and decreased inventory by $131,214. See Comment 58.
- The APA encountered significant delays in obtaining requested audit information from the Department. In addition, an email that was obtained appeared to direct Department staff to correct an error prior to submitting the information to the APA. See Comment 60.

Pharmacy

The Department maintains a Central Pharmacy responsible for stocking medications and filling inmate prescriptions at the State's correctional facilities. The Central Pharmacy utilized processes significantly lacking in adequate controls and a proper segregation of duties, resulting in multiple opportunities for medication to be pilfered. The following is a brief summary of findings related to pharmaceutical operations of the Department:

- The Department's facilities lacked sufficient controls over inmate medications to ensure that pharmaceutical items were properly accounted for at all times. This lack of controls increased the risk of medications being pilfered. One facility was relabeling unused prescription medications and distributing them to other inmates. Among other things, nine of the ten facilities lacked documentation of proper medication inventories; five facilities did not properly record the receipt of inmate medications from the Central Pharmacy; and none of the facilities tracked the return of unused pharmaceuticals thereto. See Comment 8.
- During the period tested, the Central Pharmacy dispensed 2,647 Oxycontin pills to inmates without prior approval by the Medical Director, as required. See Comment 3.
- The Department requires all orders of pharmaceuticals to be approved by both a pharmacist and the Chief Operating Officer. For nine Central Pharmacy medication purchases tested, however, none had been approved by the Chief Operating Officer. See Comment 3.
- A count of the inventories for 25 medications at the Central Pharmacy revealed that the quantities for 12 of those medicines did not match the quantities listed in Kalos. Moreover, prior to the Central Pharmacy's annual physical count on June 17, 2015, the inventory recorded in the Kalos system was valued at $473,976. After that physical count, the inventory was valued at $446,600, which is $27,376 less than what the system had previously identified. See Comment 3.

- On the initial visit to the Central Pharmacy, the APA found the Central Pharmacy doors open with vendor delivered medications present in the doorway and no staff in the immediate area. The APA remained by the medications for a few minutes, until they were able to get the attention of Central Pharmacy staff. Subsequent visits by the APA did find the doors locked. See Comment 3.
- The Department lacked protections to prevent unauthorized access to its various computer systems, most significantly, the Kalos Pharmacy System (Kalos) that is used to track pharmacy inventory and prescribe inmate medications electronically. The Kalos application permitted passwords containing only two characters, which were never required to be reset. In addition, the APA's examination of all Kalos users revealed that 108 Kalos user IDs could not be traced to current or terminated employees. Furthermore, 101 active user IDs were tied to terminated employees, 12 of whom appeared to have logged into Kalos after their termination date. See Comment 18.

Medical Services

Per Neb. Rev. Stat. § 83-4,155 (Reissue 2014), the Department is required to provide inmates with a "community standard of health care." To make such comprehensive medical services available to the inmates, the Department has in-house medical clinics located at all facilities. The following is a brief summary of the medical service issues noted:

- In October 2014, the Department changed its method of paying medical providers who treat inmates. Previously, the Department had made payments directly to the providers pursuant to a contractual pay scale. The providers are now paid through BCBS. By using BCBS, the Department incurs a 9% administrative fee for processing medical claims and a 7% administrative fee for processing dental claims. Prior to this switch, the Department did not perform a cost benefit analysis to determine whether the new payment method would prove cost effective. See Comment 6.
- The Department did not have adequate procedures to identify Medicaid-eligible inmates. See Comment 29.
- During the period examined, the Department made 123 payments to LabCorp, totaling $833,311, for medical lab services. In addition to not competitively bidding for services valued at more than $50,000, as required by law, the Department failed to contract with LabCorp for the services provided. During testing of 10 inmate lab forms, moreover, the APA noted that the prices listed on 6 of those documents differed from the invoice price subsequently billed to the Department. See Comment 35.
- The Department maintains a contract with nine temporary medical staffing vendors, and temporary staff is supposed to be selected from a listing of those vendors based on position cost. However, the Department does not document this process and, in one instance tested, the APA found that the vendors were not contracted based on the least expensive rates, as required. This resulted in the Department paying an extra $1.97 per hour for RNs and $1.48 per hour for LPNs. See Comment 39.
- The Department contracts with counties for the safekeeping of county inmates at Department facilities. Pursuant to the terms of those contracts, the counties are responsible for any medical costs incurred by such "safekeeper" inmates. The APA identified numerous instances in which the counties were either over or under billed for the cost of medical services provided, or the Department lacked documentation to support the invoice amount billed. See Comment 41.

Inmate Funds

Inmates can earn money by working at a Department facility. Inmates can also receive funds from friends and family. These funds are deposited into the Inmate Trust Fund and recorded to an inmate account in the Department's Corrections Information and Tracking (CIT) application. Inmates working at Department facilities are paid either an hourly wage or a daily rate. Some record their time on timesheets, whereas others' time is recorded on the inmate payroll application called the Corrections Inmate Payroll System (CIPS). Numerous findings related to a lack of controls over inmate financial activity are briefly summarized, as follows:

- A severe lack of segregation of duties allowed three Department employees virtually unrestricted access to inmate trust monies. These employees had the ability to prepare inmate trust checks and to enter transactions in CIT, as well as to write directly to the CIT database, thus bypassing CIT security. Furthermore, one of the employees was an authorized check signer on the Inmate Trust account and also approved the bank reconciliation. See Comment 10.
- During the examination period, Inmate Trust Fund checks totaling $5,139,863 were written using an Access database application, which does not indicate who created, changed, or deleted information. Testing of Inmate Trust Fund activity revealed inconsistencies between the database and the actual information on the physical check. One check written was not entered in the database. See Comment 11.
- State statute requires parolees to pay a monthly parole programming fee of $25. The Department lacked procedures to ensure those fees were being collected properly. Numerous instances of problems were found with the assessment of the fees, including fees not being collected at all, fees being overpaid, fees being waived, and outstanding balances not being pursued. See Comment 36.
- Among other problems, the APA found that mandatory bidding procedures for inmate welfare expenditures costing more than $2,000 were ignored, bank charges totaling $15,925 were coded to the wrong facility, receipts lacked supporting documentation to ensure the Department received the correct amount, and receipts were not deposited timely. See Comment 44.
- The Department confiscated 14 receipts, totaling $1,222, from one inmate. Despite determining later that the confiscations had been improper, the Department did not return the confiscated money to the inmate until almost a year after it had been received. See Comment 50.
- As of June 12, 2015, the Hastings Detainee Fund had a balance of $2,705, which was not transferred to the Inmate Trust Fund until July 1, 2015, after the APA pointed out the existence of the money. The Hastings Detainee Center has been closed since 2005. See Comment 51.
- The Department transferred all Inmate Trust Fund outstanding checks, whether made payable to an inmate or vendors, to the Inmate Welfare and Club Account Fund; however, outstanding checks not payable to an inmate should have been treated as abandoned property and delivered to the State Treasurer. See Comment 56.

Canteen

Most of the Department's correctional facilities contain a canteen from which inmates may purchase various items for their personal needs, including food, clothing, hygiene products, and soft drink tokens. The canteens are operated by a combination of inmates and Department staff. The Department tracks the canteen sales and inventory on its Corrections Information and Tracking (CIT) application, which records the receipt and sale of, as well as any other adjustments to, the inventory of each facility's canteen. There was a significant lack of controls over the canteens, as summarized briefly by the following:

- The Department did not follow its own regulations for the approval of adjustments to canteen inventories. Large adjustments were made in the CIT application, both increasing and decreasing inventory, without the approval of the Department's Materiel Administrator. See Comment 13.
- The Department lacked sufficient internal controls over the canteens to enforce inmate purchase limits or to protect from theft of inventory. Some canteens did not adequately secure bagged canteen orders to prevent additional items being added after invoiced. Likewise, the canteens lacked methods for observing canteen workers to prevent them from stealing inventory. Even when security cameras were installed, the surveillance video was retained for a relatively short period, rendering it useless for investigating thefts that may have occurred earlier. Illustrative of this problem was the need to adjust down the coffee inventory at NSP Store 2 by $1,027 due to suspected theft by those having access to the canteen. See Comment 25.
- During the APA's physical inventory counts at Department canteens, numerous discrepancies were identified between inventory records and the actual inventory on hand. The canteens did not perform any regular cycle counts, as required by regulation, during the examination period. See Comment 26.
- The Department lacks written policies describing the process for canteen price reductions. Consequently, there were no controls for determining when or how long a canteen item should be sold at a reduced price. For example, Meat Shredded Beef had a normal selling price of $5.30; however, it was being sold at a reduced price of $3.99, with no support as to why. See Comment 31.

Cornhusker State Industries

Cornhusker State Industries (CSI) offers a broad range of goods and services, including the production of chairs, dry goods, furniture, picnic tables, filing cabinets, signage, janitorial products, license plates, printing services, etc. CSI produces goods needed by State agencies, not-for-profits, and political subdivisions but not for members of the general public. Some of the most prominent findings regarding CSI are summarized here briefly:

- CSI lacks documentation for its price setting of the rates charged to customers. See Comment 21.
- CSI participates in the Prison Industry Enhancement Certification Program (PIECP), which is a Federal program that encourages States to establish inmate work routines utilizing private-sector employment opportunities. However, CSI lacked documentation to support how program fees charged to private venture partners were determined. On one receipt, the Department charged a program fee of $2 per inmate labor hour; on another receipt, $3.10 per inmate labor hour was charged. See Comment 22.
- CSI lacked documentation to support its calculation of direct labor and overhead rates. Overhead rates were used inconsistently; various rates from 2008 and 2011 were used instead of the actual 2013 rates, which could lead to preferential treatment of vendors. See Comment 23.
- Wages paid to inmates did not agree to the wage requirements in the Department's administrative regulations, and specialized work positions were not consistently approved by the CSI Deputy Director. Payments made to some inmates for work through CSI were calculated incorrectly, as were some inmate payments made for work through the CSI Inmate Incentive program. Though tracked by the Department through CIPS, an electronic payroll system, inmate work hours were calculated manually, often from handwritten notes on inmate timecards, which undoubtedly contributed to the frequency of miscalculations. See Comments 40 and 54.

- The Department did not require working inmates to complete I-9 forms, which are required of all employees by the Immigration Reform and Control Act of 1986. See Comment 57.
- Three CSI raw material purchases – 19,200 square feet of birch plywood, costing $31,782; 1,200 plastic lumber planks, costing $40,377; and 10,000 square yards of quilting fill for jackets, costing $47,200 – were not bought through a formal sealed competitive bidding process, as required by State statute. See Comment 59.
- During testing, it was noted that 361 of CSI's 485 employed inmates were paid incorrectly for Howard's Day in September 2014. As of December 31, 2014, moreover, upwards of 290 institutional inmate workers had not been paid for Howard's Day. Per State statute, "Howard's Day" is celebrated as a legal holiday on September 2 in all correctional facilities. See Comment 53.

To reiterate, this executive summary provides only a brief synopsis of the findings contained in the attestation report. We strongly encourage you to read the entire report in order to obtain a complete understanding of all of the report findings, including the details of those addressed herein.

ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
CORRECTIONAL SERVICES

JULY 1, 2013 THROUGH DECEMBER 31, 2014

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BACKGROUND

The Nebraska Department of Correctional Services (Department) was established as a separate agency of State government in 1973. The Department develops policies and programs for the custody, study, care, discipline, training, and treatment of persons in State correctional institutions in the State of Nebraska. The Department's Director is appointed by the Governor. The Department's operating funds come from State general funds, supplemented by Federal funds and certain cash funds. The mission of the Department is to serve and protect the public by providing control, humane care, and program opportunities for those individuals placed in its custody and supervision, thereby facilitating their return to society as responsible citizens. The Department maintains and administers the Nebraska State Penitentiary (NSP), the Lincoln Correctional Center (LCC), the Diagnostic and Evaluation Center (DEC), the Community Corrections Center – Lincoln (CCCL), the Omaha Correctional Center (OCC), the Community Corrections Center – Omaha (CCCO), the Nebraska Correctional Center for Women in York (NCCW), the Nebraska Correctional Youth Facility in Omaha (NCYF), the Work Ethic Camp in McCook (WEC), and the Tecumseh State Correctional Institution (TSCI). The Department also supervises adults on parole, administers parole services, and operates Cornhusker State Industries (CSI) and Federal Surplus Property (FSP).

Below is a table of the average monthly inmate populations of the Department's facilities during the past five years. The Department's fiscal year 2015 annual report was not available at the time of this attestation report, so the data for fiscal year 2015 is the number of inmates at the facilities as of June 30, 2015. In addition to the data below, the Department had 35 and 209 inmates housed at county jails at June 30, 2014 and June 30, 2015, respectively.

	Average Monthly Population				
	FY 2011	**FY 2012**	**FY 2013**	**FY 2014**	**Population at June 30, 2015**
NSP	1,155	1,226	1,261	1,311	1,295
LCC	490	491	499	496	511
DEC	375	440	484	438	456
OCC	605	559	584	747	745
CCCL & CCCO	524	516	531	515	558
NCYF	90	74	66	71	73
NCCW	281	265	242	291	309
TSCI	943	936	955	1,002	997
WEC	166	168	137	154	192
TOTAL	**4,629**	**4,675**	**4,759**	**5,025**	**5,136**

CSI

Neb. Rev. Stat. § 83-150 (Reissue 2014) created the Correctional Industries Revolving Fund, which is to be administered by the Department and used to pay expenses incurred to operate the Nebraska Correctional Industries. Due to § 83-150, the Department created CSI, which is responsible for managing the industrial shops at the correctional facilities. Neb. Rev. Stat. § 83-145 (Reissue 2014) and Neb. Rev. Stat. § 81-1826 (Reissue 2014) establish the two underlying purposes of CSI.

BACKGROUND
(Continued)

Section 83-145 requires the following, in relevant part:

> *All departments, institutions, and agencies of this state which are supported in whole or in part by taxation for state purposes and all counties and other political subdivisions of this state shall purchase from the Department of Correctional Services all articles required by them produced, printed, or manufactured by offenders confined in facilities of the Department of Correctional Services, or elsewhere, including products of any farms operated by the department unless such articles of equal quality and materials could be purchased from another supplier at a lesser cost.*
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> * * * *
>
> *Any authorized agency, bureau, commission, or department of the federal government or any charitable, fraternal, or nonprofit corporation may purchase from the Department of Correctional Services goods produced or manufactured by offenders confined in facilities of the Department of Correctional Services, or elsewhere, including products of any farms operated by the department.*

The above statutory language not only indicates that CSI is to produce goods needed by State agencies and political subdivisions but also permits such items to be sold to both Federal entities and any "charitable, fraternal, or nonprofit institution." Because the statute designates specifically the allowed purchasers, other entities or individuals, including members of the general public, are effectively prohibited from buying CSI products.

Section 81-1826 (Reissue 2014) states the following, in relevant part:

> *The Department of Correctional Services shall, as far as possible, provide for the employment, eight hours per day, of confined persons by private businesses.*

In addition to providing them with jobs, CSI attempts to teach inmates skills that will improve their employment prospects upon release.

Thus, § 83-145 and § 81-1826 set out the dual purpose of CSI, which is to provide both goods to governmental and other specified entities and jobs and valuable skills training to inmates.

CSI offers a broad range of goods and services, including the production of chairs, dry goods, dormitory and institutional furniture, picnic tables, filing cabinets, signage, janitorial products, license plates, printing services, Braille transcription, laundry services, and furniture refinishing and re-upholstery. All of the State's correctional facilities except DEC and NCYF offers certain of these goods and services.

NSP operates a Wood/Upholstery Shop, Janitorial Services Shop, Metal Fabrication Shop, Digital License Plate Shop, Braille Shop, Laundry Shop, and Private Venture Operations. LCC operates a Wood Shop, Private Venture Operations, and a Print Shop. NCCW operates a Sewing Shop. OCC operates a Wood Shop, Sewing Shop, and Private Venture Operations. TSCI operates a Laundry Shop and Wood Shop. CCCL operates a Housing Construction Shop. In addition, service crews are operated out of CCCL and CCCO. These service crews provide services to the Nebraska Department of Roads, Nebraska Military Department, Nebraska Department of Administrative Services – Building Division, and the Lower Platte South Natural Resources District.

BACKGROUND
(Continued)

The Wood Shops manufacture products, including desks, cabinets, bookshelves, and other wood items. The Laundry Shops provide laundering services for the correctional facilities, non-profit hospitals, State agencies, and political subdivisions. The Private Venture Operations perform work for private industries for resale to the public under the Prison Industry Enhancement Certification Program (PIECP), which is a Federal program. The License Plate Shop manufactures the license plates issued for Nebraska vehicles.

CSI also has Support Services, which consists of administrative, sales, and warehouse staff. The CSI administrative staff is responsible for creating budgets, business office functions, long and short-term planning, and other administrative duties. The CSI sales department sells products to State agencies, political subdivisions, and other designated entities. The CSI warehouse operations maintain the CSI warehouse, store raw materials and finished goods, deliver raw materials to the shops, transport finished goods from the shops to the warehouse, and deliver finished goods to the customer.

To track both inventory and the cost of manufacturing its products, CSI uses EnterpiseOne (E1), the official record-keeping and accounting system for the State of Nebraska.

Pharmacy

The Department maintains a centralized pharmacy (Central Pharmacy) responsible for filling inmate prescriptions at the State's correctional facilities. Any medicine or vitamin taken by an inmate must be prescribed and processed through the Central Pharmacy, which orders and receives into inventory such medications and dispenses them to the facilities.

Additionally, facilities may requisition from the Central Pharmacy stock medications for their medical clinics, skilled nursing units, and housing units. Facilities may also requisition stock vitamins and over-the-counter medications for sale to inmates through the canteens; however, any such items stocked in canteens must be approved for use by the Medical Director.

The majority of the inmate prescriptions are administered on a daily basis by medical staff or medication aides. NSP, LCC, CCCL, DEC, and NCCW receive daily medication boxes that contain inmate-specific prescriptions packaged by the Department's "TCGRX" automatic tablet packaging (ATP) machine. These facilities then distribute the medications to the inmates as prescribed at the housing units and track the medication distributions with Medication Distribution Logs (MDLs). Each MDL contains a spreadsheet that identifies the inmate name and time of distribution and also has a column for each day of the week. When distributing medication, a Department employee notes on an MDL the number of medications both taken and available in total – and, if applicable, the reason why a particular medication was not taken. The MDLs do not identify which medications were or were not taken. After being initialed by the inmate to whom the medication was distributed, the MDLs are returned to the Central Pharmacy or the Central Office.

BACKGROUND
(Continued)

CCCO, OCC, WEC, NCYF, and TSCI receive monthly supplies of inmate medications, which are also packaged by the Department's ATP machine. These facilities then distribute the medications to the inmates as prescribed through a central pill line, using Medication Administrative Records (MARs) to track the medication distributions. MARs are spreadsheets that identify the inmate's medication and have rows for the time of day the medication was to be taken and columns for the days of the month. Any medication not taken is supposed to be identified on the MAR. The MARs remain in the inmate's medical file at the facility and are not provided to the Central Pharmacy.

Facilities have approved self-medicating inmates. These inmates received 30-day supplies of the approved medications, which they are allowed to keep on their person (KOP).

The Central Pharmacy utilizes the "Correctional Institutions Pharmacy Software" program as the record-keeping application for its medications inventory and related activity. Because it was purchased from Kalos, Inc. (Kalos), that software is known informally as the "Kalos" application.

Canteen

Except for CCCO and DEC, each of the Department's correctional facilities contains a canteen from which inmates may purchase various items for their personal needs, including food, clothing, personal hygiene products, and soft drink tokens. The canteens are operated by a combination of inmates and Department staff. The Department tracks the canteen sales and inventory on its Corrections Information and Tracking (CIT) application, which records the receipt and sale of, as well as any other adjustments to, the inventory of each facility's canteen.

Federal Surplus Property

The goal of the Federal Surplus Property Program (FSP) is to make available to eligible organizations surplus Federal government property on a fair and equitable basis. Consideration is given to eligible organizations' relative resources, needs, and abilities to utilize the property within the limits of the Nebraska State Plan of Operation.

Service charges received from eligible organizations make the FSP self-supporting through its revolving fund, while still providing significant cost savings to the eligible organizations.

Eligible organizations include State and local governmental agencies, public and non-profit schools and hospitals, non-profit museums and zoos, and certain agencies providing assistance to the elderly, impoverished, homeless, and needy. Examples of Federal surplus property include office furniture, shop equipment, electronic equipment, heavy equipment, vehicles, tractors, mowers, forklifts, and generators.

BACKGROUND
(Continued)

The FSP also operates the 1033 Law Enforcement Program of the National Defense Authorization Act. Under this program, the Secretary of Defense may transfer Department of Defense excess personal property determined suitable for use by agencies in law enforcement activities, including counter-drug and counter-terrorism activities. Such property may include aircraft and weaponry.

FSP utilizes Maindata as the record-keeping application for its Federal surplus property inventory and related activity.

Central Warehouse

The Department established a centralized warehouse in fiscal year 2000. The Central Warehouse maintains an application for the ordering, purchasing, delivering, and billing to facilities and programs of items stocked in the central warehouse.

Commodities are delivered to a single location in the Lincoln area – which, in addition to providing the benefit and efficiency of bulk buying, aids in the security of the Lincoln facilities by limiting the number of truck deliveries each day.

Recently, the Central Warehouse has directed its focus to include opportunity purchases of foods. This helps to reduce the inmate per diem food costs by providing quality one-time purchases of items at significant savings.

Medical

The Department is required to provide inmates with a "community standard of health care," per Neb. Rev. Stat. § 83-4,155 (Reissue 2014). In order to make these comprehensive medical services available to the inmates, the Department has in-house medical clinics located at all 10 facilities. These in-house medical clinics offer medical, dental, vision, pharmacy, mental health, and substance abuse services. The Department also has three Skilled Nursing Facilities (SNF), that are licensed by the Department of Health and Human Services, located at DEC, NSP, and TSCI.

Most of these medical clinics and SNFs are staffed by Department personnel; however, the Department does contract with Correct Care Solutions to provide the medical services at TSCI. The other Department facilities may also have contracted staff (nurses, physician assistants, etc.) obtained through various providers to work in their clinics/hospitals. Additionally, the Department has contracted with various medical specialists to provide on-site inmate services that are non-routine or unusual in frequency when it would not be cost effective for the Department to keep such specialists on staff.

If a certain medical procedure cannot be performed in the facility's medical clinic or SNF, the inmate will be transported to an appropriate medical provider outside of the facility. The provider will then bill the Department through Blue Cross Blue Shield (BCBS), the Department's third-party insurance administrator. Below is a listing of the Department's payments to BCBS during fiscal year 2012, 2013, and 2014.

BACKGROUND
(Continued)

	FY 2012	FY 2013	FY 2014
Payments to BCBS	$ 7,833,732	$ 8,869,026	$ 11,071,536

To be seen by medical staff, an inmate is required to complete an Inmate Interview Request (IIR) form. These forms are reviewed by the primary care staff at the medical clinics in order to make the daily schedules. Upon determining that an inmate requires additional off-site medical care, the primary care physician will complete an Internal Consultation Request form and forward it to the Medical Director for approval. Once the Internal Consultation Request is approved by the Medical Director, the primary care staff makes an appointment with an off-site provider who is within the BCBS network. The off-site provider completes and signs a Health Services Consultation Request form, indicating the date the inmate was seen, the diagnosis, and the preliminary assessment or prescription recommendations.

Inmate Trust

Inmates can earn money by working at a Department facility. Inmates can also receive funds from friends and family. These funds are deposited into the Inmate Trust Fund and recorded to an inmate account in the Department's Corrections Information and Tracking (CIT) application. CIT is used to track each inmate's earnings from work and other receipts. In addition, inmates are able to write checks from their inmate account to purchase items or send support payments to family members. The Department is to perform a monthly reconciliation between the account balances on CIT to the funds in the Inmate Trust Fund to ensure that the amounts agree.

Inmate support money is received at the inmate's facility and entered into CIT. The money is then sent to Central Accounting to compare the amount received to that entered into CIT. If the amounts agree, Central Accounting posts the receipt to the inmate's account; if not, the variance is investigated. Once all the receipts are posted, Central Accounting completes a deposit document and a Facility Money Receipt, which lists the total funds deposited for a particular facility. The Facility Money Receipt is then sent to the facility in order to verify that all funds sent to Central Accounting were deposited.

When requesting a check to be written from an inmate account, the inmate completes an Institutional Check Form, which is routed to Central Accounting. Upon receiving that form, Central Accounting enters the check into CIT and then records the check data into an Access Database, which will print the check, affix an authorized signature, and mail the check.

Inmate Payroll

Inmates working at Department facilities are paid either an hourly wage or a daily rate. Some record their time on timesheets, whereas others' time is recorded on the inmate payroll application called Corrections Inmate Payroll System (CIPS). The daily rates range from $1.21 to $4.72 a day. The hourly rates range from $.38 to $1.08 per hour. Inmates may earn vacation leave in CSI traditional shop job assignments and Health Porter job assignments. Also, per Neb. Rev. Stat. § 83-454 (Reissue 2014), inmates receive one holiday a year, known as "Howard's Day," every September 2.

BACKGROUND
(Continued)

There are Private Venture companies located on prison grounds which employ inmates. The inmates are paid at the prevailing rate as determined by the Nebraska Department of Labor and in accordance with Neb. Rev. Stat. § 83-151 (Reissue 2014) and in turn pay State and Federal taxes and contribute to the cost of their stay at the facility. Part of their income goes into a Victim's Reparation Fund, as well as towards financial support of their families or into savings.

Inmate Club, Welfare & Religious Accounts

Inmate welfare accounts receive revenue primarily from the sale of soft drinks to inmates, profits from the canteens, the interest therefrom, and other revenue at the Department's discretion. The welfare accounts are used to provide recreational activities and equipment for inmates at the facilities. The welfare accounts receive an allocation for each facility determined by revenues less television costs and based on inmate population.

TSCI, NSP, OCC, LCC and NCCW have clubs, which must be approved by the Warden. Club revenues typically include dues, donations from inmates and external sources, and a portion from the annual inmate welfare allocation. Facilities may also have religious activity accounts, which are funded by donations from inmates and external sources and a small allocation from the General Fund.

Employee Payroll

The following is a list of the 20 highest-paid Department employees during calendar year 2014:

Job Title	Calendar Year 2014 Gross Pay
Medical Services Director	$ 239,681
Psychiatrist	$ 225,572
Physician	$ 205,195
Physician	$ 202,165
Psychiatrist *	$ 160,445
Physician *	$ 137,127
Dentist	$ 123,964
Corrections Unit Caseworker	$ 122,881
Deputy Director Cornhusker State Industries	$ 120,617
Director	$ 116,185
Dentist	$ 114,298
Pharmacy Manager	$ 113,851
Deputy Director Institutions	$ 112,003
Deputy Director Administrative Services	$ 112,003
Deputy Director Programs and Community Services	$ 112,003
Pharmacist	$ 108,971

BACKGROUND
(Continued)

Job Title	Calendar Year 2014 Gross Pay
Physician Assistant	$ 108,049
Corrections Warden	$ 107,678
Psychology Director	$ 105,609
Psychologist	$ 105,609

* These two employees retired from the Department in August 2014. As a result, they received a payout of their unused vacation and ¼ of their unused sick leave.

Food

The Department maintains food service operations in 9 of its 10 facilities. The only facility without its own food service is DEC, which receives food prepared at LCC. Below is a table identifying the average inmate population and total food costs at each facility for fiscal years 2012, 2013, and 2014. In addition, a second table sets out the average daily food cost per inmate at each facility. The food costs include both the purchase price of the raw eatables, food service supplies, and the wages paid to the Department employees who prepare the food and oversee the inmates who aid in that work.

Location	FY12 Inmate Population	FY12 Food Expenditures	FY13 Inmate Population	FY13 Food Expenditures	FY14 Inmate Population	FY14 Food Expenditures
NSP	1,226	$ 2,413,591	1,261	$ 2,193,187	1,311	$ 2,360,248
TSCI	936	$ 1,574,814	955	$ 1,440,771	1,002	$ 1,687,978
OCC	559	$ 1,040,503	584	$ 984,735	747	$ 1,272,120
CCCL and CCCO	516	$ 866,061	531	$ 870,112	515	$ 984,097
LCC	491	$ 1,206,257	499	$ 1,349,695	496	$ 1,258,584
DEC	440	$ 428,395	484	$ 588,349	438	$ 715,123
NCCW	265	$ 531,579	242	$ 489,996	291	$ 598,383
WEC	168	$ 495,803	137	$ 455,339	154	$ 543,665
NCYF	74	$ 358,283	66	$ 270,560	71	$ 327,113
Total		**$ 8,915,286**		**$ 8,642,744**		**$ 9,747,311**

Note: CCCL and CCCO are shown together because the Department reports the average monthly inmate population for the community correctional facilities cumulatively rather than separately.

BACKGROUND
(Concluded)

Location	FY12 Average Food Cost Per Inmate Per Day	FY13 Average Food Cost Per Inmate Per Day	FY14 Average Food Cost Per Inmate Per Day
NSP	$ 5.39	$ 4.77	$ 4.93
TSCI	$ 4.61	$ 4.13	$ 4.62
OCC	$ 5.10	$ 4.62	$ 4.67
CCCL and CCCO	$ 4.60	$ 4.49	$ 5.24
LCC	$ 6.73	$ 7.41	$ 6.95
DEC	$ 2.67	$ 3.33	$ 4.47
NCCW	$ 5.50	$ 5.55	$ 5.63
WEC	$ 8.09	$ 9.11	$ 9.67
NCYF	$ 13.26	$ 11.23	$ 12.62

EXIT CONFERENCE

An exit conference was held on October 5, 2015, with the Nebraska Department of Correctional Services (Department) to discuss the results of our examination. Those in attendance for the Department were:

NAME	TITLE
Scott Frakes	Director
Robin Spindler	Deputy Director of Administrative Services
Inga Hookstra	Controller
Jeff Beaty	Planning, Research, Accreditation Administrator
Felix Davidson	Chief Operating Officer – Governor's Office

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Correctional Services (Department), we noted certain deficiencies and other operational matters that are presented here.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Blue Cross Blue Shield (BCBS) Payments:*** The Department lacked procedures to ensure the $17,392,629 invoiced from the Department's insurance vendor, BCBS, were proper. This lack of procedures resulted in a $369,504 overpayment by the Department. A credit/reimbursement was requested by the Department in August 2015, only after the APA brought it to the Department's attention.

2. ***Inmate Welfare, Club, and Religious Accounts:*** The Department tracked only $75,427 of the $2,723,837 to be used for Inmate Welfare, Club, and Religious Accounts.

3. ***Central Pharmacy:*** The Department's entire process, from ordering and receiving medications to the distribution and return of those pharmaceuticals, was significantly lacking in adequate controls and, at times, a proper segregation of duties, resulting in multiple opportunities for medication to be pilfered.

4. ***Pay in Excess of 40 Hours a Week with Leave:*** The Department allows employees to use leave to accumulate more than 40 hours during a work week, and those hours are paid at the standard rate. Due to this, the Department overpaid its employees for 58,820 hours totaling over $1,000,000 during the examination period.

5. ***Department Overtime:*** The Department spent or obligated an estimated $11,121,866 on 477,824 hours of overtime worked and compensatory time earned by 2,420 of its employees during the examination period.

6. ***Medical Contractor Analysis:*** As of October 2014, medical providers who treat inmates at Department facilities are paid through the BCBS. Previously, those payments had been made directly by the Department, pursuant to a contractual pay scale negotiated with the provider. Prior to the switch, the Department did not perform a cost benefit analysis to determine whether the new payment method would prove cost effective.

7. ***Cardinal Health Contract:*** The Department lacked procedures for ensuring that the $10,106,941 paid to Cardinal Health agreed to the contract prices for the items received.

8. ***Facility Pharmaceutical Inventory Procedures:*** The Department's facilities lacked sufficient controls over inmate medications to ensure that pharmaceutical items were properly accounted for at all times. The lack of controls could result in medications being pilfered. One facility was relabeling unused prescription medications and distributing them to other inmates.

SUMMARY OF COMMENTS
(Continued)

9. ***Facility Inventories:*** Inventory counts by the APA revealed variances between facility inventory records and the inventory items actually on hand. Facilities were inconsistent with how inventories were tracked, as some facilities used electronic methods and others used manual cards.

10. ***Inmate Trust Access:*** The lack of a segregation of duties allowed three Department employees virtually unrestricted access to inmate trust monies. These employees had the ability to prepare inmate trust checks and to enter transactions in CIT as well as write directly to the CIT database, thus bypassing CIT security. Furthermore, one of the employees was an authorized check signer on the Inmate Trust account and approved the bank reconciliation.

11. ***Lack of Controls over Inmate Trust Fund Check Database:*** During the examination period, Inmate Trust checks totaling $5,139,863 were written using an Access database application. Testing of Inmate Trust Fund activity revealed inconsistencies between the database and what was on the physical check. One check written was not entered in the database. In addition, the Access database does not maintain logs that indicate who created, changed, or deleted Inmate Trust Fund check records.

12. ***Federal Funds Administration:*** The Department received Federal grants of $203,761 on November 4, 2011, and $153,466 on October 22, 2012. However, these funds were not used to offset General Fund expenditures, as intended, until March 21, 2014 – some 28 and 17 months, respectively, after they were received.

13. ***Lack of Control Over Canteen Adjustments:*** The Department did not follow its own administrative regulations for the approval of adjustments to canteen inventories.

14. ***Emergency Cash Fund and Inmate Trust Fund Noncompliance:*** The Department was unable to support certain reconciling items on the June 2014 Inmate Trust reconciliation. In addition, as of July 2015, the last Inmate Trust reconciliation performed was for October 2014. Check signers for the emergency cash and Inmate Trust accounts included terminated employees, and the OCC emergency cash account was not set up under the State's Federal Tax Identification Number (FTIN). Additionally, the Department could not account for $2,300 in petty cash funds.

15. ***Unable to Locate Assets:*** At December 31, 2014, the Department could not locate 86 assets, totaling $193,886.

16. ***Lack of Controls Over Receipts:*** The Department lacked sufficient internal controls to ensure that receipts were handled and recorded properly, placing public funds at risk of loss or misappropriation.

17. ***Coding Errors:*** The Department made numerous coding errors in EnterpriseOne (E1), the State's accounting system. Those errors, which involved single transactions for as much as $186,629, consisted of designating money for the incorrect funds, recording the incorrect amounts, and failing to make timely journal entries.

SUMMARY OF COMMENTS
(Continued)

18. ***Computer Application Access:*** The Department lacked protections to prevent unauthorized access to its computer applications. The Department's Kalos application, which is used to track medications inventory and related activity, required passwords containing only two characters and never had to be reset. In addition, the Department lacked documentation to support that access was removed in a timely manner or that access granted was proper.

19. ***Manual Processes:*** The Department's manual processes include: recording inmate medical records; recording inmate medication distributions; issuing inmate checks and receipting inmate funds; inventorying food, clothing, and supplies; maintaining inmate time cards; and documenting the rates charged by CSI. This overall lack of automation increases not only the risk of human error but also the amount of staff time spent on low-yield work.

20. ***Shredding of Personnel Files:*** Due to inadequate training, a temporary employee shredded pay-related personnel records for an estimated 298 employees. Those records are required to be maintained by Department rules and regulations.

21. ***Cornhusker State Industries (CSI) Rates:*** CSI, which sells items built through inmate labor, lacked policies and documentation for its rates charged to customers.

22. ***Cornhusker State Industries (CSI) Private Venture Program Fees:*** CSI lacked documentation to support how program fees charged to Private Venture partners were determined. On one receipt tested the Department charged a program fee of $2 per inmate labor hour while on another receipt tested they charged $3.10 per inmate labor hour.

23. ***Direct Labor and Direct Overhead Rates:*** Cornhusker State Industries lacked documentation to support its calculation of direct labor and overhead rates, increasing the risk that those rates will not accurately reflect actual labor and overhead costs. Overhead rates used were inconsistent, the Department used various rates from 2008, 2011 and 2013.

24. ***Lack of Controls Over Electronic Monitoring Expenditures:*** The Department lacked procedures to ensure the propriety of the $450,661 paid for electronic monitoring of parolees during the examination period. This is from parolees failing to pay the electronic monitoring fees required, resulting in the Department covering that expense.

25. ***Lack of Internal Controls Over Canteens:*** The Department lacked sufficient internal controls over the operations of facility canteens to enforce regulations regarding inmate purchases or to protect from or identify the theft of inventory.

26. ***Canteen Inventory Procedures and Support:*** During the APA's physical inventory counts at Department canteens, numerous discrepancies were identified between inventory records and the actual inventory on hand.

SUMMARY OF COMMENTS
(Continued)

27. ***Service Organizational Control Report:*** During the period tested, the Department paid BCBS $17,392,629 to process inmate medical claims from off-site medical service providers. However, the Department did not obtain the BCBS Service Organization Control (SOC) Report to review BCBS's controls or to ensure the Department had adequate complimentary controls.

28. ***Lack of Adequate Medical Contractor Invoice Review:*** The Department's procedures for review of medical provider invoices were insufficient to identify errors in vendor invoices. Instances of possible improper payments were noted, including a payment of $10,950 for 73 hours of service not actually rendered and the Department could not support. The Department paid $6,169 for ambulance trips that should have been paid by the provider.

29. ***Medicaid Eligibility Processes and Blue Cross Blue Shield Claims:*** The Department's procedures for identifying and processing medical expenses for Medicaid-eligible inmates were insufficient.

30. ***Employee Activity Accounts & Vending:*** Each Department facility has an Employee Activity Account (EAC) comprised of money raised by employees for their own use. However, three accounts were under the State's FTIN, and commissions from the facility break room vending machines, located on State property, are deposited into the EAC accounts. All funds under the State's FTIN are understood to be State funds and subject to the control of the State Treasurer. Two facilities had the accounts under employee social security numbers.

31. ***Canteen Price Reductions:*** The Department lacks written policies describing the process for canteen price reductions. Consequently, there are no controls for determining when or how long a canteen item should be sold at a reduced price.

32. ***Overtime Policies:*** The Department's overtime policies conflict with relevant provisions of the Nebraska Association of Public Employees (NAPE) labor contract.

33. ***Transportation Services Bureau (TSB) Expenditures:*** The Department lacked any sort of review of TSB travel logs to ensure that travel was for an acceptable purpose, mileage was reasonable, and the travel log was mathematically correct. During the examination period, the Department paid TSB $1,076,941. Numerous errors were noted during testing of the logs, including one instance where the Department overpaid mileage by $1,359.

34. ***Capital Asset Controls:*** The Department lacked an adequate segregation of duties over capital assets, as one employee was capable of maintaining capital asset records, adding and removing assets from the records, and ensuring all items purchased were added to capital asset records. The Department had two buildings they could not locate and did not have a cost associated with them.

SUMMARY OF COMMENTS
(Continued)

35. ***No Contract for LabCorp Services:*** In addition to not competitively bidding for needed lab services, the Department did not have a contract with LabCorp for the services provided. During the period examined, the Department made 123 payments to LabCorp, totaling $833,311, for medical lab services. For six inmates tested, the LabCorp invoice price did not agree to the price list the Department received from LabCorp.

36. ***Parole Programming Fee:*** State statute requires parolees to pay a monthly parole programming fee of $25. Due to the Department's lack of procedures for ensuring that those fees are collected properly, the APA found numerous instances of problems with the assessment of the fees, including instances of them not being collected at all or being overpaid.

37. ***Maintenance Fees:*** During the examination period, the Department collected $177,119 and $1,234,022 for private venture and work release maintenance fees, respectively. The rates for the maintenance fees assessed to employed inmates are established through the Department's administrative regulations; however, no documentation exists to support how those amounts were determined.

38. ***Kalos Review Process:*** The Department paid Kalos $61,266 during the examination period but lacked a process for verifying that the number of users who accessed the application agreed to the invoice.

39. ***Temporary Medical Staffing Procedures:*** The Department maintains a list of nine temporary medical staffing vendors with whom it has contracted, and temporary staff are selected from that listing based on position cost. However, the Department does not document this process and, in one instance tested, the APA found that the vendors were not contacted based on the least expensive rates, as required.

40. ***Inmate Payroll:*** The Department failed to comply with its own administrative regulations requiring Business Managers to perform and document monthly reviews of inmate payroll. Consequently, wages paid did not agree to the administrative regulations, and specialized work positions were not consistently approved by the CSI Deputy Director.

41. ***County Safekeeper:*** Numerous instances were identified of counties not being billed for the cost of medical services provided to "safekeeper" inmates. Additionally, the APA found instances of such billings being incorrect or the Department lacking documentation to support the invoice provided.

42. ***Department Aluminum Can Recycling:*** The Department has been recycling inmate soft drink cans at its facilities and depositing the proceeds into the Department's own accounts. This is not in compliance with the State Government Recycling Management Act.

SUMMARY OF COMMENTS
(Continued)

43. ***Department Recycling:*** The Department has been recycling various materials at its facilities and depositing the proceeds into the Department's own accounts. This is not in compliance with the State Government Recycling Management Act.

44. ***Inmate Welfare, Club & Religious Accounts Detail Testing:*** Among other problems, the APA found that mandatory bidding procedures for services costing more than $2,000 were ignored, bank charges totaling $15,925 were coded to the wrong facility, and receipts lacked supporting documentation to ensure the Department received the correct amount.

45. ***Timesheets:*** The Department's overtime-exempt employees were not required to maintain timesheets or other similar supporting documentation; rather, they were required only to record leave used. This process is not in compliance with State statute.

46. ***Personal Service Spending Authority Exceeded:*** For fiscal year 2014, the Department exceeded its appropriated personal service spending authority by $426,660.

47. ***On-Call Hours:*** The Department lacked a written policy for the review of employee on-call hours. For two employees tested, moreover, the Department had no documentation on file to support the on-call hours paid.

48. ***Assets Valued at $1:*** As of December 31, 2014, the Department listed 38 assets in E1 that were inappropriately valued at $1 instead of their actual cost or fair market value at the date of donation or acquisition. Of these 38 assets, 6 were land, 17 were buildings, and 15 were other types of capital assets.

49. ***Department of Administrative Services (DAS) Specialized Office Services Expenditure:*** During the period tested, the Department paid DAS $652,236 for temporary employees. For one document tested, the Department failed to review the timesheets for 5 of 14 temporary employees to ensure that the payments to DAS were correct.

50. ***Confiscated Inmate Accounts:*** The Department confiscated 14 receipts totaling $1,222 from one inmate. Despite determining later that the confiscations had been improper, the Department did not return the confiscated money to the inmate until almost a year after it had been received.

51. ***Inmate Trust Accounts:*** As of June 12, 2015, the Hastings Detainee Fund had a balance of $2,705, which was not transferred to the Inmate Trust Fund until July 1, 2015, after the APA pointed out the existence of the money. The Hastings Detainee Center has been closed since 2005.

52. ***Shift Differential:*** The Department lacked both a formal policy regarding employee shift times and procedures for ensuring that shift differential pay was in accordance with the terms of the State's labor contract. Consequently, the APA found numerous discrepancies between the amount of shift differential pay received by Department employees and that required under the labor contract.

SUMMARY OF COMMENTS
(Continued)

53. ***Howard's Day Pay:*** During testing, it was noted that 361 of CSI's 485 employed inmates were incorrectly paid for Howard's Day. As of December 31, 2014, moreover, upwards of 290 institutional inmate workers had not been paid for Howard's Day.

54. ***Inmate Timecards and Inmate Incentive Calculation:*** Payments made to some inmates for work through CSI were calculated incorrectly. In addition to inconsistencies in the rounding of work hours, calculations for both overtime and incentive pay were often incorrect. Although the Department tracks inmate work hours through CIPS, an electronic payroll application, inmate work hours were calculated manually, often from handwritten notes on inmate timecards, which undoubtedly contributed to the frequency of the miscalculations.

55. ***Contracts not on State Contracts Database:*** Eight of 35 purchases that should have been reported on the State Contracts Database, as required by statute and DAS memorandum, were not.

56. ***Inmate Trust Fund Unclaimed Property:*** The Department lacked proper internal controls for ensuring that outstanding checks, whether made payable to an inmate or vendors, were disposed of as required by applicable statute – the former being transferred to the Inmate Welfare and Club Account Fund and the latter being treated as abandoned property and delivered to the State Treasurer.

57. ***Inmate I-9s:*** The Department did not require working inmates to complete I-9 forms, as required by the Immigration Reform and Control Act of 1986.

58. ***Central Warehouse Adjustments:*** For 5 of 10 Central Warehouse inventory adjustments tested, the Department lacked documentation to support that the proper approvals were obtained. During the examination period, Central Warehouse adjustments related to physical inventory counts increased inventory by $132,407 and decreased inventory by $131,214.

59. ***Cornhusker State Industries (CSI) Raw Materials Purchases:*** Three CSI raw material purchases costing $31,782, $40,377, and $47,200 apiece were not made through a formal sealed competitive bidding process, as required by State statute.

60. ***Department Control Environment:*** During the examination period, the APA encountered significant delays in obtaining information from the Department. In addition, an email that was obtained appeared to direct Department staff to correct an error prior to submitting the information to the APA.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Department.

SUMMARY OF COMMENTS
(Concluded)

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

COMMENTS AND RECOMMENDATIONS

1. Blue Cross Blue Shield (BCBS) Payments

The Department provides medical services to inmates through a variety of methods. In addition to employing its own medical professionals, the Department contracts with vendors for inmate medical care within its facilities. Inmates whose medical needs cannot be met within the confines of a correctional facility are transported by the Department to an outside medical facility for the appropriate treatment. Such outside procedures are billed through the Department's third-party insurance administrator, Blue Cross Blue Shield (BCBS). The Department paid BCBS $17,392,629 during the examination period.

According to Administrative Regulation (AR) 115.06(VII), "Emergency Medical Care," "Facility Operational Memorandums shall specify the procedures for documentation and review of all medical and other emergency events."

Additionally, Medical Protocol 43, "Internal Consult Review Process," states the following:

> *Staff will email completed Internal Consultation Request Form to the Medical Director or designee for review. Medical Director or designee will make a determination and email the consult form back to the appropriate facility email distribution group.*

The Department's process is for an Internal Consultation Request Form to be completed and approved by the Medical Director prior to the inmate receiving care at an outside facility.

A good internal control plan requires procedures for reviewing payments to ensure that only proper medical expenses are paid. During the examination period, however, the Department failed to review BCBS claims to ensure that the stated medical procedures took place and were appropriate.

The APA's testing of 50 BCBS claims revealed the following:

- A medical provider was overpaid for one claim tested, as a result of the APA's testing, the Department received a credit of $369,504 for services rendered from August 2013 through May 2015. According to the terms of the provider's contract, medical services would be performed at a correctional facility, and all related billings were to be submitted directly to the Department. This overpayment was discovered by the APA during the examination and the Department sought reimbursement. See **Exhibit A and B** for the letter and detail of what the Department should have paid the medical provider directly, as opposed to what was actually paid through BCBS. The APA observed a check from the provider to BCBS for $369,504 dated August 13, 2015.

- None of the 50 claims tested had documentation to support that the Department had reviewed them to determine if they were proper to pay.

- Nineteen claims lacked documentation to support that the Medical Director had approved the inmates' visits to off-site medical providers. For two of those claims, the Medical Director's name was typed on the front of an Internal Consultation Form, but there was

1. Blue Cross Blue Shield (BCBS) Payments (Continued)

no indication that the document was actually approved by him. Additionally, nine emergency referral forms on file only had a check mark, which the Department indicated the Medical Director had reviewed, but the Medical Director had not signed or initialed any of those documents. Eight claims did not have emergency referrals on file, as the Department destroyed emergency referrals six months after the service was provided.

- For 18 claims tested, the procedure code on the BCBS detail was missing or inaccurate based upon either the diagnosis or assessment noted on the Health Services Consultation Request Form completed by the consulting physician or other information provided by the hospital or physician. Sixteen of the 18 claims were missing the procedure code, without which the Department was unable to verify that the provider billings were correct. For one claim, the Department lacked documentation to support that the procedure code billed was reasonable. Upon request by the APA, the Department was eventually able to obtain support for that particular procedure code; however, the Department did not initially have such documentation on hand. For the last claim, a procedure code was included; however, the amount paid exceeded the claim amount charged. This was caused by many claims being paid through this one claim. The Department did not have any documentation to support they had reviewed this and determined the payment was proper.

- Six claims were for inmates who should have been on the Department's Medicaid Database but were not. When needed medical services require an inmate to be away from a facility overnight, the Department is supposed to record this absence, along with whether the inmate is eligible for Medicaid, on the Medicaid Database. When the Department does not make such a database entry, there is an increased risk the Department will pay BCBS for the service provided, instead of being paid by Medicaid when an inmate is Medicaid eligible.

- For four claims, the inmates were Medicaid eligible; however, instead of being paid by Medicaid, those claims were paid through BCBS. The claims should have been submitted to the Department of Health and Human Services and paid by Medicaid, which would have resulted in the Department paying only a portion of the medical costs. Because that process was not followed, the Department paid $71,967 for the four medical claims.

Failure to review the BCBS invoices increases the risk that the Department will pay for improper billings.

> We recommend the Department implement procedures for reviewing the BCBS invoices to ensure that those billing documents are correct. These procedures should include tracing the BCBS claim to the inmate's medical file to ensure the

1. Blue Cross Blue Shield (BCBS) Payments (Concluded)

procedure billed is proper. We also recommend the Department maintain the Internal Consultant Forms signed or initialed by the Medical Director. Finally, we recommend the Department implement procedures to ensure all inmates who must be away from a facility overnight for treatment are included on the Medicaid Database, so Medicaid will pay for services when allowable.

Department's Response: The Department is developing a plan for Health Services staff to review a random sample of BCBS monthly inmate medical expenses and any individual claims of $10,000 or more. The monthly review will be documented and reported to the Health Services Chief Operating Officer (COO) and the Controller. The Controller or designee will work with BCBS on any necessary adjustments to the billing and confirm appropriate credits are received.

It is the Department's practice to retain the Internal Consultant Forms approved by the Medical Director; procedure will be reviewed with appropriate staff. The purpose and functionality of the Medicaid Database will be reviewed to determine what information should be tracked.

2. Inmate Welfare, Club, and Religious Accounts

Administrative Regulation (AR) 113.19(I), "Club Activities," states, "Following approval of a new club, the Warden shall request that Accounting create a new Business Unit in the club trust fund . . . . No club will have multiple Business Units . . . established."

AR 113.19(XI) says, "Business Managers are responsible for calculating the cash balance on a monthly basis."

AR 208.01(II)(A)(5), "Religious Services," states, "The institutional Business Manager shall provide monthly statements for all religious spending accounts to the Religious Coordinator . . . ."

Sound business practices require the Department to monitor regularly the activity and balances of all funds under its control to ensure the proper utilization and administration thereof.

Annually, an amount from the Inmate Welfare and Club Accounts Fund, established by Neb. Rev. Stat. § 83-915.01 (Reissue 2014), is allocated to the facilities to purchase items for the benefit of all inmates. Additionally, each Warden may designate up to 10 percent of the allocation to be distributed to inmate clubs that are open to all inmates for membership. Clubs also generate revenue from dues paid by inmates and donations from inmates or external sources, using that money to make purchases for the benefit of the clubs.

Religious groups do not receive any money from the annual Inmate Welfare and Club Accounts Fund allocation; however, they do receive funds from other sources, including an annual allocation from the General Fund, which can be used to support religious activities.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Inmate Welfare, Club, and Religious Accounts (Continued)

Reconciliation

The following was noted during a reconciliation of the balances for the various inmate welfare, club, and religious activity accounts, as of December 31, 2014, per EnterpriseOne (E1), the State's accounting system, to facility records:

- The balances of many inmate welfare, club, and religious activity accounts were not consistently tracked during the examination period. Of 186 business units with balances, only 51 were tracked at December 31, 2014. Thirty-nine were tracked at some point during the examination period, but 96 were not tracked at all.

- As of December 31, 2014, the combined balance of all the inmate welfare, club, and religious activity accounts for the various facilities totaled $2,569,178. The Department determined this amount through its own accounting method of running a job status inquiry for all business units. According to facility records, however, only $75,427 of that $2,569,178 balance was tracked, leaving the remaining $2,493,751 untracked.

- As noted above, according to the method used by the Department to accumulate balances, the combined balance of all the inmate welfare, club, and religious activity accounts for the various facilities totaled $2,569,178 on December 31, 2014. However, per the Department's financial statements, which agree to E1, that balance was $2,723,837. The variance resulting from these two different methods amounts to $154,659.

We also noted two Inmate Welfare and Club Accounts Fund funds, 64651 and 64657, with balances at December 31, 2014, that had no activity during the examination period. Another fund, 64658, had only interest income during that same time.

Fund	Balance at December 31, 2014	Date of Last Activity Other than Interest
64651	$ 546,161	June 2008
64657	$ 7	June 2002
64658	$ 1,046,073	January 2011

Due to the large fund balance of the Inmate Welfare and Club Accounts Fund and the fact that funds, as noted in the table above, had significant balances without any activity, the APA examined the Inmate Welfare and Club Account Fund balance for prior years to determine if the Department was building up a significant balance. Below is a list of the fund balance for the last five fiscal years.

	FY 2011	FY 2012	FY2013	FY2014	FY2015
Inmate Welfare & Club Accounts Fund Balance	$ 2,435,266	$ 2,480,974	$ 2,554,465	$ 2,661,194	$ 2,726,756
Inmate Welfare & Club Accounts Fund Expenditures	$ 600,211	$ 684,076	$ 651,998	$ 729,283	$ 757,304

2. Inmate Welfare, Club, and Religious Accounts (Concluded)

The balance of the Inmate Welfare and Club Accounts Fund has been increasing for the past five years. This may indicate that the Department has extra funds available to be spent on inmate welfare.

Failure of the Department to monitor adequately the funds under its control to ensure the appropriate utilization and administration thereof increases the risk for improper use of inmate funds.

> We recommend the Department implement procedures to monitor adequately the activity and balances of its funds.

Department's Response: The Department will complete a review of all Business Units in the Inmate Welfare, Club, and Religious Accounts and develop a formal process for monthly review of the accounts. Business units that are not needed will be inactivated with any balance transferred to an appropriate active business unit. Monthly tracking and review will be completed and documented.

3. Central Pharmacy

During review of the Department's Central Pharmacy operation, the APA identified many significant control weaknesses that cause great concern over the likelihood medication could have been pilfered and not identified. The Department's entire process, from ordering and receiving medications to the distribution and return of those pharmaceuticals, was significantly lacking adequate controls and, at times, a proper segregation of duties, resulting in multiple opportunities for medication to be pilfered. The following comment lays out the control weaknesses noted that provided opportunities for the theft of medication.

Neb. Rev. Stat. § 83-4,154(3) (Reissue 2014) defines "health care services" at the Department as follows:

> *Health care services means all medical care provided by or on behalf of the department to inmates and includes the practice of medicine and surgery,* ***the practice of pharmacy****, nursing care, dental care, optometric care, audiological care, physical therapy, mental health care, and substance abuse counseling and treatment[.]*

(Emphasis Added.) Neb. Rev. Stat. § 83-4,155 (Reissue 2014) states, "In administering health care services, the department shall provide a community standard of health care to all inmates."

Neb. Rev. Stat. § 83-4,157(2) (Reissue 2014) authorizes the Department's Medical Director to do the following:

> *Participate in the selection and supervision of all clinical staff employed by or under contract with the department, including medical doctors, physician assistants,* ***pharmacists, pharmacy technicians****, registered nurses, licensed practical nurses, advanced practice registered nurses practicing under and in accordance with their respective certification acts, mental health practitioners, alcohol and drug counselors, laboratory technicians, physical therapists, optometrists, audiologists, dentists, dental assistants, and dental hygienists[.]*

3. <u>Central Pharmacy</u> (Continued)

(Emphasis Added.) Neb. Rev. Stat. § 83-4,162 (Reissue 2014) addresses the administration of "drugs, devices, or biologicals" by the medical director:

> *The medical director shall develop and implement medical treatment protocols regarding the use of drugs, devices, or biologicals for the treatment of inmates and shall ensure that those protocols are consistent with a community standard of health care. In developing these protocols, the medical director shall ensure that the medical treatment protocols include:*
>
> *(1) Provisions requiring that only the relevant health care staff is involved in determining the number and dosages of the drugs, devices, or biologicals to be received by inmates under their care;*
> *(2) Provisions establishing a system for monitoring the administration of drugs, devices, or biologicals to ensure that all prescribed drugs, devices, or biologicals are made available to the inmates; and*
> *(3) Provisions establishing a system for monitoring and removing expired drugs, devices, or biologicals within the department's medication inventory which conforms with the requirements of section 71-2413.*

In keeping with the above statutory provisions, the Department maintains a centralized pharmacy (Central Pharmacy) responsible for filling inmate prescriptions at the State's correctional facilities. Any medicine or vitamin taken by an inmate must be prescribed and processed through the Central Pharmacy, which orders and receives into inventory such medications and dispenses them to the facilities. During the period examined, the Department purchased over $11 million in medications.

Additionally, facilities may submit to the Central Pharmacy requisitions for stock medications for their medical clinics, skilled nursing units, and housing units. Facilities may also submit requisitions for stock vitamins and over-the-counter medications for sale to inmates through the canteens; however, any such items stocked in canteens must be approved for use by the Medical Director.

The Central Pharmacy utilizes the "Correctional Institutions Pharmacy Software" program as the record-keeping application for its medications inventory and related activity. Because it was purchased from Kalos, Inc. (Kalos), that software is known informally as the "Kalos" application. Additionally, the Central Pharmacy's manager is a contract employee whom, per the employment contract, the Department paid $18,000 a month, or $324,000, during the period tested.

<u>Inventory Application</u>

In planning our testing of pharmaceutical inventories, we requested a report that would show the Central Pharmacy's activity during our examination period. The Central Pharmacy, with the assistance of Kalos, the Department's pharmacy inventory application vendor, was able to provide a detailed pharmacy inventory activity report. The following table contains a breakdown of the report by transaction type:

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Central Pharmacy (Continued)

Transaction Type	Lines of Coding	Percentage of Total
Script	2,269,025	67.69%
Drug Adjust	803,522	23.97%
Drug Shipment	257,219	7.67%
Manual Entry	161	0.00%
Script Return/Delete	21,025	0.63%
Drug Transaction	1,326	0.04%
Total	**3,352,278**	**100.00%**

Due to the lack of controls identified herein, we inquired with the Central Pharmacy regarding the more than 800,000 "Drug Adjust" transactions, which appear to have been manual drug adjustments. The Central Pharmacy could not account for these transactions. Only after two conference calls with Kalos were we able to establish that the transactions in question were "bad records" caused by "bugs" in the application that wrote "Drug Adjust" transactions whenever inventory went to zero or negative.

During testing of Kalos transactions and reports, the following was noted that raised concerns with the accuracy of data and reports maintained by the Kalos application:

- While testing inmate prescriptions or "scripts," we noted an instance of inventory activity not being included on the Drug Inventory Transaction History Report. For one script tested, four units of medication returned to the Central Pharmacy should have increased inventory; however, this transaction did not appear on the Drug Inventory Transaction History Report. Nevertheless, the APA could see the receipt of the returned medication on Kalos.

- For one transaction, the Drug Inventory Transaction History Report reported the medication's unit cost as being $28,933; however, a Kalos query revealed the actual cost per unit to be $29. The Central Pharmacy was unable to explain the difference in the costs per unit.

The Central Pharmacy had previously noted its many concerns with both the inventory application and the vendor, Kalos. However, aside from complications arising from an application upgrade, these concerns were not communicated to the Department's Purchasing area, which monitors the Kalos contract. The Department paid Kalos $61,266 during the examination period.

> We recommend the Central Pharmacy and Central Purchasing meet to evaluate the performance and reliability of the Kalos application.

3. Central Pharmacy (Continued)

Kalos Adjustments

Administrative Regulation (AR) 115.08(III)(J)(2), "Pharmaceutical Services," states, "A perpetual inventory will be maintained on the computer by addition of receipts and subtraction of dispensing prescriptions (scripts), ***approved inventory adjustments***, and/or disposals." (Emphasis added.)

A good internal control plan requires a segregation of duties to ensure that all medication inventory transactions are recorded correctly into Kalos and supported adequately. This includes a management-level review of receipt transactions and manual adjustments to inventory records to verify that all medications received from vendors are properly recorded into Kalos.

As mentioned already, during our examination period, Kalos had 803,522 records related to "Drug Adjust," which were "bad" records. After further sorting of the Drug Transaction History Report data, and removing any scripts, purchase orders, or "Drug Adjust" records, the APA was able to identify 8,147 transactions that appear to have been manual transactions. The following is a breakdown of those transactions:

Transaction Code	Lines of Coding	Percentage
Adjustment Add	672	8.25%
Increase Quantity on Hand	3	0.04%
Adjustment Subtract	47	0.58%
E-Box Stock	41	0.50%
Expired	63	0.77%
Inventory Adjustment	1,222	15.00%
Reference	1	0.01%
Requisition Shipments	5,993	73.56%
Return to Stock	105	1.29%

From this listing, we selected 30 transactions to be traced to documentation to support that the transaction was necessary and properly recorded. We noted the following:

- Twenty-four transactions lacked adequate supporting documentation.
    - For 14 transactions, the Central Pharmacy had no supporting documentation.
    - For 8 transactions, the Central Pharmacy had only a printout from Kalos showing the transaction entered.
    - For 2 transactions made to correct inventory entry errors, the documentation did not support the entries made. One transaction was to correct an error when an inventory of 40,000 was mistakenly entered in place of the correct 400 amount. That entry reduced the inventory by 39,819 instead of by the proper amount of 39,600. The other transaction recorded an issuance of 12 medications when 13 was the actual number issued.

3. Central Pharmacy (Continued)

- For 19 transactions, no determination could be made regarding either their reasonableness or necessity.
    - This includes the 14 transactions for which the Central Pharmacy had no supporting documentation on hand.
    - For the remaining 5 transactions, the Central Pharmacy had only printouts from Kalos showing the transactions entered; however, the transaction codes on these printouts do not appear to support the transactions entered.
- For 29 transactions, no documentation was available to support that another individual reviewed and approved those transaction as being reasonable and necessary.
- For 4 of 6 Requisition Shipments, which are entered when a facility submits a request for stock medications that do not require a prescription, the Central Pharmacy lacked documentation to support that the facility actually received the medications.

When adequate supporting documentation is not maintained for transactions, and transactions are not reviewed by a second individual, there is an increased risk that inventory records could contain inaccuracies that would not be identified in a timely manner.

> We recommend the Department implement procedures to ensure adequate documentation is maintained to support all transactions recorded in Kalos. We also recommend the Department implement procedures to ensure all transactions are reviewed by a second individual to ensure entries are reasonable and properly recorded.

Central Pharmacy Purchases

When medications were received from the vendor, the Central Pharmacy entered into Kalos the medications received and then printed the Drug Shipment Report, which listed all the medications entered. After that report was printed, the Central Pharmacy posted to Kalos the medications received. The Drug Shipment Report was sent to Central Accounting to be used to process the payment to the vendor, since the quantity received should have agreed to the vendor's invoice. Once the purchase order had been posted, the inventory was recorded to Kalos and then appeared on the Drug Inventory Transaction History Report. It was possible for the Central Pharmacy to print the Drug Shipment Report and then make adjustments prior to posting to Kalos. This increases the risk someone could print the Drug Shipment Report and send it to Central Accounting and then take medications and adjust the amount received before posting to Kalos.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Central Pharmacy (Continued)

Per AR 115.08(III)(A), purchase orders for medications must be originated and approved by a pharmacist. Pharmacy purchases must also be approved by the Department's Purchasing division and the Chief Operating Officer.

A good internal control plan and sound business practices require that procedures be in place to ensure all medications purchased are correctly entered into Kalos.

During testing of Central Pharmacy purchases, the APA selected nine purchases from EnterpriseOne (E1), the State's accounting system, and then 26 medications from those nine purchases, to trace to Kalos to ensure the medications purchased were correctly entered. The APA also selected 20 purchase orders entered into Kalos, and then 40 medications from those purchase orders, and traced them to the payment in E1 to ensure the correct medication information was entered into Kalos and that the Kalos data supported the payment made to the vendor.

For the 26 medications tested from the nine Central Pharmacy medication purchases selected from E1, the following was noted:

- One medication was added to inventory with an incorrect cost. The medication cost was $44,352, but the Central Pharmacy input $9,900 as the cost.

- None of the nine purchases were approved by the Chief Operating Officer, as required by AR 115.08(III)(A).

- The Department did not reconcile the medications purchased and entered into inventory to the payment made to the vendor.

For the purchases of 40 medications selected from Kalos, the following was noted:

- One medication purchased was on the Drug Inventory Transaction History Report but was not on the Drug Shipment Receive Report. As a result, the APA could not trace the invoice paid to the Drug Shipment Receive Report to verify that the prices agreed.

- One medication was invoiced at a cost of $2,644 but was entered into Kalos at a cost of $2,473.

For the 20 Kalos purchase orders, the following was noted:

- None of the purchase orders were approved by the Chief Operating Officer, as required per AR 115.08(III)(A).

- None of the purchase orders were entered into Kalos by someone other than the person who physically received the medications. In addition, no one at the Central Pharmacy reviewed the inventory entered into Kalos to ensure that it agreed to what was received and invoiced.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. **Central Pharmacy** (Continued)

- Two purchase orders included medications that appeared on the Drug Shipment Receive report but were not on the Drug Inventory Transaction History Report. This indicates the items were paid for but never added to inventory on Kalos.

Drug Name	PO #	Drug Shipment Receive Report	
		Quantity	Total Price
Clonidine	QT44887	1	$ 10.70
Clonidine	QT45225	4	$ 42.52
Hydrocerin	QT45225	1	$ 3.50

- Three purchase orders each had an item that was not on the Drug Shipment Receive Report but was on the Drug Inventory Transaction History Report. For a medication to be recorded on the Drug Inventory Transaction History Report, it should have been posted on the Drug Shipment Receive report. This brings into question the reliability of the Kalos application.

PO #	Drug Name	History Report		Receive Report		Total Price Variance	Unit Variance
		Total Price	Quantity	Total Price	Quantity		
QT45355	Prochlorperazine Edisylate	$ 131	1	$ -	0	$ 131	1
QT45700	Restasis	$ 967	3	$ -	0	$ 967	3
QT45715	Hydroxyzine HCL	$ 80	10	$ 38	5	$ 42	5

- For 12 purchase orders, the Drug Shipment Receive Report did not agree in total to the invoiced amount. These discrepancies indicate potential over or underpayments made by the Department, as the amount invoiced did not agree to the medication quantities received. The medications listed below caused the variances on the 12 purchase orders.

PO #	Drug	Invoice Cost	Invoice Units	Kalos Cost	Kalos Units	$ Variance	Unit Variance
QT44784	Buproprion	$ 240	5	$ 192	4	$ 48	1
QT44887	Venlafaxine	$ 245	2	$ -	0	$ 245	2
QT44887	Hydralazine HCL 25mg	$ 41	1	$ 51	1	$ (10)	0
QT44887	Losartan Potassium	$ 81	1	$ 77	1	$ 4	0
QT44984	Precision Xtra Strips	$ 989	4	$ 993	4	$ (4)	0
QT45355	Polyethylene Glycol	$ 335	24	$ -	0	$ 335	24
QT45355	Prochlorperazine Edisylate	$ 131	1	$ -	0	$ 131	1
QT45383	Trifluoperazine 5mg	$ 400	4	$ 500	5	$ (100)	(1)
QT45469	Enbrel Sureclick	$ 2,644	1	$ 2,473	1	$ 171	0
QT45570	Amitriptyline	$ 266	2	$ 133	1	$ 133	1
QT45634	SCH Double Air-Pillo Insoles	$ 68	24	$ 60	21	$ 8	3

3. Central Pharmacy (Continued)

PO #	Drug	Invoice Cost	Invoice Units	Kalos Cost	Kalos Units	$ Variance	Unit Variance
QT45634	Precision Xtra Strips	$ 2,826	12	$ 2,827	12	$ (1)	0
QT45700	Systane Ultra	$ 22	2	$ -	0	$ 22	2
QT45700	Milk of Magnesia	$ 17	12	$ -	0	$ 17	12
QT45700	Restasis	$ 967	3	$ -	0	$ 967	3
QT45715	Losartan Potassium	$ 165	3	$ -	0	$ 165	3
QT45725	Enalapril Maleate	$ 11	1	$ 21	1	$ (10)	0
QT45764	Ibuprofen	$ 79	2	$ -	0	$ 79	2

- Two purchase orders were not approved by a pharmacist per AR 115.08(III)(A). These purchase orders were approved instead by a Central Pharmacy Inventory Control Technician.

Without adequate controls over purchased medication inventory, there is an increased risk purchased medications may not be entered into Kalos, and that error may not be identified. When medication prices are not correctly entered into Kalos, moreover, there is a risk management's purchasing decisions will be based upon inaccurate data. Finally, when failing to have both a pharmacist and the Chief Operating Officer approve all pharmaceutical orders, the Department is not in compliance with its own administrative regulation.

> We recommend the Department implement procedures to ensure all medications purchased are correctly entered into Kalos. We also recommend the Department implement a comparison between the medications entered into Kalos and the payment made to its pharmaceutical provider. Finally, we recommend both a pharmacist and the Chief Operating Officer approve pharmacy purchases, as required by AR 115.08(III)(A).

Receipt of Inventory and Adjustments to Inventory

AR 115.08(III)(J)(2) states, "A perpetual inventory will be maintained on the computer by addition of receipts and subtraction of dispensing prescriptions (scripts), ***approved inventory adjustments***, and/or disposals." (Emphasis Added.)

A good internal control plan requires a segregation of duties to ensure that all medication inventory transactions are recorded correctly into Kalos. This includes a management-level review of receipt transactions and manual adjustments to inventory records to verify that all medications received from vendors are properly recorded into Kalos.

A good internal control plan requires procedures to ensure purchased medications are adequately safeguarded once received.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Central Pharmacy (Continued)

One individual, the Central Pharmacy Inventory Control Technician, was responsible for all aspects of receiving and recording inventory into Kalos. This individual received all medications from suppliers, entered them into Kalos, and noted the medications received on the invoice, so it could be paid. The Central Pharmacy Inventory Control Technician did print a report listing the items received before officially entering them into Kalos; however, no secondary review of this report was performed. Per staff at the Central Pharmacy, once the items are received in Kalos, a report cannot be generated.

The Central Pharmacy Inventory Control Technician was also responsible for entering manual adjustments to inventory records. There was no review by a second individual of these transactions to ensure they were appropriate and properly recorded. Additionally, supporting documentation for the manual adjustments was retained for only the most recent two months; consequently, all documentation for the examination period had been disposed of by the same individual who entered the adjustments into Kalos. According to the Central Pharmacy, lengthier document retention was unnecessary because the discarded records were related to adjustments to Central Pharmacy inventory and not inmate scripts.

Additionally, on the initial APA visit to the Central Pharmacy, the APA found the Central Pharmacy doors open with vendor delivered medications present in the doorway and no staff in the immediate area. The APA remained by the medications for a few minutes until they were able to get the attention of Central Pharmacy staff. Subsequent visits by the APA did find the doors locked.

Without any secondary review of the inventory received, recorded into Kalos, and manually adjusted, there is an increased risk that inventory errors will not be identified in a timely manner. In addition, without a secondary review of the amounts received and invoiced, there is an increased risk that billing errors will not be identified. Finally, when received medication is not adequately safeguarded, there is an increased risk of loss or theft.

We recommend the Department implement procedures to ensure the following:

- A proper segregation of duties exists over the receiving of medication inventory. This would include having another individual involved in the receiving and entering of items into Kalos.
- Supporting documentation is maintained for all manual adjustments. These adjustments should also be reviewed and approved by a second individual.
- Once medications are received they are adequately safeguarded.

3. Central Pharmacy (Continued)

Lack of Controls Over the Distribution of Inventory

A good internal control plan requires an adequate segregation of duties and specific procedures for the distribution of medications from the Central Pharmacy's inventory.

The Central Pharmacy processed and filled stock and canteen requisition requests for the correctional facilities as well as scripts for the inmates therein. Scripts were filled for self-medicating and non-self-medicating inmates alike. Self-medicating inmates have received approval to keep in their possession a 30-day supply of medications, also referred as "keep-on-person" (KOP) medications. Non-self-medicating inmates have scripts that require facility staff to distribute medications by the dose and observe them being taken.

Stock and Canteen Stock Requisitions
Stock medication requests from facilities were sent to the Central Pharmacy Inventory Control Technician, who filled the requisition, entered the transaction into Kalos, printed a copy of the entry, and attached the requisition form thereto. The medication and copies of the requisition forms were sent to the facilities daily. Once delivered to the facility, the medication received was noted on the requisition form, which was signed by facility staff and then returned to the Central Pharmacy. The Central Pharmacy Inventory Control Technician received the returned requisition forms, attached them to the original entry, and filed the documents.

The Central Pharmacy Inventory Control Technician performed all procedures related to filling stock and canteen medication requisitions. No secondary review was performed to ensure the amount shipped agreed to either the original request or the Kalos entry. Likewise, no secondary review was carried out to verify that the received amount, as confirmed by the facility, agreed to what had been shipped and entered into Kalos.

Self-Medicating Scripts
The Central Pharmacy sent delivery confirmation forms to the facilities for self-medicating inmates. The delivery confirmation forms were signed by the inmates to verify receipt of the KOP medication. The signed forms were then returned to the Central Pharmacy, which did not review them to ensure that any refused medication had been returned.

Not comparing medications refused at the facility to what has been returned to the Central Pharmacy increases the risk that medication may be lost or stolen.

Non-Self-Medicating Scripts
Two types of medication deliveries were made for non-self-medicating inmates. The following five correctional facilities received daily medication boxes containing inmate-specific prescriptions packaged by the Department's "TCGRX" automatic tablet packaging (ATP) machine: Nebraska State Penitentiary (NSP); Lincoln Correctional Center (LCC); Community Correctional Center – Lincoln (CCCL); Diagnostic and Evaluation Center (DEC); and Nebraska

3. Central Pharmacy (Continued)

Correctional Center for Women (NCCW). The following five correctional facilities received each inmate's monthly supply of medication, which was distributed as prescribed: Community Correctional Center – Omaha (CCCO); Omaha Correctional Center (OCC); Work Ethic Camp (WEC); Nebraska Correctional Youth Facility (NCYF); and Tecumseh State Correctional Institution (TSCI).

Prior to an ATP machine run, a "Machine Report for TCGRX" was generated listing all of the medications to be packaged. After the ATP machine run, the Central Pharmacy reviewed the packaged medications to determine if any were empty or contained more than one pill. The packaged medications were then placed into facility medication boxes based on the inmate housing units and the time the medication was to be taken. At no point in the process did the Central Pharmacy compare the packaged medications to the "Machine Report for TCGRX" to ensure that all of the medications had been packaged correctly. Failure to do so increases the risk that packaging errors will occur and not be identified.

Additionally, the Central Pharmacy did not perform regular checks to verify the accuracy of the ATP machine. According to staff, such verification procedures were performed when Kalos was updated. At that time, the Central Pharmacy was supposed to run a batch of medication and then compare it to the "Machine Report for TCGRX." The purpose of this procedure was to ensure that the updates did not impact the ATP machine's ability to package the medications correctly. However, the Central Pharmacy maintained no documentation to support the performance of those verification procedures.

We also noted the Central Pharmacy did not send the five facilities that received daily medications a list of medications with the medication boxes. Consequently, those facilities were unable to determine whether they had received all of the appropriate medications. Without procedures to verify that all medications are sent to and received by the facilities, there is an increased risk inmates may not receive all prescribed medicines.

The five facilities that maintain an inmate's monthly supply of medications received delivery confirmation forms from the Central Pharmacy. Signed and returned to the Central Pharmacy, those forms were supposed to confirm each facility's receipt of medications; however, the Central Pharmacy did not review the returned delivery confirmation forms to ensure that all medications were received. Without procedures to verify that medications are sent to and received by the facilities, there is an increased risk inmates may not receive all prescribed medicines.

We recommend the Department implement the following procedures:

- Perform periodic checks of the ATP machine to ensure that it is operating properly.
- Compare the medications packaged to the "Machine Report for TCGRX" to ensure that all medications are sent to the facilities.

3. Central Pharmacy (Continued)

- Include with each medication box shipped a list of the contents therein, so the facilities can verify receipt of all medications.
- Perform a prompt review of the returned delivery confirmation forms to ensure that all medications sent to the facilities are received, and all refused medications are returned to the Central Pharmacy.
- Implement a second individual review Kalos entries for stock medication to ensure they were entered correctly.

Non-Formulary Prescriptions

AR 115.08(II) requires that a list of medications, or a formulary, be developed for the Department, including a formalized process for obtaining medications not included in the formulary.

AR 115.10(II)(E), "Pharmacy Medication Distribution, Access & Training," requires all non-formulary medications to be approved by the Medical Director or his or her designee.

A good internal control plan requires that procedures be in place to ensure medications are correctly classified as formulary or non-formulary in Kalos, so the prescription will be routed to the Medical Director for approval, if required.

Oxycontin, a non-formulary medication and a Drug Enforcement Agency (DEA) Schedule II controlled substance, was not set up in Kalos to require approval by the Medical Director before it could be prescribed. As a result, the Department issued 2,647 Oxycontin pills without any being approved by the Medical Director. Per the DEA, Schedule II controlled substances have a high potential for abuse and can lead to severe psychological or physical dependence. This was identified during testing of 13 non-formulary medication scripts on which Oxycontin was the only medication noted without the Medical Director's approval.

When drug transactions are not approved by the appropriate personnel, there is increased risk of noncompliance with Department regulations. Furthermore, when Schedule II controlled substances are issued without appropriate approval, there is an increased risk of dangerous drugs being distributed to inmates without the proper supervision.

> We recommend the Department implement procedures to ensure non-formulary medications are properly identified on Kalos and are approved by the Medical Director or his or her designee.

Central Pharmacy's Lack of Controls for Unused/Refused Medications

A good internal control plan requires procedures to be in place to account for all medications, including those medications that are refused or go unused by inmates.

3. Central Pharmacy (Continued)

Medication was prescribed to inmates and then filled by the Central Pharmacy. Inmates had the option of whether or not to take the prescribed medication. If an inmate refused, the medication was to be returned to the Central Pharmacy. The Central Pharmacy also received unused inmate medication, which may result from an inmate being discharged or a subsequent change in his or her prescription.

Facilities tracked medication distributions on Medication Distribution Logs (MDLs) and Medication Administrative Records (MARs). The MDLs were generally used by the facilities that received daily medications from the Central Pharmacy, and the MARs were generally used by the facilities that received medications monthly. The MDLs contained a spreadsheet that identified the inmate name and time of distribution and also had a column for each day of the week. When distributing medication, a Department employee noted on an MDL the number of medications both taken and available as well as the reason why a medication was not taken. The MDLs did not identify which medications were or were not taken. The inmate to whom the medication was distributed initialed the form. The MAR was a spreadsheet that identified the inmate's medication and had rows for the time of day the medication was to be taken and columns for the days of the month. Any medication not taken was to be identified as such on the MAR. Only the MDLs were returned to the Central Pharmacy. The MARs remained in the inmate's medical file at the facility and were not provided to the Central Pharmacy.

When returned to the Central Pharmacy, medications were placed in a specially designated area. Medications that could be redistributed were placed in separate bins to be restocked. Other returned medications, which could not be restocked, were stored in open containers until subsequently destroyed. While a Pharmacist locked up all returned Schedule II controlled substances, returned Schedule III through Schedule V controlled substance were placed in an unlocked area with the non-controlled substance medications. The Drug Enforcement Administration defines Schedule II drugs as those having a high potential for abuse and Schedule III through Schedule V as having less potential for abuse than those listed under the preceding Schedule.

At no point did the Central Pharmacy compare the medications returned to the MDLs to ensure that the correct amount of medications was returned. Rather, the Central Pharmacy merely collected and forwarded the MDLs to the Department's Health Services division. Similarly, for those facilities that utilized MARs, the Central Pharmacy obtained no documentation to verify that the correct medication amounts were actually returned.

During testing of Kalos script return/delete transactions, the APA found that the Department lacked adequate support that the amount returned for one of five such transactions was proper. This transaction was also not reviewed by a Pharmacist to ensure the entry affecting the script was correct and proper.

Not comparing the MDLs and the MARs to actual returned medication counts increases the risk that some refused or unused medications will not be returned to the Central Pharmacy. This fact is aptly illustrated by an incident that occurred during the examination fieldwork. Central

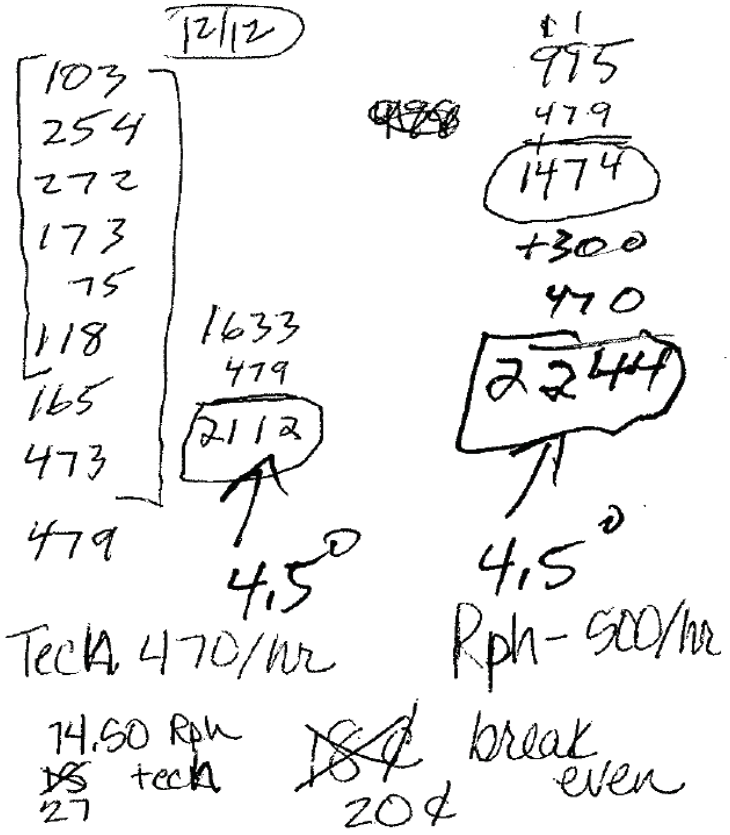
COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Central Pharmacy</u> (Continued)

Pharmacy staff notified the APA that one correctional facility was not properly returning all unused medications. Instead, the medical personnel at that facility were relabeling unused or refused inmate medications for future use by other inmates. This improper activity was revealed when the facility mistakenly returned some relabeled medications to the Central Pharmacy.

Upon being returned to the Central Pharmacy, unused medications were restocked or disposed of by a Pharmacy Technician. When medications were approved for restocking, a Pharmacy Technician opened the packages and placed the contents into separate vials for the Pharmacist to count and enter into Kalos. The Central Pharmacy Inventory Control Technician was then given the vials to restock.

The decision to restock or dispose of returned medications was based on a breakeven point of $0.20 per medication – which, according to the Central Pharmacy Manager, is exemplified by the following time motion study performed on December 12, 2014:



The above documentation does not provide sufficient detail to support the reasonableness of the $0.20 breakeven point. The time study appears to have utilized only one day of activity, and it does not adequately identify what inputs were used to calculate the breakeven amount.

3. Central Pharmacy (Continued)

Because the above breakeven calculation was performed on December 12, 2014, we asked what the breakeven point would have been during the majority of our examination period. The Central Pharmacy was unable to document a prior time motion study. Failure to maintain such documentation increases the risk that medications may be improperly discarded, resulting in a loss for the Department.

Once a month, a vendor destroyed returned medications valued at below the $0.20 breakeven point. No log of the types and quantities of medications to be destroyed was maintained by the Central Pharmacy. Instead, when returned medications were to be destroyed, the Central Pharmacy counted the number of controlled substances, placed them in a bag, and wrote the count on the bag. The vendor responsible for the disposal then performed a count to verify the number on the bag. Non-controlled medications were handled in the same manner.

Without a process to track when medications are returned to the Central Pharmacy, there is an increased risk that some medications will not be accounted for.

> We recommend the Department implement procedures to ensure all unused medications are properly returned from the facilities and tracked through destruction.

Fiscal Year 2014 Annual Physical Inventory

AR 115.08(III)(J)(1) states the following:

> *On or about June 30 of each year, a total physical inventory will be taken of all Pharmacy stock items by designated NDCS staff independent of the Pharmacy operation. This staff will include Central Accounting, Purchasing and Inventory personnel. Any exceptions found in the inventory will reported in writing to the NDCS Materiel Administrator. The Health Care Administrator shall receive a written report of inventory discrepancies.*

The Department paid $1,944 to Rocky Mountain Inventory, Inc., for an independent physical inventory count of the Central Pharmacy in June 2014. However, no adjustments to the Central Pharmacy's inventory records resulted from that independent count. Additionally, the inventory exceptions revealed by the count were not forwarded to the NDCS Materiel Administrator, as required by AR 115.08(III)(J)(1).

The Central Pharmacy Manager offered the following explanation for such lack of action:

> *Typically, accounting notifies Pharmacy after viewing the report of any discrepancies that are outside of our allotted variance and then request we do a re-count of that product and adjust the inventory to reflect the re-count. Accounting never provided us with any list of items to re-count so none were made. We actually never really received any report from accounting other than our total dollar variance was approx. 6% which was within the allowed variance formula used.*

3. Central Pharmacy (Continued)

We inquired whether the Materiel Administrator or the Department's Central Accounting or Health Services divisions had received and reviewed the results of the independent physical inventory count. We observed an email to the Controller and Central Accounting Manager, dated July 12, 2014, reporting the count results; however, the Controller claimed to be unaware of having received the email. The Materiel Administrator does not appear to have received the count report. The Health Services division did acknowledge having received a report of the count results; however, no review of count discrepancies or any inquiry as to the cause(s) thereof was documented.

Per the Department's Controller, the contractor was to count tenths of bottles and make exact counts of the most expensive line items, which comprise 80% of the cost of the Pharmacy inventory. According to the contractor, the total value of all items counted was $470,159; however, the Kalos inventory records maintained by the Central Pharmacy valued the total inventory at $438,713 – for a variance of $31,446 or 7.2%.

In addition, per the Kalos report used for the annual inventory, there were 1,443 medications and other supply items, such as needles and syringes. Per the spreadsheet from the contractor, 1,392 items were counted. We performed a comparison of the National Drug Code (NDC) numbers, per the Kalos report, and the contractor's actual count report and noted the following: 1,324 items were the same on both reports; 68 items were on the contractor's report but did not have a match in Kalos; and 119 were on the Kalos report but not counted on the contractor's report. Based on the comparison, there were 1,511 total items between Kalos and what was counted, including the following:

- 597 items (39.5%) had variances where the actual amount counted was less than the quantities on hand per Kalos, ranging from 1 to 9,100 short.

- 517 items (34.2%) had variances where the actual amount counted was more than the quantities on hand per Kalos, ranging from 1 to 170,250 over.

- 397 items (26.3%) had counts that agreed to the amounts per Kalos.

We also performed a comparison of the contractor count to what Kalos showed as inventory on-hand for the medications. This was done by matching the NDC number and drug name between both the contractor's counts and Kalos. The following table is a summary of those items with a unit cost over $100 that had variances:

3. Central Pharmacy (Continued)

Drug Name	Unit Cost	Count per Kalos	Quantity Counted	Count Variance	% Variance	$ Variance
Animas Infusion Inset Infu	$ 103.62	2	23	21	1050%	$ 2,176.02
Invega Sustenna 117 mg Inj	$ 874.52	3	0*	(3)	(100%)	$ (2,623.56)
Invega Sustenna 78 mg Inj	$ 583.02	1	4	3	300%	$ 1,749.06
Neulasta 6mg/0.6ml Soln	$ 6,947.15	1.2	1	(0.2)	(17%)	$ (1,389.43)
Neupogen Inj (10x1.6ml) 480 Mcg Soln	$ 285.07	25.6	25	(0.6)	(2%)	$ (171.04)
Pneumovax 23 Inj 25/0.5 Inj	$ 129.70	10	2	(8)	(80%)	$ (1,037.60)
Prevnar 13 Inj	$ 265.94	1.5	3	1.5	100%	$ 398.91
Risperdal Consta 25 mg Kit	$ 291.50	1	2	1	100%	$ 291.50
Samsca 15 mg Tab	$ 282.51	8	20	12	150%	$ 3,390.12
Sumatriptan Succ 6 mg/0.5 ml Kit	$ 100.76	2	4	2	100%	$ 201.52
Synvisc -One Syr	$ 974.65	2	12	10	500%	$ 9,746.50
Zostavax Soln	$ 261.57	(0.65)	0*	0.65	100%	$ 170.02
MMR	$ 106.10	0**	40	40	100%	$ 4,244.00
Synvisc Hylan G-F 8 mg/ml	$ 162.46	0**	6	6	100%	$ 974.76

*These two items were listed in the system as having inventory, but no corresponding items were noted on the inventory count report from the contractor.
**These two items were listed on the inventory count report from the contractor, but there were no corresponding items in Kalos.

Without adequate procedures for the maintenance of medication supplies, as well as a sufficient understanding of Kalos and the various related drug transactions, there is an increased risk for the loss or misuse of medication due to theft or error.

We recommend the Department implement procedures to ensure adjustments are performed based on the annual physical inventory count to ensure Kalos agrees to the quantities on hand.

Fiscal Year 2015 Annual Physical Inventory

A good internal control plan requires that adequate procedures be in place to ensure that the Central Pharmacy's inventory records reflect the actual quantities of medication on hand.

During the Central Pharmacy's annual inventory, the APA performed its own count of certain drug supplies. For 12 of the 25 drugs counted, the APA found that the quantities listed in the Kalos application, which is used to track medication inventory, did not agree to the actual amounts on hand.

The following table sets out the discrepancies found by the APA:

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Central Pharmacy (Continued)

Description	Qty Counted	Kalos Amount	Kalos Variance	Kalos Unit Cost	$ Variance
Xifaxan	62	61	1	$ 26.73	$ 26.73
Mepron	360	420	(60)	$ 5.96	$ (357.60)
Atrovent HFA	78	51.6	26.4	$ 19.12	$ 504.77
Symbicort 160-4.5Mcg	10	0	10	$ 25.42	$ 254.20
Alphagan P	10	20	(10)	$ 22.55	$ (225.50)
Neo/Poly/HC Opth	38	37.5	0.5	$ 13.29	$ 6.65
Sovaldi	3	1	2	$ 974.00	$ 1,948.00
Vyvanse C2	70	40	30	$ 6.90	$ 207.00
Clobetasol 45 Gm	180	90	90	$ 3.32	$ 298.80
Clobetasol 60 Gm	120	240	(120)	$ 4.45	$ (534.00)
Sensipar	31	30	1	$ 18.85	$ 18.85
Domeboro 952-1347Mg	15	18	(3)	$ 0.64	$ (1.92)

Prior to the Central Pharmacy's annual physical counts on June 17, 2015, the inventory recorded in the Kalos application was valued at $473,976. After those physical counts, the inventory was valued at $446,600, which is $27,376 less than what Kalos had previously identified.

> We recommend the Department implement procedures to ensure that Central Pharmacy inventory records reflect the actual quantity of inventory on hand.

Department's Overall Response to Comment #3: Health Services will complete a review of the Kalos system to determine if it is functioning properly. Any issues will be reported to Kalos for resolution. Issues that are not resolved will be reported to Purchasing to file formal vendor complaints.

A process will be developed to review transactions, maintain appropriate documentation and maintain segregation of duties for medications and supplies. The receiving process was modified effective April 20 to provide a segregation of duties. Orders are originated/placed by a Pharmacist and will be approved by the Chief Operating Officer or designee.

Periodic checks of the ATP machine have been scheduled to be completed every six months. Processes related to the packaging, shipping, and return of medications is being reviewed and plans for improvement are being developed. A cage area has been built to secure returned medications. We are exploring options to replace the Kalos system with an electronic medication administration record system or an electronic medical records system that would have needed capabilities not presently available.

Random inventory counts and spot checking receiving will be performed by the Health Services Business Office, report any issues to the COO, and verify that Pharmacy staff has completed receiving or processed any inventory adjustments accurately. This will provide some additional oversight to assure the Kalos system is functioning properly.

3. Central Pharmacy (Concluded)

Annual physical inventory will be coordinated by the Health Services Business Office and will review the adjustments to see that they were updated properly. Required approvals will be obtained after completion.

The Department agrees that vendor delivered medications should not be unattended and left in a doorway. This issue will be addressed with all Pharmacy staff.

4. Pay in Excess of 40 Hours a Week with Leave

Per KRONOS, the Department's time-keeping application, staff is granted paid leave regardless of the number of hours worked during the week. For example, if an employee works 36 hours in four days and then takes the fifth day off, he or she will be required to use 8 hours of vacation time. This results in the employee being paid for 44 hours and using 8 hours of paid leave when only 4 would be necessary.

For 8 of 50 employees tested, time was not adjusted when regular hours worked and leave used resulted in more than 40 hours being paid for the week. On these weeks, time in excess of 40 hours was paid at the regular hourly rate.

The eight employees tested – each of whom was paid for more than 40 hours in a single week – are listed below:

Employee	Week	Non-Leave Hours	Leave Hours Paid	Total Hours Paid	Hourly Rate	Hours Over 40	Total Overpaid
1	10/28/13 – 11/1/13	37.25	8.00	45.25	$ 19.053	5.25	$ 100
2	10/28/13 – 11/1/13	34.50	8.00	42.50	$ 20.893	2.50	$ 52
3	3/3/14 – 3/9/14	29.75	11.00	40.75	$ 17.707	0.75	$ 13
4	3/3/14 – 3/6/14	33.00	9.50	42.50	$ 15.536	2.50	$ 39
5	2/24/14 – 2/28/14	27.75	12.50	40.25	$ 22.460	0.25	$ 6
6	8/18/14 – 8/21/14	20.50	20.00	40.50	$ 25.959	0.50	$ 13
7	8/11/14 – 8/17/14	29.00	16.00	45.00	$ 21.410	5.00	$ 107
8	8/11/14 – 8/17/14	36.50	8.00	44.50	$ 16.212	4.50	$ 73

These eight employees were overpaid a total of $403. Based on the APA's review of employees with similar hours paid during the examination period, it appears that the Department overpaid its employees a total of 58,820 hours totaling over $1,000,000. See **Exhibit C** for the relevant calculations.

The Department's process results in employees being required to use leave unnecessarily. Consequently, some employees would be required to use leave when they have already worked 40 hours, and others would be able to cash out their leave rather than lose it to lapsing.

4. <u>Pay in Excess of 40 Hours a Week with Leave</u> (Concluded)

When asked about this concern, the Department's HR Administrator provided the following explanation:

> *Reducing vacation is not always an option. With the large number of employees NDCS has a very limited time frame to process payroll. Making adjustments would fall on the shift supervisors for custody staff (majority of NDCS employees) and this is not deemed feasible considering their responsibilities. Additionally, we do not feel that HR staff processing payroll should make these adjustments. Should an employee request to reduce their vacation we would make such an adjustment.*

Section M.6.1 (Appendix M) of the 2013-2015 Labor Contract between the State of Nebraska and the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE/AFSCME) states the following:

> *A standard work week shall be 40 hours plus roll call time. All hours in excess of this standard work week shall be considered overtime and compensated at one and one-half times the regular hourly rate for all members of the bargaining unit.*

Also, Title 273 NAC 9-003.03, "Non-Exempt," states the following:

> *These employees shall receive compensation at one and one-half times their hourly rate in the form of either pay or compensatory time off, at the agency head's discretion, for hours <u>worked</u> in excess of 40 hours in any work week.*

By permitting employees to use leave time to exceed 40 hours of work in a single week, as well as not paying overtime for those additional hours, the Department is acting contrary to the provisions of the NAPE/AFSCME labor contract and the Nebraska Administrative Code.

> We recommend the Department modify KRONOS to adjust leave automatically in these situations or, if that is not possible, have supervisors change leave hours manually when approving employees' time.

Department's Response: Correctional facilities rely on assignment of overtime to complete work essential to public safety. Staff that work within a 24/7 facility with mandatory staffing levels can have difficulty scheduling time off to utilize their leave allocation. We do not agree with modifying KRONOS or requiring supervisors to change leave hours manually when approving an employee's time. If the employee requests the leave to be reduced we would make such adjustment.

APA Response: By not adjusting the hours, employees are allowed to use vacation leave hours to accumulate and be paid for extra hours. The employees are not actually using vacation hours, rather they are just being paid for them, which is not allowed by Neb. Rev. Stat. § 81-1328 (Reissue 2014) other than when retiring or leaving State employment.

5. Department Overtime

The Department spent or obligated an estimated $11,121,866 on 477,824 hours of overtime worked and compensatory time earned by 2,420 employees during the examination period. As it was beyond the scope of our testing, we did not calculate an estimate of any possible savings that could have been realized had the Department been staffed at various levels. The Department may wish to consider performing such an analysis.

Overtime and compensatory time costs by facility for the examination period were as follows:

Facility	Amount
NSP	$ 3,561,880
TSCI	$ 2,526,678
LCC	$ 967,054
OCC	$ 849,179
Central Office	$ 791,273
NCCW	$ 705,443
DEC	$ 616,417
NCYF	$ 277,022
CCCL	$ 270,435
CSI	$ 219,658
WEC	$ 171,045
CCCO	$ 108,122
Adult Parole Administration	$ 57,660
Total	**$ 11,121,866**

Exhibit D outlines the top 25 Department recipients of overtime and compensatory time paid during the examination period. The employees were paid overtime and compensatory time ranging from 1,112 to 3,244 hours during the examination period.

Exhibit E was provided to show a historic perspective of the top three overtime earners.

A similar finding was noted in our prior report.

> We recommend the Department review the appropriateness of the overtime hours worked and compensatory time paid by its employees.

Department's Response: The Department does monitor overtime and has made progress in reducing overtime expenditures. These efforts will be on-going.

6. Medical Contractor Analysis

During the examination period, the Department provided medical services to inmates through a variety of methods. In addition to hiring its own medical professionals, the Department contracted with outside vendors to treat inmates at its facilities. Outside vendors were paid on an

6. Medical Contractor Analysis (Concluded)

hourly basis, per the contracts negotiated between the providers and the Department. Inmates requiring services that could not be provided at a correctional facility were transported to a medical facility for treatment. Medical procedures performed outside of a correctional facility were billed through the Department's insurance vendor, Blue Cross Blue Shield (BCBS).

Beginning in October 2014, the Department began allowing outside medical providers who treated inmates at a correctional facility to bill the Department through BCBS for the procedures performed. As part of this new process, the Department would notify in-network BCBS providers of the anticipated services needed and, based upon medical provider responses and availability, a primary vendor would be selected. The Department neither requested nor received any information about the cost of the medical services sought before selecting a primary vendor.

According to the Department, the new BCBS billing method would reduce the amount of staff time spent on accompanying inmates to off-site medical facilities. However, the Department had no documentation to support that any type of analysis of the costs and benefits of this new billing method had been performed. Moreover, by transitioning from contracting directly with medical providers and negotiating flat hourly rates for their services to paying a variable provider fee based on the type of service performed, the Department lost its ability to anticipate provider costs.

Additionally, processing more claims through BCBS increases medical expenditures because the Department's contract with BCBS includes a 9% administrative fee for processing medical claims and a 7% administrative fee for processing dental claims. As noted in Comment 1, the Department negotiated an hourly rate amounting to approximately $5,000 a month for a single provider; however, if that provider were to bill the Department through BCBS for the same services, the monthly fee would soar to approximately $20,000.

Furthermore, the Department's lack of review of the BCBS invoices, as identified in Comment 1, exacerbates concerns over increasing the amount of claims processed through BCBS.

Neb. Rev. Stat. § 84-304(5) (Reissue 2014) directs the APA to report to the Legislative Performance Audit Committee (Committee) "any potential problems related to the effectiveness, efficiency, or performance of state programs" found while auditing, among other things, a State institution. In compliance with that statutory directive, the APA has reported this matter to the Committee.

> We recommend the Department monitor closely the expenses incurred through its new BCBS billing method to determine if it is cost effective. We also recommend the Department work closely with the Committee, should a performance audit of the new billing practice occur.

Department's Response: The Department agrees with the auditor comment and will be completing a cost benefit analysis to determine the appropriateness of these billing methods.

7. Cardinal Health Contract

A good internal control plan and sound accounting policies require that procedures be in place to ensure that contracted rates are paid and agreed-upon discounts are received for all items purchased.

No one in the Department compared purchases from Cardinal Health with the Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP) contract to ensure that the invoiced rates were proper. During the examination period, the Department purchased $10,106,941 worth of medications and medical supplies from Cardinal Health.

The APA tested four Cardinal Health medication purchases totaling $482,257 to verify that the Department paid the correct prices for the items received. The APA also examined one purchase of medical supplies from Cardinal Health that totaled $120. Unfortunately, the APA was unable to trace any of these purchases to the contracted rates to verify the prices because the Department did not know the current or prior contract prices and had no way to find them.

The State contracted with MMCAP for the purchase of medications and medical supplies. The Nebraska Department of Administrative Services State Purchasing Bureau (SPB) maintained that contract. The supplier of medications and medical supplies through the MMCAP agreement was Cardinal Health. MMCAP had an online pharmacy catalog that was updated weekly and listed all of the medications on contract. The Department could have used that catalog to compare to the invoices to ensure that the correct prices were received.

MMCAP also had a contract with eAudit Solutions for electronic pharmacy auditing. eAudit Solutions could have electronically compared contract prices with invoice prices for a fee of between $100 and $250 per month; however, the State of Nebraska did not utilize eAudit Solutions. SPB was aware of eAudit Solutions but provided no reason why those services were not used. Meanwhile, the Department was unaware of the electronic pharmacy auditing services available from eAudit Solutions.

When the Central Pharmacy placed orders through Cardinal Health, an employee logged into a Cardinal Health web portal with credentials related to the MMCAP agreement. While logged into the portal, medications that fell under the MMCAP agreement could be purchased, but alternate medications from different suppliers or under different contracts could also be selected. The Central Pharmacy acknowledged not always selecting the least expensive option for the following two reasons: 1) less expensive medications were not always available; and 2) the cost of adding an alternate medication to the pill-sorting machine sometimes outweighed the savings from purchasing a less expensive version. The Department did not maintain documentation to support why the least-expensive medication option was not chosen.

The Department also received a quarterly discount from MMCAP based on payment terms and purchase volume. This discount was recorded in a quarterly report that identified the amount of products purchased by the State as a whole as well as by its individual agencies and departments. The quarterly report should have been reviewed by the Department to ensure that the correct discount was obtained; however, the Department neither received nor reviewed it.

7. Cardinal Health Contract (Concluded)

When procedures are not in place to ensure invoiced rates agree to the contract prices and proper discounts are received, there is an increased risk the Department will make overpayments. When the reason for purchasing the more expensive medication option is not documented, moreover, the risk the Department will overpay for its purchases is increased even further. Finally, when MMCAP reports are not reviewed, there is an increased risk correct discounts will not be received.

> We recommend the Department implement review procedures for its medication and medical supply invoices. We recommend also the Department discuss with SPB the possibility of enrolling in eAudit Solutions. Lastly, we recommend the Department review MMCAP reports to ensure correct discounts are received.

Department's Response: The Department will review the various options presented in the audit and agrees that we need to assure we are paying the correct rates for products from Cardinal Health.

8. Facility Pharmaceutical Inventory Procedures

The Department's facilities lacked controls over medications to ensure that all pharmaceutical items were properly accounted for at all times, as noted below.

- The facilities lacked adequate documentation of medication inventories. We performed a random count of pharmaceutical items at all 10 facilities, 4 of whose inventory records did not agree to our counts.

- For the five facilities that received daily deliveries in medication boxes from the Central Pharmacy, there was a lack of controls for the receipt and distribution of non self-medicating inmate medications. The facilities did not compare what was received to a listing of what was sent to ensure all items were received. It was also noted that medication distribution records were not adequately completed.

- The five facilities that operated central pill line distributions received listings of all medications received; however, these facilities did not have the self-medicating inmates sign the delivery confirmation forms, as required by administrative regulations. Additionally, at TSCI there was no documentation that one medication on the delivery confirmation form from the Central Pharmacy was ever received by the facility.

- The facilities lacked controls to ensure that unused medications were properly returned to the Central Pharmacy. It was also brought to our attention that one facility was taking unused medications prescribed for specific inmates and relabeling them for use by other inmates. This was also included in Comment 3.

8. Facility Pharmaceutical Inventory Procedures (Continued)

Inventories of Medications

Administrative Regulation (AR) 113.05(I)(A), "Fiscal Management, Purchasing, and Inventory Control: Supplies," requires the following:

> *A perpetual inventory system shall be maintained by each program/institution indicating receipt, issue, adjustments, balance, and cost of the following supply items . . . Pharmaceuticals (Excluding Work In Process).*

AR 115.10(III)(D)(2), "Pharmacy Medication Distribution, Access & Training," states, "A perpetual inventory of stock medications will be kept by the nursing staff on the Stock Medication Perpetual Inventory form."

A good internal control plan requires procedures to ensure that all medications are accounted for at all times. Such procedures should include maintaining accurate perpetual inventory records of all medications, including both inmate-specific scripts kept on hand and stock medications, to ensure that all items are accounted for.

Each of the facilities maintained inventories of medications. All medications that were identified as a DEA Schedule II through Schedule V controlled substance were required to have inventory logs maintained, whether the medication was held in stock for use as needed for any inmate (stock medication) or was specifically prescribed for an inmate (inmate specific medication).

Facilities also maintained inventories of stock medications that were not controlled substances, as well as kept over-the-counter medications, such as Tylenol, Ibuprofen, and antacids, on hand for distribution to inmates, as needed.

Additionally, the five facilities that operated central pill lines for distribution of non self-medicating inmate medications had multiple-day supplies of these medications on hand for dispensing to inmates over several days, generally in 30-day quantities. These facilities kept the medications in the Medical area within the facility, and the nursing staff documented the distribution on the Medication Administration Records (MARs). See **Exhibit F** for an example of a MAR.

The five facilities that did not operate central pill lines received medications daily from the Central Pharmacy. The medications sent from the Central Pharmacy were separated by housing unit and time of distribution. These facilities then had medication aids distribute medications in the inmate housing units. These medications were for non self-medicating inmates.

Our review of inventory procedures at the facilities noted the following:

- None of the five facilities with a central pill line maintained perpetual inventory records for medications not classified as DEA Schedule II through Schedule V controlled substances. Therefore, these facilities lacked adequate documentation to support the accuracy of the medication quantities on hand.

8. Facility Pharmaceutical Inventory Procedures (Continued)

- We performed a physical count of various facility medications and compared them to the inventory records. We selected stock medications, for both controlled substances and non-controlled substances, as well as inmate-specific controlled substance medications. For the controlled substance counts, no instances were noted of the counts not agreeing to the facility inventory records. However, for the non-controlled substance medications selected, 4 of the 10 facilities had instances of the counts not agreeing to the inventory records. We also noted instances at LCC and TSCI of the perpetual inventory records not appearing to be mathematically correct or missing information, even though the ending counts, per the records, did agree to the physical count. The following table summarizes the variances noted by facility:

Facility	Medication Description	APA Count	Quantity per Facility Records	Quantity (Short) / Long
LCC	Benztropine 2mg	13	12	1
LCC	*Hydroxyzine 50mg	6	17	(11)
TSCI	Prednisone 20mg	31	43	(12)
TSCI	Atenolol 25mg	39	32	7
OCC	Prednisone 20mg	44	45	(1)
OCC	Acyclovir 800mg	31	21	10
OCC	Naproxen 500mg	43	14	29
NCYF	Amoxicillin 500mg	44	46	(2)
NCYF	Bactrim DS 800/160mg	43	40	3
NCYF	Clindamycin 150mg	44	40	4
NCYF	Diphenhydramine 50mg	98	96	2
NCYF	Prednisone 10mg	41	12	29

* For this item at LCC, the inventory sheet was not mathematically correct, as it showed an initial balance of 21 less 4 distributed to equal 8. According to the APA's calculation, the balance that should have been on hand, per the inventory sheet, was 17. The APA's actual count was 6.

Without adequate inventory records, there is an increased risk for the loss of medications due to theft or error.

> We recommend the Department implement procedures to ensure facilities maintain perpetual inventories of all medications in accordance with Administrative Regulations.

Department's Response: The Department agrees that perpetual inventories should be maintained of all medications at the facilities. Procedures will be reviewed with staff at each institution.

8. Facility Pharmaceutical Inventory Procedures (Continued)

Non Self-Medicating Inmate Medications

AR 115.10(III)(B) states the following:

> *Staff passing medications will complete the appropriate form: Staff will complete the Medication Distribution Log or a Medication Administration Record (MAR). Medications not taken at the prescribed time will be left in their respective compartments and returned to the Pharmacy.*

A good internal control plan requires that procedures be in place to ensure all medications are accounted for at all times. Such procedures should include maintaining correct and accurate medication records with sufficient detail to identify which medications were or were not administered to inmates. A good internal control plan should also require facilities to perform procedures to verify that all medications delivered from the Central Pharmacy are properly received.

Our review of the procedures for those facilities that received daily medication boxes noted the following:

- The facilities did not receive a listing from the Central Pharmacy of the medications included in the medication boxes. Consequently, the facilities had no way for staff to compare the medications received to what was sent from Central Pharmacy to ensure receipt of everything that was sent.

- These facilities utilized Medication Distribution Logs (MDLs), which were completed by the staff when distributing the medications. See **Exhibit F** for an example of a MDL. As weekly logs that listed the inmate's name and number, the MDLs were used to identify the quantity of medications taken out of those available each day. The MDL was then initialed by the inmate or staff to document the reason why the inmate had not initialed or not taken the medications. The MDLs did not identify the specific medications by inmate or which medications were taken or refused by the inmate. In addition, the facilities did not maintain a separate log of unused or refused medications to ensure that they were properly returned to the Central Pharmacy.

On the days that we performed facility visits, the APA obtained reports from the Central Pharmacy listing the medications that were to be delivered and distributed at the facility. We then selected one housing unit at NCCW, two housing units each at NSP, LCC, and CCCL, and three housing units at DEC. For those housing units, the APA selected a sample of inmates from the medication delivery reports to trace to the MDLs for the medication distribution times that had already occurred on the day of the APA's visit. We also reviewed the MDLs that we received to ensure that they were being completed accurately for all inmates.

Our reviews revealed instances of the MDLs not being completed properly. Among the problems noted were the following: 1) information, such as the number of medications taken and/or the number available, was not recorded; 2) inmates had not initialed the logs, or staff had neglected to document why the inmates had failed to do so; and 3) some MDLs were completed

8. Facility Pharmaceutical Inventory Procedures (Continued)

in advance of the medication distribution times actually occurring. Such issues raise concerns regarding the adequacy of the MDLs to provide accurate support that inmates had properly received their medications. The following table summarizes the issues revealed by the APA's review of the MDLs:

Facility – Housing Unit	Date of Visit	Medication Distribution Time	Errors Noted	Additional Information
NCCW – A1	3/17/2015	Morning	3	MDL was not initialed by inmates, and staff failed to document why.
NCCW – A1	3/17/2015	Noon	1	MDL was not initialed by inmate for previous day's (3/16/15) noon medication distribution time, and staff failed to document why.
NSP – 1	3/27/2015	Morning	19	Number taken and number available were not documented. Also, inmate did not initial the log, and staff failed to document why.
NSP – 1	3/27/2015	Morning	22	Number taken and/or number available were not documented.
NSP – 1	3/27/2015	Morning	3	Inmates not listed on morning MDL, but information from the Central Pharmacy showed they should have received morning medications.
NSP – 1	3/27/2015	Noon	2	Inmates not listed on noon MDL, but information from the Central Pharmacy showed they should have received noon medications.
NSP – 1	3/27/2015	Noon	21	Number taken and/or number available were not documented.
NSP – 1	3/27/2015	Morning	27	Inmates had initialed the morning MDL in advance for 3/28/15 and 3/29/15. For 5 of these 27, the number taken and/or the number available had also been documented in advance.
NSP – 1	3/27/2015	Noon	23	Inmates had initialed the noon MDL in advance for 3/28/15 and 3/29/15. For 6 of these 23, the number taken and/or the number available had also been documented in advance.
NSP – 3	3/27/2015	Morning	1	Staff indicated that one inmate had initialed in the wrong column, which was for the next day's medications; however, staff also documented that the inmate was unable or refused to sign.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Facility Pharmaceutical Inventory Procedures (Continued)

Facility – Housing Unit	Date of Visit	Medication Distribution Time	Errors Noted	Additional Information
NSP – 3	3/27/2015	Noon	6	Number taken and number available were not documented.
LCC – E2	4/1/2015	Morning	18	Morning MDL for the day of the APA's visit had not been completed at all, but the morning medication distribution time had already occurred. Total of 18 inmates should have received morning medications per the MDL and the report from the Central Pharmacy.
LCC – E2	4/1/2015	Noon	1	Inmate had initialed the noon MDL in advance for medication distribution times for 4/2/2015 - 4/5/2015. The number taken and number available were also documented in advance.
LCC – E2	4/1/2015	Noon	5	Number taken and inmate's initials or reason code for the medication not being taken were not included on the MDL for the prior day (3/31/2015).
LCC – E2	4/1/2015	Afternoon	2	Inmates had initialed the afternoon MDL in advance for medication distribution times for 4/1/15 - 4/5/15. For one inmate, the number taken and the number available had also been documented in advance for those days.
LCC – E2	4/1/2015	Night	2	Inmates had initialed the night MDL in advance for medication distribution times for 4/1/15 - 4/5/15. The number taken and number available were also documented in advance.
LCC – E2	4/1/2015	Night	9	For six inmates, the number taken and inmate's initials or reason code for the medication not being taken were not included on the MDL for the prior day (3/31/2015). In addition, one inmate the number taken, number available, or initials or the reason code for why none were taken were not documented. One inmate initialed but the number taken was not completed. For one inmate, the number taken and available was entered but the MDL was not initialed and did not include a reason code as to why it was not initialed.
DEC – 2	4/1/2015	Morning	9	Number taken and the number available were not documented.

8. Facility Pharmaceutical Inventory Procedures (Continued)

Facility – Housing Unit	Date of Visit	Medication Distribution Time	Errors Noted	Additional Information
DEC – 2	4/1/2015	Morning	2	Number taken and number available were not documented. Additionally, the inmates had not initialed the MDL, and staff neglected to document why.
DEC – 2	4/1/2015	Noon	1	Inmate had not initialed the MDL, and staff neglected to document why.
DEC – 2	4/1/2015	Night	11	The night MDL for the previous day (3/31/15) did not document the number taken or number available.
CCCL – Female	4/14/2015	Night	6	The number available was not documented on the night MDL for the prior day.
CCCL – Male	4/14/2015	Noon	1	Inmate had initialed in advance the next day's MDL. The number taken and number available were also documented in advance.
CCCL – Male	4/14/2015	Afternoon	5	Number taken and number available were not documented on MDL for the previous day's (4/13/15) afternoon medication distribution. For 3 of the 5, the inmates had also not initialed the MDL, and staff neglected to document why.
CCCL – Male	4/14/2015	Night	11	Number taken and/or number available was not documented on MDL for previous day's (4/13/15) night medication distribution time.

For both housing units tested at LCC, we noted also that the dates on the MDLs used at the time of the APA's visit indicated that the documents were, in fact, for the prior week. Such erroneous dates raise concerns that the Department might be unable to respond effectively to an inmate complaint due to an inability to identify the proper MDL.

Failure to maintain adequate records for the distribution of inmate medications, as well as a lack of procedures to verify that all such medications were received from the Central Pharmacy, increases the risk for the loss or misuse, due to theft or error, of medications purchased with State funds.

We recommend the Department implement procedures to ensure facilities maintain complete, accurate, and up-to-date records for the administration of inmate medications. These procedures should include documenting the specific medications administered

8. Facility Pharmaceutical Inventory Procedures (Continued)

> or refused when distributed by non-nursing personnel in facility housing units, as well as completing the proper distribution logs at the time medications are administered.

Department's Response: The Department agrees that inmate medications distributed by staff should have the distribution logs completed properly. Procedures have been reviewed with all appropriate staff. We are exploring other methods to include an electronic medication administration record system for distribution of these medications that will ensure correct distribution and documentation.

Self-Medicating Inmate Medications

AR 115.10(III)(A)(2) states in part, "Upon receipt of self-administered medications . . . [s]taff will have the inmate sign the Delivery Report NE DOC Pharmacy (sign out sheet) . . . ."

A good internal control plan requires that procedures be in place to ensure that self-medicating inmates sign for their medication on the appropriate form, as required by AR 115.10. A good internal control plan also requires facilities to perform procedures to verify that all medications delivered by the Central Pharmacy are received.

Facilities have approved self-medicating inmates. These inmates received 30-day supplies of the approved medications, which they are allowed to keep on their person (KOP). The five facilities (NSP, LCC, CCCL, DEC, and NCCW) that received daily deliveries of medications in medication boxes also received a delivery confirmation sheet for the KOP meds only. These sheets listed the individual KOP medications for each inmate. These facilities had the inmates sign the delivery forms to document receipt of the medication. However, during our facility visit to NSP, we noted that 8 of 16 KOP medications in Housing Unit 1 were not signed for by the inmate. Instead, staff had documented the items as delivered; however, they did not document why the inmates were unable to sign.

The other five facilities (TSCI, OCC, CCCO, NCYF, and WEC) that operated central pill lines receive delivery confirmation forms from the Central Pharmacy for all medications received, with no separate sheets specifically for KOP medications. During our examination, we noted that TSCI, OCC, CCCO and WEC had nursing staff, rather than the inmates themselves, sign the delivery confirmation forms. At NCYF, however, the inmates had signed the forms. We also noted that one KOP medication at TSCI was not signed by either the inmate or nursing staff to document its receipt from the Central Pharmacy.

When inmates do not sign the delivery confirmation sheets for their KOP medications, the Department is not in compliance with its own administrative regulations. When medications are not documented as being received at a facility, moreover, there is an increased risk for the loss, due to theft or error, of medications purchased with State funds.

8. Facility Pharmaceutical Inventory Procedures (Continued)

We recommend the Department implement procedures to ensure that self-medicating inmates sign the appropriate delivery confirmation forms to document the receipt of medications in accordance with administrative regulations. We also recommend the Department implement procedures to ensure facilities adequately document the receipt of all medications from the Central Pharmacy.

Department's Response: The Department agrees that medications distributed to inmates for self-medication should first be confirmed by medical staff as received at the facility. Additionally, we agree that inmates should sign documentation acknowledging receipt. These documents when returned to the Pharmacy will be reviewed by appropriate staff and any issues reported to the Chief Pharmacist and the COO.

Unused Medications

AR 115.08(III)(I)(1), "Pharmaceutical Services," states, "The Hospital/Clinic/Housing locations shall return any identified outdated drugs to the Pharmacy in the transport boxes."

AR 115.10(III)(A)(2) states in part, "Upon receipt of self-administered medications . . . [a]ny refused medications will be returned to the pharmacy."

AR 115.10(III)(B)(5) states, in relevant part:

> *If a pill is accidently dropped onto a dirty surface, the staff will return it to the pharmacy for possible destruction, with the exception of controlled substances. Designated controlled substances will be returned to the pharmacy.*

A good internal control plan requires procedures, including a secondary review by staff independent of the medication distribution process, to ensure that all medications are accounted for, and any unused or refused medications are properly returned to the Central Pharmacy. This includes procedures for reporting and tracking the refused or unused medications at the facility, as well as for verifying receipt of medications returned to the Central Pharmacy.

A good internal control plan also requires that facilities have procedures in place to ensure that medications are dispensed only to the inmates for whom they are prescribed, and unauthorized personnel do not re-label specific scripts for possible use by other inmates.

During our facility visits, we noted that logs were not maintained listing all medications that were to be returned to the Central Pharmacy. Likewise, the facilities did not provide the Central Pharmacy with a listing of all returned medications to facilitate verification of their receipt. The facilities that received daily medication boxes from the Central Pharmacy simply left the unused items in medication boxes to be returned. There was no comparison of the medications in these boxes to MDLs to ensure that all unused items were accounted for. Similarly, the facilities that operated central pill line distributions simply placed unused medications in delivery cans to be returned to the Central Pharmacy. When doing so, however, no review or comparison to MARs was performed to ensure that all of the items were being properly returned.

8. Facility Pharmaceutical Inventory Procedures (Concluded)

Additionally, during our fieldwork, Department personnel informed us that staff at TSCI took unused medications prescribed to specific inmates and relabeled them for use by other inmates. These medications should have been returned to the Central Pharmacy.

Inadequate procedures to track unused or refused inmate medications causes a lack of accountability that could result in pilfered medication or an increased risk of loss due to medications not being returned to the Central Pharmacy for future use.

> We recommend Department facilities implement procedures to log all unused or refused medications for return to the Central Pharmacy. We also recommend staff independent of the medication distribution process perform a secondary review of distribution records to ensure all unused items are accounted for and returned.

Department's Response: Unused or refused medications returned to the Pharmacy should be documented. We are exploring methods to make this possible through either an electronic medication administration record system or an electronic medical records system that would have the needed capabilities not presently available.

9. Facility Inventories

Administrative Regulation (AR) 113.05(I), "Fiscal Management, Purchasing and Inventory Control: Supplies," requires each correctional program or institution to maintain a perpetual inventory system for supply items. The AR lists supply items that require perpetual inventories, including food, culinary supplies, and inmate clothing.

The same AR states, "Inventory systems shall be computerized in those programs/institutions where equipment is available." The AR mandates also that cycle counts be conducted weekly and discrepancies be provided to facility/program administration.

A good internal control plan requires that procedures be in place to ensure perpetual inventory records are complete and accurate. Records should include all receipts, distributions, and adjustments of inventory. Adjustments should be reviewed by individuals separate from the normal recording of inventory transactions to verify they were reasonable, necessary, and correct.

Facilities lacked adequate procedures for maintaining perpetual inventories of supply items. During fieldwork, the APA noted variances between physical counts of items and the inventory records. The APA also noted inconsistencies in how inventories were tracked, as some facilities used electronic methods and others used manual cards. See **Exhibit G** for examples of the manual cards.

9. Facility Inventories (Continued)

During fieldwork, the APA reviewed supply inventory records at the 10 correctional facilities, observed procedures, and performed random counts of items maintained on inventory. For all facilities' supply inventory records, there was not an adequate segregation of duties in place, as the individuals maintaining the inventory records were also responsible for the inventories. Additionally, there was no documented review by facility administration of the inventory records and activity to ensure all items were correct. In particular, no one was reviewing adjustment transactions. The following was noted:

Food Inventories

All facilities, excluding DEC, maintained food inventories. DEC did not have a food service department to prepare meals; instead, LCC prepared the meals and transported them to DEC.

During visits to the facilities, we performed a physical count of food inventories, and the following table presents a summary of the facilities' method for tracking food inventories and the results of our physical counts. See **Exhibit H** for details of the variances noted.

Facility	Type of Record	Date Counted	Number of Items Counted	Number of Errors Noted	Total (Short)/Long
NCCW	Manual	March 17, 2015	10	6	$ 465
NSP	None	March 27, 2015	25	11	$ (971)
LCC	None	April 1, 2015	11	3	$ (234)
TSCI	Electronic	April 7, 2015	20	2	$ (30)
NCYF	Manual	April 10, 2015	10	5	$ (1,729)
OCC	Manual	April 10, 2015	15	4	$ 12
CCCO	Manual	April 10, 2015	14	0	$ -
CCCL	Manual	April 14, 2015	16	0	$ -
WEC	Manual	March 26, 2015	5	0	$ -

LCC performed end-of-month counts of food inventory for reporting purposes, but it did not identify receipts, issuances, or adjustments to inventory balances or maintain a perpetual inventory of food inventory. NSP began re-implementing an electronic system for tracking food inventories in March 2015. This system had been in place and used by NSP in previous years; however, it was noted that NSP had not been utilizing this for over four years prior to the re-implementation. The APA reviewed a report from that system and noted 34 items showed inventory was on hand; however, the staff indicated the items were not on hand. The 34-item balances ranged from .33 to 320, and 2 items showed as negative quantities on hand. This resulted in the inventory value per the system being overstated by $4,974.

Additionally, when reconciling variances to the daily pull sheets, the APA noted one item that was recorded on the daily pull sheet as having 13 units pulled from inventory; however, the inventory system showed that zero were on hand at a cost per unit of $9.40. This resulted in the inventory value in the system being understated by $122.

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Facility Inventories (Continued)

Other Supply Inventories

AR 113.05(III) states that adjustments to inventory resulting from physical inventory counts must be approved in writing by the Warden/Program Administrator or designee. The AR requires further that such adjustments in excess of $200 are to be forwarded to the Department Materiel Control Manager with supporting justification surrounding the adjustment for review and approval, and those adjustments that exceed $1,000 are also to be reviewed and approved by the Department Materiel Administrator. All adjustment approvals are supposed to be kept on file at the inventory location.

Only NSP and NCCW report inventory adjustments to facility administration personnel; however, no facilities reported inventory adjustments to Central Office personnel.

For other supply inventories, the APA performed procedures similar to those done for food supply inventories at the facilities. This included obtaining an understanding of the procedures for maintaining other supply inventories, including inventories of inmate clothing at the various facilities, and performing physical counts of a sample of items to compare to inventory records maintained at the facilities. Only one facility, CCCO, did not maintain inventories of supply items on hand, as it obtained supplies when needed from the OCC warehouse. The other nine facilities did have inventories on hand but did not always maintain inventory records. There were no standardized systems for maintaining inventory records at the various facilities, as some utilized manual records, excel files, databases, or a combination of those. The following table summarizes the APA's observations. See **Exhibit I** for details of the variances noted in the APA's inventory counts.

Perpetual inventory records of inmate clothing were not being maintained at DEC, CCCL, and WEC.

(Continued on Next Page)

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Facility Inventories (Continued)

Other Supply Inventories

Note 1	Note 2	Approval of Inventory Adjustments per AR 113.05						
Facility	**Type of Records**	**Warden/Facility Administrator Approval**	**Materiel Control Manager Approval (over $200)**	**Materiel Administrator Approval (over $1,000)**	**Date Counted**	**# of Items Counted**	**# of Errors Noted**	**Total Variance Noted**
NCCW	Manual	Business Manager	No	No	N/A	N/A	N/A	N/A
NSP	Electronic Database	Associate Warden	No	No	3/27/2015	5	4	$ (541)
LCC-Supplies/Clothing	Excel Spreadsheets	No	No	No	4/1/2015	5	4	Unknown
LCC-Chemicals	Manual	No	No	No	N/A	N/A	N/A	N/A
DEC	None	No	No	No	N/A	N/A	N/A	N/A
CCCL-Clothing	None	No	No	No	N/A	N/A	N/A	N/A
CCCL-Other	Excel Spreadsheets	No	No	No	4/14/2015	5	0	$ 0
WEC-Clothing	None	No	No	No	N/A	N/A	N/A	N/A
WEC-Other	Manual	No	No	No	N/A	N/A	N/A	N/A
NCYF	Excel Spreadsheets	No	No	No	N/A	N/A	N/A	N/A
OCC	Electronic Database	No	No	No	4/10/2015	25	0	$ 0
TSCI	Electronic Database	No	No	No	4/7/2015	15	0	$ 0

Note 1: LCC, CCCL, and WEC had different records for tracking various types of inventories. Those facilities are split into multiple lines on the table to segregate the different types of records they had in place.
Note 2: LCC and WEC inventory records did not separately identify adjustments to inventory from other transactions, such as receipts and issuances. CCCL and NCYF inventory records did not separately identify receipts, issuances, or adjustments. They only tracked changes in balances.

Note 3: N/A designates other inventory records that were not selected for testing but were observed by the APA.

Note 4: Other supplies include janitorial, office and other maintenance supplies.

9. Facility Inventories (Concluded)

Failure to maintain adequate records increases the risk for loss of inventory due to misuse or theft.

> We recommend the Department implement standardized inventory systems at the facilities to ensure that all supply items are maintained on a perpetual inventory basis. These systems should include recording the actual activity for inventory items with respect to receipt, issuance, and adjustment of inventory, as well as balances of quantities on hand and cost or value of inventory.
>
> We strongly recommend the Department implement procedures to ensure that inventory records are accurate. To mitigate the risk for loss of inventory due to theft or error, such procedures should include review by facility administrative personnel separate from those who maintain the inventory records and approval of miscellaneous adjustments to inventory balances to ensure they are reasonable and necessary. These procedures should also include reporting adjustments to inventory over certain thresholds, as specified in Department regulations, to the appropriate personnel for review and approval.

Department's Overall Response to Comment #9:

Food Inventories
An electronic system is being created and tested at one facility. It will be implemented for all food service items in the near future and provides for recording transactions by receipt, issuance, and adjustment. Business Managers' will be assigned to periodically complete spot checks of food service inventories, prepare a report of their findings, and submit the report to the Warden and Controller. Adjustments will be reviewed by the Associated Warden and submitted to Purchasing as required by Administrative Regulation.

Other Supply Inventories
The Department agrees that perpetual inventory records should be maintained. We will work to first ensure that the inventory is being maintained and then look for ways that these systems can be automated and standardized throughout the Department.

10. Inmate Trust Access

A good internal control plan requires that inmate trust moneys be safeguarded through appropriate restrictions, including an adequate segregation of duties, upon access to those funds.

Three Department employees had the ability to prepare inmate trust checks through access to the Department's check-writing application, blank checks, and the Department's signature-writing machine. Those same three employees were able also to enter transactions in CIT. Furthermore,

10. Inmate Trust Access (Concluded)

one of the three employees was an authorized check signer on the Inmate Trust Fund Checking Account and was responsible for approving the Inmate Trust Fund bank reconciliation. During the examination period, inmate trust checks totaling $5,139,863 were written.

To make matters even worse, two of the three employees were authorized to add or change data directly to the CIT database tables, thus bypassing the CIT security.

A similar finding was noted in our prior report.

The almost total absence of a proper segregation of duties and the employees' ability to make changes directly to the CIT database tables – not to mention the inherent lack of accountability within the application used to write inmate trust checks, as identified in Comment 11 – increase the risk that errors or improper inmate trust payments will be made and not identified.

> We recommend the Department implement procedures to safeguard inmate trust moneys through proper restrictions, including an adequate segregation of duties, upon access to those funds.

Department's Response: Updating the CIT tables is necessary for DCS to complete our business in Inmate Accounting in a timely manner. Methods for adding or updating tables for Transaction Codes, Legal Order Payees, Commodities, Sale Location, and Sales Tax Rates can only be completed through this method. A request has been submitted to the OCIO to grant inquiry access only to the CIT tables that have the inmate detail transactions so DCS staff cannot add, change or delete information from these tables.

The Department must be able to respond to emergency releases of inmates and select staff must be able to complete the tasks after normal business hours, holidays, and weekends.

APA Response: The Department has emergency cash accounts available for tasks required outside normal business hours that should be able to address these situations. The entry into CIT could then be entered when business resumes.

11. Lack of Controls over Inmate Trust Fund Check Database

A good internal control plan requires computerized accounting applications to maintain logs that document users who have created, changed, or deleted data.

The Department utilizes an Access database to write Inmate Trust Fund checks. The Access database does not maintain logs that indicate who created, changed, or deleted Inmate Trust Fund check records. During the examination period, Inmate Trust Fund checks totaling $5,139,863 were written using the Access database.

During testing of Inmate Trust Fund activity, we noted the following:

- Two of 19 voided checks tested had a different payee on the Access database than what was on the check. The checks were for $6,650 and $116.

11. Lack of Controls over Inmate Trust Fund Check Database (Concluded)

- One check for $100, which was written and cleared by the bank, was not included on the Access database that the APA received. The APA observed all other breaks in check numbers and verified that those checks were voided and on hand.

Without maintaining adequate user access logs, there is an increased risk that unauthorized and improper changes to accounting databases may go undetected by management.

> We recommend the Department implement procedures to ensure the maintenance of accurate Inmate Trust Fund check data. The Department should document who created, changed, or deleted any such database information.

Department's Response: We are in the early stages of developing a different Inmate Trust Check Writing system that would have more controls and be an OCIO supported system. Audit comments will be considered as the new system is developed.

12. Federal Funds Administration

Sound business practices require the Department to monitor regularly the activity and balances of its various funds to ensure their proper utilization and administration, including using grant funds, whose purpose is to offset General Fund expenditures, in a timely manner.

The Bureau of Justice Assistance (BJA), Office of Justice Programs, U.S. Department of Justice, administers the State Criminal Alien Assistance Program (SCAAP), in conjunction with the U.S. Department of Homeland Security (DHS). SCAAP provides Federal payments to States and localities that have incurred correctional officer salary costs for incarcerating undocumented criminal aliens with at least one felony or two misdemeanor convictions and incarcerations of at least four consecutive days during the reporting period.

The Department received SCAAP grants of $203,761 on November 4, 2011, and $153,466 on October 22, 2012. These funds were not used to offset General Fund expenditures until March 21, 2014, or 28 and 17 months after they were received, respectively.

As of December 31, 2014, the Department maintained four Federal funds with balances. Fund 48130 was the fund the Department used for most of its activity, as it had both revenue and expenditure activity during the examination period. Fund 48132 had no activity during the examination period, and funds 48133 and 48138 had only interest income during that same period. The interest earned on Federal fund balances should be used to offset Federal fund expenditures in fund 48130, and the interest on the SCAAP grant should be used to offset General Fund expenditures.

12. Federal Funds Administration (Concluded)

Fund	Balance at December 31, 2014	Date of Last Activity Other than Interest
48130	$ 795,197	December 2014
48132	$ 1,815	September 2006
48133	$ 25,056	March 2011
48138	$ 307,671	February 2005

When the Department does not adequately monitor its funds to ensure their proper utilization and administration, there is an increased risk that General Fund appropriations will be used when Federal funds are available.

> We recommend the Department implement procedures to ensure grant funds are utilized in a timely manner, preferably in the same fiscal year as the General Fund expenditures would be made. We also recommend the Department implement procedures to monitor adequately the activity and balances of its funds to ensure they are being properly administered, and interest earned is being used to offset expenditures.

Department's Response: The Department will review our procedures in regards to federal funds to include monitoring activity and fund balance.

13. Lack of Controls Over Canteen Adjustments

Each of the Department's correctional facilities, except for the Community Corrections Center – Omaha and the Diagnostic and Evaluation Center, contained a canteen from which inmates could purchase various items for their personal needs, including food, clothing, personal hygiene products, and soft drink tokens. The canteens were operated by a combination of inmates and Department staff. The Department tracked the canteen sales and inventory on its Corrections Information and Tracking (CIT) application. The application tracked the receipt of inventory, sales of inventory, and adjustments to inventory.

While no State statute appears to provide express authorization for the Department to maintain prison canteens, Neb. Rev. Stat. § 83-915.01 (Reissue 2014) states the following:

> *The Inmate Welfare and Club Accounts Fund is created. The fund shall consist of revenue from soft drinks sold to inmates in the custody of the Department of Correctional Services,* ***profit from departmental canteens****, interest earned by the fund, interest on inmate trust funds pursuant to section 83-915, or other revenue at the department's discretion. The fund shall be used to provide recreational activities and equipment for inmates at all of the department's correctional facilities. The fund shall be administered by the Director of Correctional Services or his or her designee. Any money in the fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act. (Emphasis Added.)*

13. Lack of Controls Over Canteen Adjustments (Continued)

A good internal control plan requires procedures to ensure adjustments to canteen inventory are explained, and documentation to support such adjustments is maintained.

Administrative Regulation (AR) 113.20, "Canteen Operations," Attachment E, identifies various reporting requirements once a canteen inventory is complete, including the following:

- Canteen adjustment data is to be provided to the Facility Business Manager within five working days after the count. This must be signed and dated by the Canteen Supervisor.

- The Business Manager must review and approve the adjustments, sign and date the documents, and submit the documentation and justifications to Central Purchasing/Central Accounting within five days.

AR 113.05(III), "Fiscal Management, Purchasing and Inventory Control: Supplies," requires any adjustments made to supply/inventory records that exceed $1,000 to be reviewed and approved by the Department's Materiel Administrator. Per the Department, the $1,000 adjustment refers to the net effect, not the total, of the adjustment. Thus, if an adjustment were made to increase inventory by $1,500 and to decrease inventory by $2,000, this adjustment would not have to be reported to the Department's Materiel Administrator because the net effect would be only $500.

During the period July 1, 2013, through December 31, 2014, the canteen adjustments increased inventory by $77,616 and decreased inventory by $87,393. Below is a table summarizing the canteen adjustments during the examination period.

Facility	Total Adjustments		Total Canteen Sales
	Increases in Value	Decreases in Value	
NSP - Store 1 (NSPS1)	$ 11,537	$ (14,482)	$ 1,082,841
NSP - Store 2 (NSPS2)	$ 16,414	$ (25,759)	$ 1,126,010
LCC	$ 17,336	$ (12,742)	$ 1,219,123
TSCI	$ 11,938	$ (10,209)	$ 1,570,367
OCC	$ 8,342	$ (9,939)	$ 1,308,280
NCCW	$ 311	$ (423)	$ 562,211
CCCL	$ 8,485	$ (11,194)	$ 437,848
NCYF	$ 1,621	$ (1,414)	$ 101,650
WEC	$ 1,631	$ (1,231)	$ 229,226
Total	**$ 77,616**	**$ (87,393)**	**$ 7,637,556**

AR 113.20 requires at least three canteen inventory counts per year, although the canteens could perform additional counts. The canteen inventory counts compare the physical inventory to the quantities maintained in the application. Based on the counts, the inventory recorded in the application was adjusted to reflect the actual inventory at the canteen.

COMMENTS AND RECOMMENDATIONS
(Continued)

13. Lack of Controls Over Canteen Adjustments (Continued)

AR 113.20, Attachment E, provides specific reporting requirements when adjustments are made; however, according to our testing, it does not appear that the appropriate reviews and approvals took place.

We selected 18 canteen adjustments from 7 facility canteens. Those adjustments included the increase or decrease of many different canteen items. For the 18 adjustments, we requested documentation to support that the reviews required by AR 113.20 and AR 113.05 were performed. During this testing, we noted the following:

(Continued on Next Page)

COMMENTS AND RECOMMENDATIONS
(Continued)

13. Lack of Controls Over Canteen Adjustments (Continued)

Facility	Total Adjustments		Adjustment Signed Off by Canteen Supervisor	Adjustment Provided to Facility Business Manager Within 5 Working Days	Adjustment Signed Off by Business Manager	Adjustment Information Sent to Central Accounting or Purchasing	Adjustment Approved by NDCS Materiel Administrator
	Increases in Value	Decreases in Value					
NSPS1 - Adjustment 1	$ 166	$ (50)	No	No	No	No	N/A (Note 1)
NSPS1 - Adjustment 2	$ 442	$ (117)	No	No	No	No	N/A (Note 1)
NSPS1 - Adjustment 3	$ 1,470	$ (2,837)	No	No	No	No	No
NSPS2 - Adjustment 1	$ 178	$ (71)	No	No	No	No	N/A (Note 1)
NSPS2 - Adjustment 2	$ 3,533	$ (7,648)	No	No	No	No	No
LCC - Adjustment 1	$ 714	$ (567)	No	No	No	No	N/A (Note 1)
TSCI - Adjustment 1	$ 1,507	$ (1,507)	Yes	No (Note 2)	Yes	No	N/A (Note 1)
TSCI - Adjustment 2	$ 279	$ (18)	Yes	No (Note 2)	Yes	No	N/A (Note 1)
TSCI - Adjustment 3	$ 1,685	$ (2,247)	Yes	No (Note 2)	Yes	No	N/A (Note 1)
OCC - Adjustment 1	$ 342	$ (491)	Yes	Yes	No	No	N/A (Note 1)
OCC - Adjustment 2	$ 188	$ (0)	Yes	Yes	No	No	N/A (Note 1)
OCC - Adjustment 3	$ 239	$ (366)	Yes	Yes	No	No	N/A (Note 1)
CCCL - Adjustment 1	$ 155	$ (0)	Yes	No	No	No	N/A (Note 1)
CCCL - Adjustment 2	$ 0	$ (155)	Yes	No	No	No	N/A (Note 1)
CCCL - Adjustment 3	$ 9	$ (120)	Yes	No	No	No	N/A (Note 1)
CCCL - Adjustment 4	$ 15	$ (171)	Yes	No	No	No	N/A (Note 1)
CCCL - Adjustment 5	$ 94	$ (237)	Yes	No	No	No	N/A (Note 1)
NCYF - Adjustment 1	$ 353	$ (0)	Yes	No	No	No	N/A (Note 1)

Note 1: This was required only when the net adjustment was $1,000 or greater.
Note 2: These adjustments were provided to the Facility Business Manager in six days. The others lacked support that they were ever provided to the Facility Business Manager.

13. Lack of Controls Over Canteen Adjustments (Continued)

A similar finding was noted in our prior report.

We noted 12 other adjustments – in addition to the two tested that had a net adjustment – that exceeded $1,000. The Department lacked support that these 12 additional adjustments were reviewed and approved by the Department's Materiel Administrator. A summary of the 12 additional adjustments is presented in the table below.

Canteen	Date	Increase in Inventory	Decrease in Inventory	Net Adjustment
NSPS1	2/1/2014	$ 3,430	$ (5,728)	$ (2,298)
NSPS2	7/9/2013	$ -	$ (1,118)	$ (1,118)
NSPS2	7/9/2013	$ 1,143	$ -	$ 1,143
NSPS2	1/31/2014	$ 1,347	$ -	$ 1,347
NSPS2	2/1/2014	$ 1,815	$ (12,014)	$ (10,199)
NSPS2	9/30/2014	$ 1,192	$ -	$ 1,192
LCC	10/31/2013	$ 1,541	$ (3,913)	$ (2,372)
LCC	1/27/2014	$ -	$ (4,376)	$ (4,376)
LCC	1/27/2014	$ 4,476	$ -	$ 4,476
LCC	3/31/2014	$ 1,370	$ (2,570)	$ (1,200)
LCC	10/1/2014	$ 6,646	$ -	$ 6,646
TSCI	1/31/2014	$ 2,022	$ (657)	$ 1,365

In addition, AR 113.05 does not state explicitly that only inventory adjustments exceeding a net adjustment value of $1,000 are subject to approval by the Materiel Administrator. As a result of the Department's process, significant adjustments with a net adjustment value of $1,000 or less were not brought to the Materiel Administrator's attention. Below is a table identifying 16 such significant but non-reported inventory adjustments.

Canteen	Date	(A) Increase in Inventory	(B) Decrease in Inventory	(A) + (B) Net Adjustment	(A) - (B) Adjustment Absolute Value
NSPS1	2/22/2014	$ 3,920	$ (3,680)	$ 240	$ 7,600
NSPS2	2/22/2014	$ 3,920	$ (3,680)	$ 240	$ 7,600
LCC	6/30/2014	$ 714	$ (567)	$ 147	$ 1,281
LCC	10/31/2014	$ 751	$ (670)	$ 81	$ 1,421
TSCI	9/30/2013	$ 890	$ (1,007)	$ (117)	$ 1,897
TSCI	1/27/2014	$ 2,156	$ (2,033)	$ 123	$ 4,189
TSCI	6/30/2014	$ 1,507	$ (1,507)	$ -	$ 3,014
TSCI	6/30/2014	$ 1,685	$ (2,247)	$ (562)	$ 3,932
TSCI	10/31/2014	$ 856	$ (847)	$ 9	$ 1,703
OCC	8/30/2013	$ 385	$ (976)	$ (591)	$ 1,361
OCC	9/30/2013	$ 895	$ (317)	$ 578	$ 1,212
OCC	12/31/2013	$ 530	$ (789)	$ (259)	$ 1,319
OCC	1/28/2014	$ 2,620	$ (2,508)	$ 112	$ 5,128

13. Lack of Controls Over Canteen Adjustments (Continued)

Canteen	Date	(A) Increase in Inventory	(B) Decrease in Inventory	(A) + (B) Net Adjustment	(A) - (B) Adjustment Absolute Value
CCCL	10/3/2013	$ 428	$ (1,335)	$ (907)	$ 1,763
CCCL	1/27/2014	$ 2,705	$ (2,570)	$ 135	$ 5,275
NYCF	1/27/2014	$ 974	$ (956)	$ 18	$ 1,930

AR 113.20, Attachment E, states that acceptable canteen inventory variances can differ based on the unit price and quantity sold. What constitutes an acceptable variance is not specified, however. A good internal control plan requires a written policy documenting acceptable variances to ensure that the underlying administrative regulation is applied consistently.

We requested the acceptable inventory variances at the nine Department canteens, none of which had a written policy containing that information. Tecumseh State Correctional Institution and the Work Ethic Camp claimed to have an unwritten policy.

From the initial 18 adjustments identified on page 65, we selected 182 adjusted items to determine if there was support to explain why the adjustment was necessary. For 169 of the 182 adjusted items selected for testing, the canteens could not provide documentation to explain why the adjustment was made. A listing of the 169 adjusted items and the amounts adjusted can be found on **Exhibit J**.

Lack of support for adjustments, inaccurate inventory records, and an absence of written policies increase the risk of theft or loss of inventory. Additionally, when adjustments are not reviewed and approved by the proper personnel, there is an increased risk that errors, irregularities, or abuse may remain undetected.

We recommend the Department take the following action:

- Implement procedures to ensure accurate inventory records are maintained.
- Implement a written policy on acceptable variances for canteen items.
- Retain documentation to support inventory counts and explanations for any discrepancies between the physical and CIT counts.
- Ensure all canteen inventory adjustments and support are reviewed and approved by the proper staff, per AR 113.20 and AR 113.05.

Department's Response: Items noted have been addressed. Inventory adjustments are researched following physical inventories and reported to the DCS Materiel Administrator and Controller along with the analysis of any issues. Insufficient explanations are noted and facility

13. Lack of Controls Over Canteen Adjustments (Concluded)

staff is required to complete additional research. Damaged goods are required to be adjusted weekly and physical inventories must now be completed at least four times a year and once in each quarter. Administrative Regulation 113.20 has been revised to provide more guidance to staff.

14. Emergency Cash Fund and Inmate Trust Fund Noncompliance

Neb. Rev. Stat. § 83-914 (Reissue 2014) authorizes the Department to create an Emergency Cash Fund, not to exceed $6,000, at each of its correctional facilities and the Central Office. That statute requires a monthly accounting of the emergency cash activity to be made to the Department's Director.

Sound business practices require all reconciling items to be accounted for in an account reconciliation in order to ensure that the Emergency Cash Fund reconciles to the authorized balance. Sound business practices also require that an ongoing record of an account's book balance be kept in order to be able to reconcile it to the bank balance.

A good internal control plan and sound business practices require signature cards for authorized signers on accounts to be updated in a timely manner after a designated signatory terminates employment with the Department. Likewise, all accounts used for State business should be set up under the State's Federal Tax Identification Number (FTIN).

The Department is solely responsibility for maintaining the following bank accounts:

Outside Bank Account Name	Authorized Balance	Reconciliations Properly Completed in a Timely Manner	Emergency Cash Fund Activity Reported to the Director per § 83-914	Authorized Signers Appropriate as of June 30, 2015
CO Emergency Cash	$ 6,000	Yes	No	No
OCC Emergency Cash	$ 2,000	No	No	No
NCCW Emergency Cash	$ 1,500	Yes	No	Yes
Inmate Trust	$ 40,000	No	N/A	No

The Department's Inmate Trust Fund is used to write support checks to inmate family members, make inmate-initiated purchases, and pay inmate account balances upon release. Checks written from the Inmate Trust Fund between July 1, 2013, and December 31, 2014, totaled $5,139,863.

The three Emergency Cash Funds were used for payments to released inmates when a check from the Inmate Trust was not possible, refunds for inmate holiday gift plans, and to place inmate stamp club orders. From July 1, 2013, to December 31, 2014, a combined total of $18,656 in checks cleared the Emergency Cash Funds.

14. Emergency Cash Fund and Inmate Trust Fund Noncompliance (Continued)

Reconciliations

Because OCC did not perform reconciliations, we were unable to determine whether there were reconciling items or if its Emergency Cash Fund balanced to the authorized amount. We also noted that there was not a book balance, as OCC did not keep a running balance of the account.

During a review of the June 2014 Inmate Trust Fund reconciliation, the Department could not provide support for the following:

- Five of five reconciling items tested, totaling $4,559, for the Inmate Trust Fund's institutional accounts.

- Six reconciling expense items that each exceeded $500 on the Department's reconciliation between Enterprise One (E1), the State's accounting system, and the Corrections Information and Tracking (CIT) application, used to track inmate accounts.

- Two reconciling items that each exceeded $500 on the Department's reconciliation between E1 and CIT revenues.

- One $23,432 reconciling item between CIT activity and bank activity.

Additionally, for the June 30, 2014, reconciliation, the Department could not provide a detailed listing of outstanding checks totaling $46,449.

It was noted also that the June 2014 Inmate Trust Fund reconciliation of bank activity to activity entered into CIT included a $583 direct deposit to a particular inmate's account as a reconciling item. Because this item was deposited into both the Inmate Trust Fund bank account and the inmate's CIT account in June 2014, it should not have been a reconciling item.

A similar finding was noted in our prior report.

As of July 2015, a reconciliation of the Inmate Trust Fund had not been completed since October 2014.

Signature cards

According to Department staff, as of June 30, 2015, the same four authorized signers were on both the CO Emergency Cash account and the Inmate Trust account. It was noted, however, that one of the authorized signers terminated employment with the Department effective September 16, 2013, and a second terminated employment effective May 1, 2015. A review of bank records revealed also that no signature cards were on file at the bank for the CO Emergency Cash account.

14. Emergency Cash Fund and Inmate Trust Fund Noncompliance (Continued)

The signature cards for the OCC Emergency Cash account had not been updated since 1990. The authorized signers on file with the bank included the following: one employee who terminated July 2, 2010; a second employee who terminated, but the date could not be verified; the former Director, who terminated September 16, 2013; and the former OCC Business Manager, who terminated February 28, 2014. It was also noted that the OCC account is not under the State's FTIN.

Failure to report emergency cash account activity and reconciliations to the Department's Director on a monthly basis constitutes a violation of § 83-914. Furthermore, without a timely and complete reconciliation, there is a greater risk for fraud and errors to occur and remain undetected. When authorized signers on accounts are not updated in a timely manner and when accounts used for State business are not set up under the State's FTIN, moreover, there is an increased risk for loss or misuse of State funds.

Petty Cash Amount Recorded

The Department was unable to provide support for the $11,100 recorded as General Fund petty cash in the State's accounting system. As mentioned above, $6,000 was for the Central Office Emergency Cash account, $2,000 was for the OCC Emergency Cash account, and $1,500 was for the NCCW Emergency Cash account. The Department could not account for the remaining $1,600. The Department was also unable to provide support for the $1,300 Canteen Accounts Fund petty cash. Of the $1,300, $600 was for the CCCL Cash Canteen. The Department could not account for the other $700.

Failure to provide an accurate account for all petty cash funds increases the risk for loss or misuse of State funds.

> We recommend the Department ensure its facilities provide the Director with an adequate monthly account for the Emergency Cash Fund accounts and properly report activity to the Director, as prescribed by statute. We also recommend the Department implement a process to allow the timely reconciliation of the Inmate Trust Fund. We further recommend the Department ensure account signature cards are updated timely, reflecting the current signatories, and all accounts used for State business are set up under the State's FTIN. Finally, we recommend the Department ensure all petty cash funds are accounted for and recorded correctly in the state accounting system.

Department's Response: Emergency Cash reports will be completed monthly and reported as deemed appropriate. We agree that timely reconciliation of the Inmate Trust Fund should be completed; however, due to simultaneous staff absences this was not completed. We believe this is a one-time occurrence. The signature cards have been updated; however, access to checks is restricted. We will review the records for petty cash funds and assure that they are correct in the State's system.

14. Emergency Cash Fund and Inmate Trust Fund Noncompliance (Concluded)

APA Response: We understand staff absences can cause delays in reconciliations; however, if staff absences are going to result in significant delays, we would recommend the Department train additional staff so that reconciliations can be performed in a timely manner.

15. Unable to Locate Assets

Neb. Rev. Stat. § 81-1118.02 (Reissue 2014) states the following, in relevant part:

> *(1) Each executive, department, commission, or other state agency, including the Supreme Court, the Board of Regents of the University of Nebraska, and the Board of Trustees of the Nebraska State Colleges, shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission, or other state agency as of June 30 and shall be completed and filed with the materiel administrator by August 31 of each year.*
>
> *(2) If any of the property of the state, referred to in subsection (1) of this section, is lost, destroyed, or unaccounted for by the negligence or carelessness of the executive, department, commission, or other state agency, the administrator shall, with the advice of the Attorney General, take the proper steps to recover such state property or the reasonable value thereof from the executive, department, commission, or other state agency charged with the same and from the person bonding such executive, department, commission, or other state agency, if any.*

The annual inventory letter that the Department sent to its facilities conducting the fiscal year ended June 30, 2013, physical inventory stated the following:

> *A "UL" status indicates that the asset could not be located during the previous annual inventory. Any assets that have been listed with this status in 20012 [sic] and 2013 should be highlighted and requested by memorandum to be removed from the listing.*

Good business practices require that a clear and strictly observed policy be in place for how long a missing asset should be designated as "unable to locate" (UL) before being removed from the Department's asset listing.

As of December 31, 2014, the Department's capital asset listing contained 86 assets, totaling $193,886, with a UL status. Of this total, we noted the following:

- Eighty-three assets, totaling $184,154, had a UL status as of June 30, 2012, and June 30, 2013.
- Twelve assets, totaling $20,429, had a UL status as of June 30, 2008, the end of the period covered during our previous review of the Department.

See **Exhibit K** for a complete listing of assets identified as UL.

The Department lacked a clear and strictly observed policy for when missing assets with a UL status should be removed from its capital asset listing. Furthermore, the inability of the Department to locate several assets prevented full compliance with the annual inventory requirement in § 81-1118.02.

15. Unable to Locate Assets (Concluded)

Without adequate policies and procedures in place for when UL assets should be removed from the Department's capital asset listing, there is an increased risk of theft or misuse of State property and noncompliance with State statute.

> We recommend the Department implement adequate procedures to ensure its assets are safeguarded and readily locatable, including a clear and strictly observed policy for when missing assets with a UL status should be removed from its capital asset listing.

Department's Response: The Administrative Regulation has been updated to provide additional oversight of this process. The Department worked to resolve as many of the items as possible and where appropriate remove items from the listing. For FY2014-2015 the Department only had 8 items on the Unable to Locate List reported to DAS Materiel; two of these items have subsequently been located.

16. Lack of Controls Over Receipts

We reviewed the Department's procedures for receipting monies at the various facilities. This included making observations of procedures and performing testing to verify procedures were in place to ensure all monies received were properly accounted for and deposited. During our fieldwork, we noted a lack of control over the various areas where monies are received by the facilities.

Review of General Ledger

A good internal control plan and sound business practices require that the General Ledger (GL) detail be reviewed to ensure deposit documents are properly posted.

During fieldwork, we noted the Department did not review the GL detail to ensure all deposit documents were properly posted. Some Department personnel reviewed GL post reports and batch deposit reports to ensure the deposit documents they processed were properly posted to the GL; however, not all Department personnel did so, and the reviews performed were not always documented. Additionally, the Department did not have a documented process in place to review the GL detail.

We noted also that WEC did not send deposits to Central Accounting but instead made deposits at the Wells Fargo Bank in McCook, Nebraska, and then sent the deposit information to Central Accounting. Central Accounting was responsible for entering that information into EnterpriseOne (E1). WEC did not compare the Wells Fargo deposit information to the information entered into E1 to ensure that it agreed.

> We recommend the Department implement a periodic documented review of the GL detail to ensure deposits are properly posted.

16. Lack of Controls Over Receipts (Continued)

Department's Response: The Department will implement a procedure to assure that all Deposit Documents have been posted and provide documentation on the document via date and initials of the person completing the verification.

Mailroom Procedures

A good internal control plan requires procedures to establish initial control over receipted monies, including having more than one individual involved in opening the mail and creating a record of monies received at the facilities. A good internal control plan also requires procedures to ensure all monies received are adequately safeguarded at all times, including limiting the number of personnel with access to monies to only those whose job duties would require such access.

During tours of the correctional facilities, we noted that two individuals did not open and record receipts together to establish initial control over monies received; instead, each individual opened the mail and recorded receipts separately. Additionally, we noted the following:

- NSP, LCC, NCCW, and OCC had only one individual open the mail on Saturdays.
- CCCL receipts from the morning mail delivery were placed in an unlocked box until the afternoon mail was received.
- At CCCO, approximately 15 individuals had keys to the locked cabinet where receipts were held until they were delivered to OCC.
- At CCCL and NCYF only one individual was responsible for opening the mail at all times.

Without effective controls over the initial receipting of money, there is increased risk for the loss or misappropriation of funds. Also, without an adequate segregation of duties and the proper safeguarding of receipts, an individual has the opportunity to perpetuate and conceal fraud.

> We recommend the Department implement procedures to establish initial control over receipted monies. We also recommend the Department ensure all money is safeguarded at all times.

Department's Response: Compensating controls exist with inmate funds being receipted. Family and friends sending funds identify in their correspondence that funds were sent or indicates such via phone conversations. Inmates have reported these issues and situations have been resolved successfully.

We agree that money should be safeguarded and will review the procedures to secure the funds prior to sending the funds to Central Office Accounting.

APA Response: We recommend the controls over receipts be within the Department and not be based on the reliance of an outside party.

16. Lack of Controls Over Receipts (Continued)

Meal Ticket Receipts

Neb. Rev. Stat. § 84-710 (Reissue 2014) requires receipts of $500 or more to be deposited with the State Treasurer within three business days. Receipts of anything less must be deposited within seven days.

Per Administrative Regulation (AR) 113.01(XIX)(D), "Fiscal Management," Business Managers are responsible for maintaining a meal ticket inventory with a log of all tickets issued and not issued to sellers. Business Managers are also responsible for periodically preparing a reconciliation of meal ticket money receipted to the logs.

During our review of meal ticket procedures at all of the facilities, as well as cash counts of meal tickets at five of the facilities, we noted the following:

- At NSP, the same individual who sold meal tickets was also responsible for completing the reconciliation of meal tickets.

- The money from meal ticket sales at NSP was not properly secured.

- NSP deposited a total of $222 on June 1, 2015, from meal ticket sales dated May 4, 2015, through May 19, 2015, or 6 to 21 days late.

- On April 2, 2015, LCC deposited a total of $48 from meal ticket sales from March 20, 2015, through April 1, 2015. The tickets sold on March 20, 2015, were six days late, and the tickets sold on March 24, 2014, were two days late. The total of the late sales deposits was $43.

- On April 14, 2015, CCCO deposited a total of $27 from meal ticket sales from March 24, 2015, through April 2, 2015, or 5 to 14 days late.

- Two facilities did not deposit monies from meal ticket sales in a timely manner. WEC deposited meal ticket proceeds only once every other week, and NCYF made deposits only once every two weeks.

- Two checks on hand at NSP totaling $63 were not restrictively endorsed.

Without an adequate segregation of duties and the proper safeguarding of receipts, an individual has the opportunity to perpetuate and conceal fraud. There is also an increased risk of loss or misuse of State funds when checks are not restrictively endorsed. Moreover, when receipts are not deposited timely, the Department is not in compliance with § 84-710.

16. Lack of Controls Over Receipts (Continued)

> We recommend that the Business Manager complete the reconciliation of meal tickets and review controls to ensure receipts are adequately safeguarded, including keeping them in a locked container and restrictively endorsed. We also recommend the Department implement procedures to ensure monies are deposited timely in compliance with § 84-710.

Department's Response: Procedures for selling and reconciling meal tickets at NSP were modified to provide a segregation of duties prior to completion of the audit. Remitting meal ticket sales in accordance with 84-710 was addressed with the Business Managers.

Facility Money & Miscellaneous Receipts

As noted already, § 84-710 requires receipts of $500 or more to be deposited with the State Treasurer within three business days. Receipts of anything less must be deposited within seven days.

AR 113.02(I)(B), "Inmate Accounting," states the following:

> *A reentry confiscated account will be established to hold unauthorized funds, funds in violation of a department rule, tokens, or picture tickets received by or on possession of an inmate. The reentry confiscated account is a separate account from the inmate's institutional account and is a non-interest-bearing account.*

A good internal control plan and sound business practices require the following:

- The Department ensures all money received is deposited in a timely manner.
- Procedures are in place to ensure all monies received are adequately safeguarded.
- Facilities ensure that facility money receipts are on file and verified by facility staff in a timely manner.
- Facility staff ensures that all monies deposited are properly receipted into E1 by Central Accounting staff.

Money sent to the facilities for inmates was received and entered into the Corrections Information and Tracking (CIT) application, the Department's application used to track inmate funds. The funds were then sent to Central Accounting and compared to CIT and then deposited with the State Treasurer. After this, Central Accounting completed a facility money receipt, listing the receipt numbers and the amount deposited and sent it to the facility. Upon receipt of the facility money receipt, the facility was to compare the deposit to what the facility had sent to Central Accounting to ensure the amounts agreed. The facility signed and dated the facility money receipt to indicate the deposit agreed to its records.

16. Lack of Controls Over Receipts (Continued)

The facilities were not able to provide signed facility money receipts for 23 of 35 inmate receipts tested. In some cases, the receipt had not been signed by the facility. In other instances, no facility money receipt was available. The facilities could only support $46,415 of the $208,397 deposited on the facility money receipts tested.

When a facility received money not designated for an inmate, a miscellaneous receipt was prepared to document the arrival of the funds. Along with that receipt, the money was sent to Central Accounting, whose staff then prepared a facility money receipt that documented the miscellaneous receipt numbers and the amount received from the facility. After signing and dating it, Central Accounting staff sent the facility money receipt back to the facility. The facility then signed and dated the facility money receipt to verify that the monies sent to Central Accounting agreed to what was deposited.

During testing of 30 miscellaneous receipts, the APA noted the following:

- One receipt for $7,463 was received on February 6, 2014, but not deposited until February 14, 2014, 12 days after it was received.

- LCC lacked a facility money receipt for $6,424 received on July 10, 2014.

- One facility money receipt for a miscellaneous receipt from TSCI was not signed by facility staff and did not agree to the miscellaneous receipt. The amount noted as received by Central Accounting staff was $97.38, but the amount of the receipt was $96.88.

- Five facility money receipts were not documented as having been verified by facility staff in a timely manner.

Facility	Receipt Number	Date Received	Date Verified	Amount
NCCW	13611	9/19/2013	5/4/2015	$ 400
CCCL	117355	1/1/2014	2/12/2014	$ 379
TSCI	2569	3/26/2014	7/1/2014	$ 32
CCCL	117635	9/16/2014	2/6/2015	$ 565
CCCL	117719	12/2/2014	2/6/2015	$ 600

- No facility money receipt was prepared for a miscellaneous receipt from WEC. After depositing the money into a McCook, Nebraska, bank account, WEC notified Central Accounting of the deposit by email. Central Accounting then prepared the deposit document in order to record the deposit into E1. However, WEC did not verify that the deposit was properly entered into E1 by Central Accounting.

16. Lack of Controls Over Receipts (Continued)

- One receipt totaling $59 for confiscated tokens lacked sufficient documentation to determine whether the tokens were attributed to a specific inmate and should have been placed in that inmate's confiscated accounts.

When receipts are not deposited timely, the Department is not in compliance with § 84-710. When facility money receipts are not on file or signed by facility staff to document that verification was performed in a timely manner, there is increased risk of loss or misuse of State funds.

> We recommend the Department implement procedures to ensure monies are deposited timely in compliance with § 84-710. We also recommend the facilities implement procedures to ensure facility money receipts are on file and signed by both Central Accounting and facility staff to document that verification was performed in a timely manner. We further recommend that facility staff ensure all monies deposited are properly receipted into E1.

Department's Response: The Department agrees that funds should be deposited in compliance with 84-710 and will continue to work to meet this requirement. Verifying Facility Money Receipts was discussed with the Business Managers and we will continue to address this issue so that verification is completed and documents retained.

Returned Checks

A good internal control plan and sound business practices require formal procedures for depositing checks made payable to the Department. Likewise, adequate supporting documentation should be maintained for why any such checks were returned and by whom.

We reviewed the Central Accounting receipt log for the period of July 1, 2013, through December 31, 2014. During the review, we noted that one individual logged the money received each day. Returned checks were documented on the log by a second individual. However, that person did not always initial and date the log, and the reason for returning a check was not always documented. The receipt log also failed to identify the person to whom the checks were made payable.

Checks made payable to the Department should be deposited, and a warrant should be made payable to the vendor to return the funds. We also noted that, for a few returned checks, a copy of the letter sent to the vendor and a copy of the returned check were attached to the log, but this was not done for all returned checks.

For the period of July 1, 2013, through December 31, 2014, returned checks totaled $45,358.

16. Lack of Controls Over Receipts (Concluded)

When documentation is not on file to support returned checks, or when checks payable to the Department are returned rather than deposited when received, there is an increased risk for loss or theft of State funds.

> We recommend the Department implement procedures to ensure checks made payable to the Department are deposited when received, and warrants are issued when funds are to be returned to ensure an adequate audit trail of documentation is on file. We also recommend the Department implement procedures to ensure a second individual, separate from the person who recorded the initial receipt on the receipt log, records returned checks on the receipt log. This would include documenting the reason why the check was returned, maintaining a copy of the letter sent to the vendor and a copy of the returned check, and the initials and date of the individual who was responsible for returning the check.

Department's Response: We will review our practice in regards to checks received inappropriately and discuss with our legal counsel. The process we have been using for returned checks will be discussed with staff and identify the information recommended.

17. Coding Errors

A good internal control plan requires the Department to implement procedures to ensure transactions are correctly coded in EnterpriseOne (E1), the State's accounting system, for proper financial statement presentation.

During testing, we noted the following 13 instances of coding errors:

- One receipt for $186,629 was coded to a Federal fund; however, there was no indication that the money constituted pass-through funds from the Federal government. Instead, the money appeared to be private funds.

- The Department recorded revenue twice in two separate funds. Revenue in the amount of $73,586, which was withheld from inmate work release pay, was recorded in Funds 64612 (Inmate Trust) and 24680 (Reentry Cash Fund) instead of as a transfer for the Reentry Cash Fund.

- On September 25, 2013, which is in fiscal year 2014, the Department transferred $13,508 of parole program fees collected from August 2012 through June 2013; however, those funds should have been transferred from the Inmate Trust Fund to the Parole Program Cash Fund in fiscal year 2013. This late transfer caused revenue to be incorrectly recorded for Comprehensive Annual Financial Report (CAFR) presentation purposes.

17. Coding Errors (Continued)

- Proceeds totaling $22,599 from the sale of surplus property was incorrectly coded to Miscellaneous Revenue instead of to Sale of Assets.

- For 1 of 13 non-Transportation Services Bureau travel expenditures, $983 appears to have been incorrectly coded as operating, rather than as travel, expenditures.

- One miscellaneous General Fund expenditure included a freight expense, which was recorded as a payable and an expenditure at an amount of $7,465 rather than the correct amount of $86.

- An expenditure for September 2014 Information Management services was paid to the Department of Administrative Services in November 2014. The entire expenditure was coded to the General Fund, but it should have been coded partially to the Correctional Facility Cash Fund. A journal entry to move $53,621 from the General Fund to the Correctional Facility Cash Fund was completed in June 2015, four months after the APA requested to review the original invoice. The journal entry was not performed timely.

- Seven entries to move pop token revenue from the Canteen Fund to the Inmate Welfare and Club Accounts Fund were incorrectly coded in the accounting system. Due to that miscoding, canteen revenue was understated by $27,212. The resulting understatement of canteen profits could have led to fewer transfers to the Inmate Welfare and Club Accounts Fund than required by Neb. Rev. Stat. § 83-915.01 (Reissue 2014).

- Vending machine commissions totaling $3,364 were paid to the Department and coded to the Canteen Fund. However, based upon a determination that vending machines are unrelated to the canteens, those receipts should have been coded instead to the Inmate Welfare and Club Accounts Fund. Additionally, $448 of vending machine commissions were coded to the Correctional Facility Cash Fund when they should have been coded to the Inmate Welfare and Club Accounts Fund.

- Receipts received at the CCCL canteen for debit calling purchases were recorded to the Canteen Fund when they should have been recorded into the Inmate Trust Fund, as that is the fund the Department uses to pay the debit-calling vendor. Receipts had been recorded in the incorrect fund since March 2011 and totaled $143,147 through December 2014. Additionally, because these receipts were incorrectly recorded in the Canteen Fund, revenues and profits in the Canteen Fund were overstated, which would have resulted in improper transfers to the Inmate Welfare and Club Accounts Fund per § 83-915.01.

- The Department did not perform a periodic review or comparison of CIT canteen sales to E1 receipts to ensure entries made in E1 were accurate. During a reconciliation of CIT canteen sales for the period July 1, 2013, through December 31, 2014, to canteen receipts

17. Coding Errors (Concluded)

on E1, it was noted that non-taxable sales in CIT were understated by $12,301. Of this amount, $6,773 was recorded in fiscal year 2014, causing the transfer to the Inmate Welfare and Club Accounts Fund to be understated by $6,773. The remaining $5,528 was recorded in fiscal year 2015, and transfers to the Inmate Welfare and Club Accounts Fund were not completed until fiscal year end.

- One of 32 items spot-checked during the Central Warehouse annual physical inventory was improperly adjusted in E1. Both the APA and Department employees counted 120 dozen large white T-shirts. However, a count of 121 dozen was entered into E1, resulting in a variance of $19.

- For three of nine inmates tested, E1 journal entries transferring Confiscated Fund amounts back into the Inmate Trust Fund were not made in a timely manner. One inmate's confiscated amount was transferred in CIT in November of 2014; however, a journal entry in E1 was not made until March 30, 2015. For the other two inmates, confiscated amounts were transferred back to their institutional accounts in CIT in December 2014 and February 2015; however, journal entries to move those funds in E1 were not made until June 1, 2015. The APA originally requested to see the journal entries moving the funds on April 28, 2015.

When transactions are not correctly coded in E1, there is an increased risk for misuse of State funds and improper presentation of the Department's financial statements.

> We recommend the Department implement procedures to ensure transactions are coded correctly in E1 for proper financial statement presentation.

Department's Response: We agree that it is important to minimize coding errors and will review our procedures to identify improvements.

18. Computer Application Access

The Department utilizes a number of different computer applications in its day-to-day activities. Four applications were reviewed during the examination:

- CIPS – used to enter and record inmate payroll

- KRONOS – used as a timekeeping application for Department employees

- Kalos – used by the Central Pharmacy to track medication inventory and request/approve inmate prescriptions

- CIT – used to record Canteen inventory and sales as well as to track inmate funds

18. Computer Application Access (Continued)

Nebraska Information Technology Commission (NITC) Standard 8-301, "Password Standard," requires State of Nebraska passwords to have at least eight characters and contain three of the following four: uppercase character, lowercase character, numeric character, or symbol. This standard also states that passwords should not be able to be reused within 365 days.

Administrative Regulation (AR) 104.06(II)(A)(2), "Computer Equipment and Telephone Usage," states, "When an employee leaves NDCS, it is required that the employee access to NDCS computing resources is blocked immediately or on their termination date." This AR states further, "[D]uring normal business hours, Human Resources will distribute current listings of employee's separating from employment with NDCS."

AR 104.06(II)(B)(1) requires passwords to expire at least every 90 days, have at least eight characters, and contain three of the following: upper and lower case alpha, numeric, and special characters.

A good internal control plan requires procedures to ensure computer application users are granted the appropriate access and, when users terminate, their access is removed in a timely manner.

A good internal control plan also prohibits the use of generic IDs because they are not directly tied to a specific employee and, therefore, lack accountability.

Kalos

The Department did not have a formal process for notifying the Central Pharmacy of terminated users. Unlike all the other Department computer applications, the Central Pharmacy granted and removed user access to Kalos. The Department's Human Resources (HR) notified the Department's Help Desk when employees terminated; however, HR did not notify the Central Pharmacy of the same terminations. As a result, during a comparison of active Kalos user IDs and the Department's current employee listing, the following was noted:

- Seven of 17 generic IDs had been used to access Kalos. Two of those IDs had been used as recently as May 2015.

- One hundred and eight user IDs could not be traced to current or terminated Department employees or contract employees. None of the Department's HR, IT Help Desk, or Medical areas were able to provide a listing of current contract employees to compare to these 108 user IDs.

- The Department had 101 active Kalos user IDs tied to terminated employees. Twelve of the 101 terminated employee IDs appear to have been accessed after the employees' termination dates.

18. Computer Application Access (Continued)

It was also noted that Kalos password settings had to contain a minimum of only two characters, did not require passwords to expire, and did not restrict the reuse of passwords. It did not appear that Kalos allowed for password complexity settings; however, passwords were permitted to be periodically reset, and the reuse of passwords could be restricted. In addition, Kalos could have been set to require passwords to be at least eight characters long.

When passwords are not sufficiently complex, there is an increased risk of unauthorized access to Kalos. Sufficiently complex passwords are particularly important when the application is used to issue and track inmate medications. Additionally, without procedures in place to notify the Central Pharmacy of terminated employees and contractors, there is an increased risk that user access for such individuals will not be terminated in a timely manner.

> We recommend the Department implement procedures to ensure Kalos meets the security settings required by NITC standards and the Department's internal administrative regulations. We also recommend the Department implement procedures to notify the Central Pharmacy of employee and contractor terminations, so user access for those individuals can be removed timely. We further recommend the Department consider moving the administration of Kalos user access to the Department's Help Desk, which manages user access for all the other Department applications.

Department's Response: The Department agrees that we need to improve the process with Kalos and will be determining the best location for this to be completed. Health Services Business Office will be responsible for notifying the DCS Help Desk on contractor changes.

CIPS and CIT

Nine Central Accounting employees had access to make changes directly to the CIT tables, which permitted them also to bypass CIT security.

During the examination period, the Department reused CIT IDs and did not maintain any documentation to identify an employee who used a particular ID. When employees terminated from the Department, the Help Desk revoked the user ID and then changed the name tied to the ID to "Open," so the ID's access was left open. When a replacement was hired, the Help Desk would change the employee name associated with the ID, but no documentation was maintained to identify the employee who had used it previously. As a result, the Department lacked accountability for user access, being unable to determine what transactions a particular employee had made.

During testing, a list of active user IDs for both CIPS and CIT was obtained and compared to the active employee listing. The following was noted:

18. <u>Computer Application Access</u> (Concluded)

- Four CIPS user IDs that had previously belonged to terminated employees were still listed as active and were assigned roles within CIPS.
- Two CIT user IDs, with Update access in CIT, could not be traced back to an employee. These IDs had last been used to log into CIT in March 2015.
- Eight CIT user IDs that had previously belonged to terminated employees still had Update access in CIT and had been used to log into CIT after the employees' termination.
- One CIT user ID was listed as "Open," had Update access in CIT, and had been used to log into CIT either during the examination period or after. The Department could not identify who had previously used the ID.

Also, during a test to determine if terminated users had their access removed in a timely manner, we noted that 9 of 11 such users did not have their access removed timely. For 3 of the 9, no documentation was on file to support when the access was removed. The other 6 employees' access was removed between 8 and 89 days after termination.

During testing of 10 new hires, we noted the following:

- Eight new hires were granted access to CIPS; however, one of those did not require the access. Instead of being granted access to CIPS, that one new hire should have been permitted access to Kalos.
- For six of seven new hires granted access to CIT, the Help Desk lacked adequate documentation to support that such access was appropriate. The CIT access request forms on file did not agree to the employees' access in CIT.

Without adequate procedures to grant and restrict user access to Department computer applications, there is an increased risk of unauthorized access.

> We recommend the Department implement procedures to restrict the ability of Central Accounting staff to access and insert or update data directly in a CIT Table. We also recommend the Department implement procedures to ensure CIT user IDs can be tied to past employees if an ID is reused. Further, we recommend terminated user access be removed in a timely manner, and documentation be maintained to support the access granted to employees.

Department's Response: The DCS Help Desk is to maintain records of staff authorized to access these systems through an application process with approval from Accounting. When an employee terminates employment with DCS the Help Desk will now remove all authorization associated with that ID so that data cannot be accessed by anyone.

We agree that we need to be able to track an ID to an employee and will require the DCS Help Desk to develop a mechanism for retaining this information.

19. Manual Processes

During our examination, we noted that the Department relied on many manual processes to perform a number of its day-to-day activities. Relying on manual processes increases the risk of errors being made and not identified in a timely manner. In addition, manual processes increase the amount of staff time spent on activities that are of relatively low importance to the Department.

To start, the Department's medical records processes involved many paper forms being completed, approved, and then maintained in the inmate's file, which was stored at the facility in which the inmate was housed. Because they were manually completed and stored at the inmate's facility, the inmate medical records were not readily available for the medical division to compare to the BCBS invoices or other provider billings for appropriateness.

Likewise, the process for initiating an inmate trust check began with the inmate completing a manual form, which then required Central Accounting to enter the check data into two separate computer applications, apply a check signature, and then mail the check. This process required significant staff time to enter checks into two separate applications, affix the proper signature on the check, and perform a review to ensure that the check data agreed to the inmate's original request.

When funds were sent to inmates, moreover, facility staff entered the receipts into the Corrections Information and Tracking (CIT) application, the Department's application used to track inmate funds and inmate data. The receipts were then sent to Central Accounting for review before being posted to the inmate's account.

As mentioned in Comment 9, some of the institutions relied also on manual cards to track their inventory for food, clothing, and other supplies. It was noted also that the medical areas at the facilities maintained inventories of medications and medical supplies using manual records.

The Department also tracks the distribution of medications to inmates using manual records. In Comment 8 we addressed how the Department manually tracks whether inmates have taken prescribed medication. Those records do not always indicate which medications were taken or refused by the inmate.

Additionally, inmates used timecards, and the time entered on the timecards was manually calculated. The timecards were then used to calculate inmate hours worked and entered into CIPS, the Department's inmate payroll application. Due to the Department's definition of overtime for inmate incentive, the Department had to recalculate inmate hours worked rather than simply use the data already entered into CIPS. As a result, staff hours were used to recalculate inmate hours that had already been calculated. See more information in Comment 54.

Furthermore, some of the documentation used to support the rates charged by CSI was written manually on pieces of paper. The pieces of paper had numerous manual calculations, and it was not always clear what calculation or notes were support for the rate tested. Such a seemingly haphazard manual processes could lead to calculations that not only contain errors but also are inconsistent for products.

19. Manual Processes (Concluded)

Manual processes increase both the risk of errors being made and the amount of staff time needed.

> We recommend the Department evaluate its current processes to determine if procedures can be automated in order to reduce both the possibility of errors and the staff time spent on processes of relatively low importance.

Department's Response: We agree that manual processes should be automated and we continue to look for methods and systems to meet our needs. CSI is changing their method for calculating inmate incentive payments and will begin using data in CIPS for FY2015-2016 payments.

20. Shredding of Personnel Files

Title 273 NAC 12-002 states, "Each agency covered by the State Classified Personnel System shall maintain certain personnel records." Among those, as listed in Title 273 NAC 12-002.04, are "[r]ecords of documents initiated by the employee that affect pay (W-4's, authorized deductions, etc.)."

Sound business practices include procedures to ensure temporary employees are adequately trained and monitored.

For 1 of 50 employees tested, the personnel file was incomplete because a temporary employee shredded personnel items that were over 10 years old. The employee tested did not have a W-4 on file or support for his biweekly union dues deduction. A memo in the employee's personnel file explained that, during the Department's conversion to electronic files, a temporary employee had incorrectly shredded part of the file's contents.

Per a Department of Personnel administrator, the temporary employee was trained at the Department's Central Office for only a day and-a-half prior to being allowed to begin scanning files. The temporary employee was taught to organize the files and was also given a flowchart that explained what to do with every type of document. One line on the flow chart for terminated employee files stated that any employees who had been terminated for over 10 years could have their documents shredded. This may have confused the temporary employee, who shredded everything over 10 years old, including W-4's, original hire letters, promotion letters, and various other documents, in all employee personnel files. Having been stored separately, employee I-9 forms were spared.

The temporary employee scanned files for six weeks in August and September 2013 for three of the Lincoln facilities, NSP, LCC and DEC. The Department did not catch the mistake until February 2014, after the temporary employee was gone. Based upon the number of employees who worked in those three facilities and had also been with the Department for over 10 years, the Department estimated that 298 employees could have been affected by the temporary employee's shredding error. A letter explaining the mishap was sent to each of those employees on August 12, 2014.

20. Shredding of Personnel Files (Concluded)

The Department has not developed a review process for the employee files to determine if new forms need to be completed or if documentation should be prepared to account for missing items.

> We recommend the Department review any files at risk of having been affected by the shredding mistake to ensure they contain all necessary forms, such as the W-4 and documentation for deductions. We also recommend the Department ensure temporary employees are adequately trained and monitored.

Department's Response: We agree this was an unfortunate incident and the necessary forms have been obtained for individuals still in our employ.

21. Cornhusker State Industries (CSI) Rates

A good internal control plan and sound business practice require Cornhusker State Industries (CSI) to document formally and to review periodically the price setting of the rates charged to customers.

During testing, it was noted that CSI lacked adequate documentation to support how rates charged to customers were set.

- We tested five laundry service receipts totaling $114,631, with three of the receipts being from Department facilities, one from a county correctional facility and one from a Department of Health and Human Services facility. CSI personnel explained that laundry operations began in 2002, and the beginning rates were determined through cost analysis studies. The rates were increased in July 2007 and again in July 2013. When management determines a rate increase is needed, a request is submitted to the State Budget Office for permission to increase the rate; however, this request is made verbally and not documented.
    - One of the five receipts tested also included a total of $84 in fees received for the rental of laundry mats. CSI did not have a formal price list for laundry mats and did not periodically review pricing. The mat prices were also not included in the contract between CSI and the customer. CSI personnel indicated the pricing for the mats was informally developed in April 2007 and has never changed.
- For one receipt tested, CSI received $115 for providing graphic design services. The contract between CSI and the customer stated the customer would "pay a per-piece price for the balance of cut product based on quotes or pricing agreed upon by both parties involved." The rates charged by CSI were based on a pricing schedule; however, there were no price quotes on file or other documentation showing that both parties agreed to the pricing. CSI personnel provided explanations for some of the variables on the pricing schedule; however, support was not provided for all variables included in the price per part. CSI also could not provide support for the calculation of the $10 set-up fee charged.

21. Cornhusker State Industries (CSI) Rates (Continued)

- A $21,014 receipt tested was from the Department of Roads for road signs. The rates charged for the road signs were based on a sign pricing spreadsheet. According to CSI management, the road sign pricing was based upon a model developed by Iowa Prison Industries. Documentation was provided to support the determination of the rates charged for high intensity sheeting, but none could be provided for diamond grade and fluorescent orange sheeting.

    - This receipt included $4,200 in excess charges to the Department of Roads. This receipt was for the purchase of 200 signs at a cost of $67 each; however, the price should have been billed at $46 per sign.

    - This receipt also included a $310 undercharge to the Department of Roads. The receipt was for an order of 100 signs to be placed on high-intensity sheeting. However, the material actually used on the order was the more expensive diamond grade sheeting. Furthermore, CSI billed the Department of Roads for 100 signs made with fluorescent orange sheeting instead of the costlier diamond grade actually used.

    - The net overcharge to the Department of Roads on this invoice was $3,890.

- For one receipt tested, CSI received $2,194 for eight inmates providing 877.5 labor hours in July 2014 at a rate of $2.50 per hour to construct affordable housing units. However, adequate documentation was not on file to support how the rate charged was set.

- For one receipt tested, CSI received $230 for the spiral binding of 51 units of Braille material at a cost of $4.50 per volume. Adequate documentation was not on file to support how the rate charged was set.

- CSI produces Nebraska State license plates and sells them to the Department of Motor Vehicles (DMV). According to Neb. Rev. Stat. § 60-3,102 (Reissue 2010), the license plate fee may not exceed $3.50 per plate. This includes the cost of both the license plate and the validation stickers.

    - We tested one $740 receipt from the DMV, which was for a $0.06 contingency fee per plate for 12,338 license plates. However, there is no support on file for how the $0.06 fee was determined.

    - We tested a second receipt from the DMV totaling $12,006 for 413,850 license plate stickers at varying unit prices based on the type of sticker (validation, handicap, tonnage, or dealer tax). In 2011, the Department prepared a license plate cost estimate for the six-year (2011 to 2016) license plate cycle, which included a $0.1398 validation sticker per plate estimate; however, there was no documentation on file to support how this amount was determined.

21. Cornhusker State Industries (CSI) Rates (Concluded)

- For one receipt tested, CSI received $380 for 14 storage cases. The order included five different item numbers for the storage cases with varying unit prices. We selected two items to review price setting documentation for the amounts charged; however, documentation could not be provided for either item.

- For one receipt tested, CSI received $673 for 250 key chains at a unit price of $2.69 each. A breakdown for the calculation of the $2.69 per unit price was provided; however, adequate documentation was not available to support the dollar value of the wood component of the key chain, which was $0.10 per key chain.

- For one receipt tested, CSI received $300 for inmate clothing and a footlocker. The order included three sweatshirts, nine sweatpants in varying sizes, and one footlocker, all with varying unit prices. We selected the 3X-size sweatpants and the footlocker to review price setting documentation. Adequate documentation was on file for the footlocker. For the sweatpants, a unit price of $20.25 was charged for sizes 3X to 6X; this was a blended price, as the material needed for each size differed. There was no documentation on file to show how the average cost between the sizes was determined.

- We tested two receipts for envelopes produced by the CSI Print Shop. One receipt totaling $858 was for 30,000 envelopes, and a second receipt totaling $3,194 was for 25,000 envelopes. No documentation was on file to support how the various cost components of the print job were determined – except for the paper stock, which was purchased by CSI through a bidding process.

A similar finding was noted in our prior report.

When price setting for items is not formally documented and periodically reviewed, there is an increased risk of billing disputes and outdated pricing.

> We recommend CSI implement procedures to document formally and to review periodically its price setting for the rates charged to customers.

Department's Response: CSI will review the processes for setting rates and identify a process to document rates as they are modified in the future.

22. Cornhusker State Industries (CSI) Private Venture Program Fees

Sound business practice requires documentation to be maintained to support the reasonableness and appropriateness of fees charged.

CSI participates in the Prison Industry Enhancement Certification Program (PIECP), which is a Federal program that encourages States to establish inmate work routines that approximate private-sector employment opportunities. The program is designed to place inmates in a realistic

22. Cornhusker State Industries (CSI) Private Venture Program Fees (Concluded)

work environment, pay them the prevailing local wage for comparable work, and enable them to acquire marketable skills to increase their potential for successful rehabilitation and meaningful employment upon release.

Each vendor contracting with CSI through PIECP as a "participating private venture" must do so under either the "customer" model or "employer" model. Under the customer model, CSI is responsible for paying inmate wages, which are subsequently reimbursed by the private venture entity. Under the employer model, the private venture entity sends the money to the Department for the inmate wages.

We tested 28 CSI receipts, of which 3 were from private venture partners employed under the customer model. CSI's contractual agreement with each of these partners required the vendors to reimburse CSI for inmate payroll as well as to remit a program fee charged per hour of inmate labor. Per the Department, that PIECP fee was assessed to offset some of the CSI shops' overhead costs, including supervision, utilities, and maintenance. However, CSI acknowledged lacking documentation to support how the program fee amount was determined.

The three CSI receipts tested that included PIECP fees were as follows:

- A $5,475 receipt from a vendor included a program fee of $2 per inmate labor hour. The total program fee included in the receipt was $1,165.

- An $826 receipt from a second vendor included a program fee of $2 per inmate labor hour. The total program fee included in the receipt was $179.

- A $720 receipt from a third vendor included a program fee of $3.10 per inmate labor hour. The total program fee included in the receipt was $167.

When the Department does not retain support for how it determines PIECP fees, there is an increased risk those fees may be unreasonable and inappropriate.

> We recommend the Department retain documentation supporting the PIECP fees charged to ensure they are not only sufficient to cover CSI overhead costs but also not excessive.

Department's Response: CSI will complete a review of the process for their overhead costs.

23. Direct Labor and Direct Overhead Rates

Operational Memorandum (OM) 119.01.10, "Product Pricing," contains the following:

II. Inmate Labor Cost to include all shop costs and Administrative overhead will be current labor plus burden as calculated by CSI Business Office. Standard hours are estimated by Engineering.
III. It is the responsibility of the Business Manager to determine shop overhead costs for operation.
IV. It is the responsibility of the Business Manager to determine CSI Administrative overhead costs.

23. Direct Labor and Direct Overhead Rates (Continued)

A good internal control plan and sound accounting practice require support to be maintained for amounts used in calculating direct labor and overhead rates, those amounts to reflect accurately costs, and rationale to be documented for using past rates when more recently calculated rates are available.

Cornhusker State Industries (CSI) prepares bills of materials to estimate the cost of manufacturing its products. This estimate includes the expected cost of raw materials, labor and overhead, and a set mark-up based upon the product type. The APA tested 21 work orders for products sold to customers and reviewed the related bills of materials, noting the following:

- For all 21 work orders tested with overhead, the labor and overhead rates used to calculate prices did not agree to the rates used to record in Enterprise One (E1), the State's accounting system, the cost of goods sold. Likewise, those labor and overhead rates were not adequately supported.

- There was no documentation to support why labor and overhead rates remained the same after a study to determine new rates was performed. CSI calculated direct labor and overhead rates three times: in fiscal year 2008, using data from the first half of fiscal year 2008; in fiscal year 2011, using fiscal year 2010 data; and again in fiscal year 2013, using fiscal year 2012 data. Some items used the most recent rates calculated in fiscal year 2013, while others continued to use the rates calculated in fiscal years 2011 or 2008.

The APA selected five shops' direct labor and overhead rates to recalculate and traced the figures used in the fiscal year 2011 and 2013 rate calculations to support. The APA noted the following issues with how the rates were calculated:

- Unlike for the other shops tested, the calculation of overhead for Shop 24 did not include bonus payments to inmates as one of that shop's overhead expenses. As a result, the shop's direct overhead rate was calculated to be $12.76 per labor hour, not the $13.19 that it would have been otherwise.

- In the calculation of blended payroll for all of the shops, one shop was listed as having one employee when it should have had two. See the chart below for both the calculated overhead rates and what they would have been if the correct number of employees had been used:

Shop #	Calculated Rate	Correct Rate
Shops 14 and 16 (combined rate)	$ 4.05	$ 3.90
Shop 24	$ 12.76	$ 12.21
Shops 29 and 61 (combined rate)	$ 8.66	$ 8.44

- In recalculating Shop 14's fiscal year 2013 rate, we noted that the total inmate hours on work orders in E1 exceeded the total shop hours paid, suggesting that the amount of hours on work orders in E1 was incorrect. The total hours worked by inmates on work orders in Shop 14 was 40,020 in E1; however, the total hours of work paid to inmates in that shop was 33,837.

23. Direct Labor and Direct Overhead Rates (Concluded)

- For the fiscal year 2013 direct labor and overhead rates, payroll included vacation and overtime hours in the total hours but did not include vacation and overtime pay in the total payroll dollars for one month. The error lowered the direct labor rate for each shop. The largest variance was in Shop 61, which had a labor rate of $0.72 per hour; had vacation and overtime been included in its total payroll dollars, the hourly rate would have been $0.74 per hour.

- For the fiscal year 2011 rate, two shops' depreciation did not match depreciation from E1. For the fiscal year 2013 rate, four shops' depreciation did not match depreciation from E1. The variances are summarized below:

Shop #	Year	Estimate	EnterpriseOne	Variance
Shop 29	2010	$ 9,303	$ 8,251	$ 1,052
Shop 61	2010	$ 32,606	$ 30,502	$ 2,104
Shop 14	2012	$ 8,251	$ 8,027	$ 224
Shop 16	2012	$ 29,431	$ 29,328	$ 103
Shop 29	2012	$ 12,845	$ 11,970	$ 875
Shop 61	2012	$ 23,891	$ 22,566	$ 1,325

- To calculate the direct labor rate for a shop, CSI divided the shop's total inmate payroll paid by the total inmate hours worked to arrive at an average labor rate. For the fiscal year 2011 rate, the amounts used for inmate labor hours were from a manually-created excel spreadsheet generated from time cards, so there was an increased risk the hours used in the calculation could be incorrect.

When supporting documentation is not maintained for amounts used to calculate direct labor and overhead rates, and current rates are not used, there is increased risk that the rates will not accurately reflect actual labor and overhead costs.

> We recommend the Department maintain support for amounts used in calculating overhead and labor rates and use amounts that reflect actual labor and overhead costs. We also recommend that the Department maintain support for the rationale behind decisions to continue using past labor and overhead rates.

Department's Response: Manufacturing operations set estimates for overhead and labor rates. These can vary widely based on the inmates' skill level and the type of work being performed. Actual to estimates may vary significantly.

APA Response: We recommend a periodic review of overhead rates and documentation be maintained for why current rates were not used. Furthermore, we recommend the activity in E1 be an accurate reflection of the prices used to charge customers.

24. Lack of Controls Over Electronic Monitoring Expenditures

The Nebraska Board of Parole (Board), an independent agency, is responsible for the following: reviewing the status of committed offenders; determining when committed offenders are released on parole; fixing parole conditions; revoking parole and issuing warrants to arrest parole violators; and discharging offenders upon the expiration of their parole terms. The Board meets daily, reviewing inmate cases to determine readiness for release into society on parole. If an offender is granted parole, he or she is referred to the Office of Parole Administration (Office) within the Department to obtain approved residence and employment. A Parole Administrator, approved by the Board, manages the Office.

Neb. Rev. Stat. § 83-1,116 (Reissue 2014) contains the following:

> *The board [of parole] may also require, either at the time of the offender's release on parole or at any time while the offender remains on parole, that the offender conform to any of the following conditions of parole:*
>
> . . . .
>
> *(d) Report, as directed to his or her district parole officer;*
>
> . . . .
>
> *(h) Satisfy any other conditions specially related to the cause of his or her offense and not unduly restrictive of his or her liberty or conscience.*

Neb. Rev. Stat. § 83-1,117 (Reissue 2014) provides the following:

> *The Board of Parole may in appropriate cases require a parolee, as a condition of his parole, either at the time of his release on parole or at any time while he remains under parole supervision, to reside in a community guidance center, boarding facility, halfway house, hospital, or other special residence facility, for such period and under such supervision or treatment as the board may deem appropriate.*

Neb. Rev. Stat. § 83-174.03 (Reissue 2014) requires certain sex offenders, upon completing their terms of incarceration or release from civil commitment, to be supervised in the community by the Office for the remainder of their lives. Subsection (4)(g) of that statute includes among the conditions of community supervision available to the Office those "designed to minimize the risk of recidivism, including, but not limited to, the use of electronic monitoring, which are not unduly restrictive."

In Op. Att'y Gen. No. 96047 (June 7, 1996), the Attorney General recognized not only the authority of the Board to require electronic monitoring as a condition of parole but also the obligation of the paroled inmate to pay the costs of such monitoring. The Attorney General explained that conclusion as follows:

> *If the Board concludes that electronic monitoring is an appropriate condition of parole for any of these reasons, the burden of complying with the condition of parole would rest with the parolee. Just as a parolee would be expected to pay the cost of room, board, and transportation to and from a place of employment, a parolee whose parole is conditioned upon electronic monitoring could be required to pay for the cost of that service.*

Reflecting the Attorney General's above determination, Administrative Regulation (AR) 410.15(I), "Electronic Monitoring – Adult Parole Administration," contains the following:

24. Lack of Controls Over Electronic Monitoring Expenditures (Continued)

A parolee being monitored will be responsible for paying for daily costs of electronic monitoring and for any loss of or damage to the monitoring equipment while in his/her possession. Parolees will be billed monthly by the monitoring company and will be responsible for keeping the balance paid.

An exception to the requirement that the parolee pay for the cost of electronic monitoring may have been granted if the fee would prove a significant financial burden to him or her. Similarly, lifetime sex offenders' electronic monitoring was paid by the Department, though this was not specified in AR 410.15.

Parolees required to pay electronic monitoring costs were billed by the Department's vendor, Satellite Tracking of People (STOP). If a parolee failed to pay the electronic monitoring fee, the vendor invoiced the Department for outstanding balances exceeding six months. During the examination period, the Department paid STOP a total of $450,661 for such unpaid fees.

A good internal control plan requires review procedures to be in place to ensure that amounts invoiced are correct and proper.

During testing of expenditures, we examined the October 2013 invoice from STOP. The amount invoiced for the month was $20,528, which included $5,490 for lifetime sex offenders and $15,038 for parolees who had not paid their April 2013 electronic monitoring balances. The payment for the lifetime sex offenders was for October 2013. Our inquiry about the invoice revealed that the Department lacked procedures for ensuring the accuracy of the STOP amount billed. For instance, the Department had no controls in place for determining whether the parolees made any electronic monitoring payments for April 2013. In addition, we inquired as to whether the parole officers followed up with parolees who were not making electronic monitoring payments to remind them of their outstanding balances or document why they had not paid the fees. Per the Department, parole officers occasionally discussed the need for parolees to pay electronic monitoring costs; however, neither those discussions nor the reasons why the parolees failed to pay their balances were documented.

Selecting 10 parolees on the October 2013 invoice from STOP, we requested documentation to support the accuracy of the amounts charged for those individuals. We inquired also whether the parole officers had documented why any of the 10 parolees under their supervision had not paid the electronic monitoring fee. The Department was unable to provide support for the amount billed for the 10 parolees. Furthermore, the Department had no documentation to support why any parolee had failed to pay his or her balance.

Below is a table for the period tested, identifying the following: the number of parolees on electronic monitoring (exclusive of lifetime sex offenders); the total amount billed to parolees for electronic monitoring; the amount paid by the parolees; the amount billed to the Department; and the percentage of electronic monitoring costs paid by the parolees. Because the Department maintained none of this information, we obtained the data directly from STOP.

COMMENTS AND RECOMMENDATIONS
(Continued)

24. Lack of Controls Over Electronic Monitoring Expenditures (Continued)

Time Period	Parolees on Electronic Monitoring	Total Amount Billed to Parolees	Parolee Payments Received	(Note 2) Billed to State	Percentage of Payments Made by Parolees
July 2013	227	$ 27,631	$ 6,955	$ 20,676	25.17%
August 2013	229	$ 28,512	$ 7,082	$ 21,430	24.84%
September 2013	240	$ 28,175	$ 7,523	$ 20,652	26.70%
October 2013	268	$ 32,051	$ 7,029	$ 25,022	21.93%
November 2013	279	$ 35,244	$ 7,464	$ 27,780	21.18%
December 2013	300	$ 36,076	$ 9,305	$ 26,771	25.79%
January 2014	298	$ 36,353	$ 9,663	$ 26,690	26.58%
February 2014	289	$ 34,328	$ 9,457	$ 24,871	27.55%
March 2014	293	$ 37,486	$ 10,528	$ 26,958	28.09%
April 2014	296	$ 36,284	$ 9,733	$ 26,551	26.82%
May 2014	297	$ 38,991	$ 11,146	$ 27,845	28.59%
June 2014	319	$ 24,521	$ 6,491	$ 18,030	26.47%
July 2014	327	$ 26,242	$ 8,683	$ 17,559	33.09%
August 2014	359	$ 26,195	$ 8,011	$ 18,184	30.58%
September 2014	316	$ 24,958	$ 7,022	$ 17,936	28.13%
October 2014	314	$ 25,897	$ 6,832	Note 1	26.38%
November 2014	314	$ 25,060	$ 7,242	Note 1	28.90%
December 2014	336	$ 28,656	$ 7,273	Note 1	25.38%

Note 1: None of these months had been billed to the Department by STOP at the time the data was obtained. This is caused by STOP billing the Department for unpaid parolee balances exceeding six months.

Note 2: The "Billed to State" amounts are the parolee unpaid balances exceeding six months, which are billed to the State; thus, the sum of this column will not agree to the $450,661 previously identified as having been paid to STOP during the period tested. For instance, the State was billed $20,676, identified as "Billed to State" for July 2013, but was not paid until February 2014.

The Department was also overbilled by $45 on the October 2013 invoice. That overbilling was for three parolees who were charged for eight more days of electronic monitoring than were actually used, as well as for one Adult Parole Administration employee who tested the electronic monitoring for one day but was not removed from the invoice.

We also reviewed the April and May 2014 invoices from STOP and noted the Department paid $899 more than was invoiced. The Department was not able to provide documentation to support the payment amount or an explanation for the difference between the amounts invoiced and paid.

24. Lack of Controls Over Electronic Monitoring Expenditures (Concluded)

The Department lacked adequate controls for reviewing the STOP invoices for accuracy. Had STOP received full payment from the parolee and also billed for that same individual on a subsequent invoice, the Department would have been unaware of the improper billing. In addition, the Department did not document discussions with parolees about paying electronic monitoring costs or their reasons for failing to do so.

> We recommend the Department implement procedures to ensure the amounts billed for electronic monitoring are correct and proper. We also recommend the Department require parole officers to document discussions with parolees about electronic monitoring fees and the reasons parolees are unable to pay their balances. We further recommend the Department consider establishing receivable accounts in order to recover the outstanding balances from parolees.

Department's Response: The Department agrees that we should ensure the amounts billed are correct and will continue to work on improving that process. Parole receives a report of outstanding balances and reviews this with parolees. DCS will explore feasible options to recover receivable amounts.

25. Lack of Internal Controls over Canteens

A good internal control plan requires that procedures be in place to ensure canteen inventory is properly safeguarded.

While performing a walk-through of the facility canteens, the APA identified a number of control weaknesses. The following is a breakdown of what was observed.

General (for all canteens)

The Department lacked a written policy specifying the inmates' spending limits; instead, those limits were decided by the facility Wardens and Department Deputy Directors. Inmates were allowed to make purchases from the canteens once a week. Most inmates were limited to spending $85 per week, but some inmates had smaller limits. For instance, the spending limit at WEC was $40. It was noted also that CIT had no controls for identifying if an inmate exceeded the weekly limit. CIT would display a message if a single transaction exceeded the allowed limit, but would not identify multiple purchases that, together, exceeded the limit. For WEC, CIT did not show an error message when purchases exceeded the $40 weekly limit. Therefore, operators had to watch carefully to make sure that the spending limit was not exceeded.

NSP General (NSP Store 1 and Store 2)

The canteen operators at NSP could make inventory adjustments to either of the institution's two canteen stores regardless of which store they actually worked in. This access increases the risk that errors in inventory could be caused by an employee recording an adjustment to the wrong store.

25. Lack of Internal Controls over Canteens (Continued)

The canteen supervisor at NSP was the supervisor for both Store 1 and Store 2. Per discussions with canteen operators at Store 1, the canteen supervisor was never at Store 1; he spent his time at Store 2. Without appropriate oversight, there is an increased risk that control weaknesses at a canteen will not be identified and corrected in a timely manner.

NSP Store 1 – All Items Are Sold at the Counter (No Bagged Items)

Damaged or expired items were documented on a log, and a weekly or monthly adjustment was made in CIT to remove those items from inventory. During the examination period, neither the damaged goods log nor the CIT entry had a secondary review. Additionally, during the APA's review of a damaged good log for the period of September 30, 2014, through October 4, 2014, one item was adjusted on CIT but did not appear to be on the log. Per discussion with the NSP Business Manager, an incorrect adjustment could have been made in CIT, or the item could have been damaged but not entered onto the log.

According to the Business Manager and a canteen operator, a canteen worker was suspected of stealing from the inventory in the canteen. Despite a lack of proof that he was stealing, a search of the inmate's cell revealed a large number of canteen inventory items that were not charged on his account. This supports that there are a lack of controls to ensure the canteen inventory is safeguarded. This could also cause the adjustments mentioned in Comment 13.

While on site, the APA observed the following:

- Inmate canteen workers assisted the canteen operators in selling items to the inmates by placing the items on the counter and pushing them through the window. This creates a risk that the inmate canteen workers could push items to inmates without the canteen operator's knowledge and, therefore, without charging the inmates.

- Pop tokens were pre-counted and placed in small envelopes; however, the pop tokens were not counted again prior to being handed to inmates. This increases the risk that pop tokens could be added or removed from an envelope prior to distribution.

- After being scanned into CIT, items were given to the inmate at the window, who put them in his bag. While scanning purchased items into CIT, an error occurred, so the canteen operator cleared out the sale on CIT to start the sale over. She requested that the inmate give the items back, so she could re-scan them. Because she had already cleared out the sale in CIT, however, there was nothing for her to compare to ensure that the inmate had returned all of the items. When this occurs, there is an increased risk the canteen operator will not receive all of the items that have been passed to the inmate.

25. Lack of Internal Controls over Canteens (Continued)

- While the two Department canteen operators scanned items sold to the inmates, the inmate workers pulled items for other orders. When canteen operators are focused on entering the transactions in CIT, there is a risk the inmates could consume canteen items without the operators' knowledge. We also noted there were no security cameras in the canteen.

NSP Store 2 – All Orders Are Bagged and Delivered Later to Housing Units

The canteen supervisor suspected inmate theft in a couple of recent cases. In one instance, she thought an inmate was putting extra items into the inmates' sacks of canteen purchases before they went over to the housing units. More recently, she thought an inmate was hiding coffee on the cart that brought canteen purchases to the housing units. As a result of this, the supervisor believed that the coffee inventory had to be adjusted down by $1,027.

The canteen operators counted postage stamps, envelopes, and pop tokens every day. The purpose of these daily counts was to reveal any variance between the inventory and what was on hand. According to the canteen supervisor, however, no such variances were researched. Likewise, no adjustments to the inventory numbers in CIT were made based upon the results of these daily counts. Additionally, the APA observed that the count of stamps noted on the March 28, 2015, daily count was incorrect, as it did not include 23 stamps that were on envelopes and included in the CIT inventory.

Damaged or expired items were documented on a log, and weekly or monthly adjustments were made in CIT to remove them from inventory. During the examination period, there was no secondary review of the damaged goods log along with the entry into CIT. Moreover, the canteen did not maintain the CIT Adjustment entry to support that it agreed to the damaged goods log.

While on-site, the APA noted the following:

- The inmate canteen workers pulled the items on the order forms and set them in a container. The canteen operator then scanned the items into CIT but did not verify that what was on the inmate's order form agreed to what was pulled and sold. Had this been done prior to scanning, errors could have been identified prior to delivery to housing units and reduced adjustments to inventory.

- After scanning items into CIT, the canteen operator placed them in a bag. The open bag was then set aside and not stapled shut until an inmate worker found time later to do so. Until being stapled shut, the open bags were supposed to be kept in the canteen operator's sight at all times; however, the APA observed that, when the canteen operator was busy scanning items, it would be easy for an inmate worker to add something to a bag before stapling it shut. Not stapling the bags shut immediately after being scanned increases the risk that items could be added to the bags without being charged to the inmate.

25. Lack of Internal Controls over Canteens (Continued)

- While observing the canteen operator and security staff deliver sacked canteen items to the inmates at the housing units, the APA noted several areas of concern with the process.

    - Not all CIT items charged to the inmate were compared to the items in the sack prior to being distributed to the inmate.

    - If an item for which the inmate was not charged was included in the sack, the Department staff handling the order would write notes as to what adjustment was necessary. Based upon those notes observed by the APA, as well as discussions with the canteen operators, this procedure appeared inadequate because the notes were unclear as to what corrective action should be taken.

    - For one sacked order, the inmate pointed out that he did not order two items that were included in the sack. Per review of the receipt, these items were not charged to the inmate.

- The canteen's process for filling inmate orders was for canteen operators to scan and sack items as the inmates pulled them. With the canteen operators focused on scanning and sacking the items, there is an increased risk that inmate workers could take and consume canteen items without the operator's knowledge. During inventory counts, the APA identified an empty Snickers wrapper in the Snickers box.

- When canteen shipments were received, inmate workers brought the boxed items into the canteen and placed them on the floor to be stocked. These inmates were not patted down when they left the canteen. Not patting down the inmates increases the risk that an inmate could steal something, and the canteen operators would be unaware of the theft.

NCCW – Orders Are Sold Through the Canteen Window or Sacked and Delivered

There were no cameras in the canteen, and the inmates were not watched at all times.

LCC – Orders Are Sold Through the Canteen Window or Sacked and Delivered

Video footage from the security cameras was kept for approximately one month, while inventory was performed only three times per year. This means that, if an issue were found during an inventory count, staff would likely be unable to review security camera footage dating back to the previous inventory.

Some canteen orders were required to be delivered to the inmates. For these orders, the inmates working at the canteens pulled the orders, and the canteen operators scanned and bagged the items. After being bagged, the orders were attached to the bags and moved to a cart. The cart was not locked, and the bags were not stapled shut, increasing the risk that an inmate could add items to the bags.

25. Lack of Internal Controls over Canteens (Continued)

Once the delivered canteen orders were received by the inmate, there was no requirement for canteen or security staff to compare the order form to what the inmate actually received. This process increased the risk that inmates might receive additional items for which they did not pay, and this would not be identified.

Prior to January 2015, canteen operators noted that inmates were sliding canteen items under the canteen doors to other inmates. In January 2015, doorstops were added to the doors to lessen the gap between the bottom of the door and the floor.

TSCI – Orders Are Sold Through the Canteen Window or Sacked and Delivered

Canteen operators lacked procedures to ensure that all signed receipts were received back at the canteen for the sacked orders.

Because they were not watched all of the time, inmate canteen workers could consume items without operators becoming aware. It was also noted that there were no security cameras in the TSCI canteen.

OCC – Orders Are Sold Through the Canteen Window or Sacked and Delivered

The canteen did not account for damaged goods recorded on a log. The damaged goods were entered based on the wrappers that were placed in a designated box. There was a risk that a wrapper could go missing and not be entered into CIT as a damaged good.

The pop tokens were pre-counted and placed in small envelopes; however, the pop tokens were not counted again prior to being handed to inmates. This increases the risk that pop tokens could have been added or removed from an envelope prior to distribution.

The entrance to the canteen was kept unlocked while the canteen operator or supervisor was there. This would allow unauthorized access to the canteen and the theft of goods without the canteen operator or supervisor becoming aware.

Security cameras were installed in the canteen at the end of the examination period; however, they had not been present during the majority of the examination period. In addition, inmates were not always watched, as the canteen workers were focused on scanning and processing inmate orders.

CCCL – Window Sales Only

Inmate workers were not patted down when they left the canteen for a break. Also, the gated entrance to the canteen was kept unlocked while inmate workers were left alone in the canteen. The gate to the canteen had very large openings, and some items could be taken by reaching through those gaps.

25. Lack of Internal Controls over Canteens (Concluded)

Cash counts were not performed on weekends, which increased the risk that cash could be taken and not identified in a timely manner.

Security video footage was kept for only two months, while the time period between physical inventory counts was longer than two months. Therefore, if a problem came to the canteen operator's attention during inventory counts, video would likely be unavailable to review.

WEC – Window Sales Only

The facility lacked documentation for damaged goods adjustments made during the period under review.

The security camera footage went back six days, while physical inventory counts occurred only three times per year. Therefore, if an issue were found during inventory counts, staff would be unable to review surveillance footage dating back to the previous count.

Staff did not take a daily, weekly, or monthly inventory count. Rather, they completed inventory counts only three times a year. This increases the risk that items could be stolen without any knowledge for several months.

A similar finding was noted in our prior report.

Without proper controls and safeguards over canteen inventories, there is an increased risk for loss of inventory or State funds.

> We recommend the Department implement procedures to ensure canteen inventory and cash is properly safeguarded.

Department's Response: The Department has reviewed the comments in the audit report. Changes in methods and processes are being considered by the Department that will address these points. DCS will continue to review our processes and assure that cash is properly safeguarded.

26. Canteen Inventory Procedures and Support

Administrative Regulation (AR) 113.20(VII), "Canteen Operations," states, "Canteen physical inventories (wall-to-wall) will be completed at least three times per fiscal year, with one such inventory being completed at fiscal year end."

AR 113.20, Attachment E-2, "Canteen Cycle Counts," sets out the process for periodic inventories. Among the requirements are the following:

1. *Frequency – Weekly*
2. *Volume – 6 items selected*
3. *Purchasing will make selection and send an email on Friday at approximately 1:00 PM to designated staff of items to be counted.*

26. Canteen Inventory Procedures and Support (Continued)

Similarly, Attachment E-3, "Canteen Spot Checks," to AR 113.20 requires the following:

> *Once a month Business Manager or designee (independent of the canteen) will pick five items to spot check.*
>
> *a. Must be done random day/time*
>
> *b. Use history of Cycle Counts*
>
> *c. Utilize Top Sellers*

A good internal control plan requires the Department to have procedures for ensuring the accuracy of inventory records, counts, and any needed adjustments. A good internal control plan also requires procedures for maintaining documentation of physical inventories.

We conducted a site visit at each facility canteen and performed inventory counts of various items, as noted below. Only LCC and both stores at NSP performed their physical inventory counts on the same day as those performed by the APA.

Facility	Date of Site Visit	Items Counted by APA	Items with Variances Between APA Count and CIT Records	Range of Variances	Items with Variances Between APA & Department Counts	Range of Variances
NCCW	3/17/15	6	2	(1) to 1	N/A	N/A
NSPS1	3/30/15	21	21	(170) to 207	6	(30) to 200
NSPS2	3/30/15	21	18	(146) to 74	8	(81) to 61
LCC	3/31/15	20	18	(27) to 58	2	(2) to (1)
WEC	3/26/15	5	3	(38) to (1)	N/A	N/A
TSCI	4/7/15	20	16	(10) to 283	N/A	N/A
CCCL	4/14/15	20	6	(3) to 12	N/A	N/A
OCC	4/10/15	20	10	(2) to 3	N/A	N/A
NCYF	4/10/15	20	1	(1)	N/A	N/A

For more detailed information regarding the inventory counts performed, see **Exhibit L**. The APA's physical counts of canteen inventory items revealed that some counts performed by the canteens were incorrect, and the canteens did not make accurate adjustments in CIT based upon the physical counts. More detail on these items is provided in **Exhibit L**.

The following was also noted during the APA's site visits to the canteens:

- Documentation was not on file to support that monthly spot checks were performed at NCCW, NSP Stores 1 & 2, WEC, TSCI, and NCYF. The spot checks performed by LCC consisted only of inventory items that showed a negative amount in CIT and were not always done monthly.

26. <u>Canteen Inventory Procedures and Support</u> (Continued)

- Cycle counts were not performed at any of the facilities during the examination period.

- NSP Stores 1 & 2 and WEC could not provide documentation of the physical inventory counts performed, as required by AR 113.20, during June 2014.

- The three facilities that performed physical inventory counts on the same day as those performed by the APA had to make adjustments in CIT for those counts, as follows:

    - NSP – Store 1 made an adjustment in CIT on March 30, 2015, for a total increase of $1,647 and a decrease of $7,399.

    - NSP – Store 2 made an adjustment in CIT on March 30, 2015, for a total increase of $3,863 and a decrease of $10,063.

    - LCC made an adjustment in CIT on March 31, 2015, for a total increase of $888 and a decrease of $1,304.

- NCCW maintained documentation of the monthly counts performed for only one year and the daily counts of the candy bags/bars for a few months. If there was a variance on the daily counts of candy bags/bars, the Business Manager would maintain documentation until the next physical inventory was done.

- NSP – Store 2 had several expired items that were still included in inventory.

- CCCL staff was unable to provide the actual count sheets for the spot check adjustments done in December 2014.

- WEC performed a physical inventory count on March 20, 2015, and adjustments were made in CIT on March 25, 2015. The APA counted inventory on March 26, 2015, and noted that three items had variances. None of those items had been adjusted for the counts on March 20, 2015.

A similar finding was noted in our prior report.

When inventory counts and spot checks are not performed as required, the Department is not in compliance with its own administrative regulations. Moreover, without adequate policies and procedures to ensure inventories are accurate and documented, as well as reconciled to CIT balances, there is an increased risk for theft or loss of inventory.

> We recommend the Department establish policies and procedures to ensure inventory counts are accurate and documented, and reconciliation procedures are performed between physical counts and CIT records. We also recommend the Department ensure cycle counts and spot checks are performed in accordance with AR 113.20.

26. Canteen Inventory Procedures and Support (Concluded)

Department's Response: Physical inventory has been changed to four times a year with at least one in each quarter. Additionally, damaged goods are required to be entered in CIT weekly. Random spot checks will be required to be performed by the Business Manager or someone else that does not work in the canteen on a daily basis.

27. Service Organizational Control Report

A good internal control plan requires the Department to obtain and review a Service Organization Control (SOC) Report for any service organization providing services that are part of the Department's business process. A SOC Report provides both an independent assessment of the controls at the service organization and information regarding controls the Department should have to complement those of the service organization.

The Department used a third-party administrator, Blue Cross Blue Shield (BCBS), to process claims from medical service providers outside the confines of the Department's facilities. For that work, the Department paid BCBS $17,392,629 during the examination period. Additionally, BCBS utilized its own service provider, CoreLink, to help process the medical service provider claims for members covered by BCBS.

To process medical claims, the Department sent a daily file of eligible inmates to BCBS from the Department's Corrections Information and Tracking application. This file contained the pertinent information for each inmate, including name, identification number, date of birth, gender, facility location, and dates eligible for services.

As inmates were taken to outside medical providers, the Department prepared a Medical Provider Billing Information Form, which was given to the provider at the time of the appointment. This form told the service provider whom to bill for the services, either the Department directly or BCBS. Claims submitted to BCBS were processed, and the provider was paid accordingly.

Weekly, BCBS sent the Department a billing of the claims processed and paid. At the end of each month, BCBS sent a final billing for any services provided but not previously billed to the Department and for the administrative fee charged for processing medical claims.

During our fieldwork, we asked whether the Department had received SOC Reports for BCBS and CoreLink, as both were service organizations. The Department had neither requested nor received these reports prior to our inquiry. The Department was able subsequently to obtain SOC Reports for both service organizations covering the periods ending September 30, 2013, and September 30, 2014. However, the Department did not have processes in place to obtain and review these reports on an annual basis.

Failure to obtain and review annual SOC Reports increases the risk that a service organization could have significant internal control problems unknown to the Department. Additionally, a review of the SOC Reports is necessary for the Department to implement controls complementary to those utilized by the service organization.

27. Service Organizational Control Report (Concluded)

> We recommend the Department request and obtain SOC Reports on an annual basis. We further recommend the Department review the reports to ensure the service organization's controls are operating effectively, and the Department has controls in place to complement those of the service organization.

Department's Response: The Department will request Service Organizational Control reports from appropriate entities going forward.

28. Lack of Adequate Medical Contractor Invoice Review

A good internal control plan and sound accounting practice require that procedures be in place for the maintenance of adequate documentation to support the review and payment of expenses.

The Department's procedures for reviewing medical provider invoices were insufficient to identify errors in those documents. Instances of the Department being billed for services not provided would not be identified because the Department failed to trace medical billings to supporting documentation, such as Health Services Consultation Request forms, notes from inmate medical files, or other records detailing the procedures performed.

The previous Medical Business Manager approved all medical invoices until he transferred to a different State agency in November 2014; however, no Department staff members were able to identify what his review entailed. Review procedures should be documented in a written policy.

Based upon the results of 13 medical provider expenditures tested, the APA determined that the Department lacked sufficient review processes. We noted the following:

- Two expenditures appeared to have incorrect charges that should have been identified during the Department's review. These two expenditures, for McCook Clinic and Correct Care Solutions, are explained in more detail below.

- Four expenditures did not have certified timesheets attached to the invoice. When timesheets are not certified by Department staff and are not compared to the invoice, there is an increased risk of incorrect contractor invoices not being identified.

    - One psychiatrist billed $13,366 for 81 hours of service provided. No timesheets were available to be reviewed. The Department was able to provide a schedule of inmates to be seen for some of the days; however, this schedule was not sufficient. For example, a schedule for November 5, 2014, had the first appointment scheduled at 8:00 a.m. and the final one scheduled for 12:45 p.m.; however, the provider charged for 9.5 hours that day and the Department did not have anything to support this was proper.

28. Lack of Adequate Medical Contractor Invoice Review (Continued)

- One optometrist invoiced the Department $4,263 for 39 hours of service provided to NSP and DEC in August 2013. Timesheets were attached to the invoice and reviewed; however, the NSP timesheets were not approved by Department staff with knowledge of the accuracy of timesheets. A total of 15 hours were billed for services provided to NSP, totaling $1,650.

- One dentist invoiced the Department $3,300 for 40 hours of service provided to OCC during September 2014. A timesheet was attached and signed off by a Department dentist at DEC. The dentist at DEC, which is based in Lincoln, would not have direct knowledge of whether the hours billed were proper. It was noted, the DEC dentist did review the inmate charts after the provider saw the inmate; however, the DEC dentist would not have direct knowledge of whether the time billed was proper.

- The Department did not obtain or maintain timesheets for McCook Clinic personnel that provided medical services at WEC. This is described more below.

- One expenditure for dialysis treatments did not have proper documentation from facility medical staff to approve payment. If inmates refused dialysis treatments, the provider was not to charge the Department for that day. Without documentation from facility medical staff, the Department would not know if inmates refused treatments and if the invoice was correct.

McCook Rates

The contract with McCook Clinic required the vendor to provide WEC a minimum of 4 hours per week, or 16 hours a month, for a monthly payment of $2,600. Any hours worked over the initial 4 weekly hours were to be billed at a rate of $150 an hour.

On the September 2014 invoice, the Department was charged the $2,600 monthly fee plus an additional $2,400 for 16 extra hours at $150 each. According to facility log in/out sheets, the provider was at the facility for a total of 15 hours and 54 minutes in September 2014. For two of the weeks worked, the provider did not work the minimum 4 hours a week. Consequently, the facility log in/out sheets did not support the additional 16 hours billed, and the Department had no documentation to support the excess $2,400 paid.

Once this discrepancy with the McCook Clinic billing was identified, the APA selected three more invoices to review in order to determine if the Department's supporting documentation agreed to the vendor invoices. The four invoices tested comprised $21,200 of the $94,050 total amount paid to the vendor for physician services during the examination period. Based on the review of the four invoices and the Department's log in/out sheets, it appeared the vendor overbilled the Department a total of $10,950 for 73 hours of service not actually rendered.

28. Lack of Adequate Medical Contractor Invoice Review (Continued)

Month	Base Hours Billed	Additional Hours Billed	Total Hours Billed	Hours Accounted For	Variance
July 2013	16	20	36	16	20
December 2013	16	12	28	14	14
September 2014	16	16	32	16	16
October 2014	16	24	40	17	23
Totals	**64**	**72**	**136**	**63**	**73**

Correct Care Solutions

The Department contracted with Correct Care Solutions (Correct Care) to provide medical services for TSCI. According to the contract, Correct Care is responsible for reimbursing the Department for expenditures incurred when an inmate must go to an outside facility to receive medical treatment. This cost is capped at $30,000 per inmate, per year. However, one cost that the Department is not liable for, per the contract, is ambulance costs, as these are the responsibility of Correct Care.

The Correct Care invoice for the first half of August 2013 included payments for ambulance services that were included in the $30,000 cap. The ambulance charges paid by the Department totaled $6,169 for two inmates. One inmate had three ambulance trips costing $3,531, and the other inmate had three ambulance trips costing $2,638. The Department started reviewing the expenses used in the $30,000 cap on invoices beginning late September 2013. In the later invoices, it appeared the Department did discover ambulance payments and removed them from the cap; however, according to Department staff, ambulance service amounts paid before September 2013 were not adjusted for in the $30,000 cap amount.

> We recommend the Department implement policies specifying what information is to be reviewed when approving medical provider invoices. These policies should identify what information is to be reviewed and compared to the provider invoices prior to approving payment.

Record Retention of Inmate Interview Requests

Per Schedule 92 of the Nebraska Records Management Division, Item Number 092-042, “Inmate Records – Adult Medical File (Chart)," Inmate Interview Requests are to be retained for “5 years after date of discharge from incarceration or parole (whichever applies)” or for 10 years at TSCI.

Three inmates selected for testing did not have the Inmate Interview Requests in their medical files. Those three inmates had all been paroled or discharged within the past two years and, per Schedule 92, the request should have been retained.

28. Lack of Adequate Medical Contractor Invoice Review (Concluded)

When records are not kept in compliance with applicable record retention schedules, vital information could be destroyed or lost.

> We recommend Department supervisors make staff aware of the record retention schedules.

Department's Overall Response to Comment #28: The Department agrees that more definitive information should be available regarding hours of performance or listing of inmate consultations for medical providers. Procedures have been revised to have this information readily available. As this information is obtained and approved by Health Service staff then the appropriate three-way match process can be completed. The Department will review records retention with appropriate Health Services staff.

29. Medicaid Eligibility Processes and Blue Cross Blue Shield Claims

If inmates meet certain criteria, their medical procedures may be paid by Medicaid. In particular, in order to be Medicaid-eligible, an inmate must meet both of the following requirements: 1) be older than 65 or younger than 19; and 2) be hospitalized for more than 24 hours. The Department receives a daily report identifying inmates who have been hospitalized overnight. The inmates on this report are entered into the Department's Medicaid database and then investigated to determine if they also meet the age criteria for being Medicaid eligible. If an inmate is Medicaid eligible, the proper paperwork will be completed and submitted to Medicaid. A determination that an inmate is not Medicaid eligible will also be noted on the Medicaid database.

When an inmate stays overnight at a hospital, the claim will initially be sent to BCBS, which will not process it until the Department approves the payment. Such approval occurs only after the inmate is determined to be ineligible for Medicaid.

During our review of the Department's control processes related to determining Medicaid eligibility and processing BCBS payments, the following was noted:

- The Department did not compare the BCBS claims for overnight stays to the Medicaid database to ensure that no Medicaid-eligible inmates were billed through BCBS.

- The Department did not compare the invoices from Medicaid to the BCBS invoices to ensure that no inmates were included on both.

- The Medicaid database did not identify the reason an inmate was deemed ineligible for Medicaid. The database simply indicated "Ineligible," but nobody reviewed the database to ensure that no inmate received that designation incorrectly.

29. Medicaid Eligibility Processes and Blue Cross Blue Shield Claims (Concluded)

- The Department did not compare the BCBS listing of inmate medical claims for overnight hospital stays to the Department's Outside Hospital Report to ensure that the inmate was, in fact, hospitalized overnight.

Inadequate review procedures for the Medicaid database and the BCBS invoices increase the risk that the Department will pay BCBS for inmate claims that would have been eligible for Medicaid. Instances of this were identified in Comment 1. Additionally, failing to compare the inmates on the Medicaid invoice to those on the BCBS invoice increases the risk that the Department could be billed by both and not identify the double billing.

> We recommend the Department implement procedures to ensure all inmates who stay at a hospital overnight are identified on the Medicaid database. If any of those inmates are determined to be ineligible for Medicaid, the specific reason for that ineligibility should be documented. We also recommend the Department implement a review of BCBS claims for inmates with overnight hospital stays to ensure that it is proper to pay those claims. This review should include comparing those claims to the Medicaid database to ensure that none are Medicaid eligible.

Department's Response: Changes in inmate eligibility are resulting in a review of this entire process. Based on this review the Department will determine how to best track inmate Medicaid eligibility.

30. Employee Activity Accounts & Vending

The examination revealed that 11 Department facilities, including the Central Office, have Employee Activity Committee (EAC) accounts. These accounts are comprised of money raised by employees for their own use. Three of these EAC accounts are held by the Department under the State's Federal Tax Identification Number (FTIN). The activity for each of the three EAC accounts held under the State's FTIN for the period tested is set out below.

Facility	Beginning Balance	Credits	Debits	Ending Balance
TSCI	$ 7,284	$ 47,117	$ 50,752	$ 3,649
DEC	$ 744	$ 8,936	$ 8,836	$ 844
CCCL	$ 408	$ 4,027	$ 3,519	$ 916

Additionally, two facilities, OCC and CCCO, have employee Social Security numbers (SSN) associated with their EAC accounts.

Funds in the EAC accounts, including those held under the State's FTIN, consist primarily of proceeds from donations or fundraisers by employees, such as potato bars or bake sales. Additionally, the CCCL EAC account received a percentage of recycling proceeds, as noted in Comment 42.

30. Employee Activity Accounts & Vending (Continued)

Also deposited into the EAC accounts is money collected from vending machines in the employee break rooms. Unlike revenue from vending machines elsewhere on Department properties, revenue from the employee break room machines goes directly into the respective EAC accounts and is used to pay for employee expenses and activities unrelated to official duties, including gifts for special occasions and celebratory meals, etc.

VVS Canteen, a Lincoln, Nebraska, vending service provider, operates the vending machines used throughout the Department facilities; however, whether VVS Canteen also operates the employee break room vending machines is uncertain. The APA requested information regarding the contractual agreements under which those EAC vending machines are being operated. In response, the Department's Controller Inga Hookstra admitted, "The EAC's make their own arrangements, I don't know if they have contracts or not."

During the period tested, VVS Canteen paid $43,315 in vending machine commissions to the Department. This did not include any commissions received from the employee break room vending machines, which were deposited directly into the separate EAC accounts. Not being processed through the State's accounting system, that money could not be tracked by the APA.

The circumstances surrounding the EAC accounts and the privately contracted vending machines from which they derive their funds are problematic for a number of reasons.

To start, each FTIN is unique to the entity to which it is assigned. Moreover, funds held under the State's FTIN are understood to be State funds and subject to the control of the State Treasurer. Applying the State's FTIN number to any of the EAC accounts is improper, therefore, because the funds therein neither belong to nor are otherwise subject to being held or utilized by the State.

Likewise, the apparent inability of the Department to explain the circumstances surrounding the placement and operation of the EAC vending machines on State property seems indicative of insufficient management and oversight of the correctional facilities.

More importantly, placing privately contracted vending machines in public facilities to raise funds for the EAC accounts appears legally suspect.

Article XIII, § 3, of the Nebraska Constitution prohibits loaning the credit of the State. Emanating from this provision is what the Attorney General has called "a longstanding principle of constitutional law in Nebraska that public funds cannot be expended for private purposes." Op. Att'y Gen. No. 97048 (Sept. 16, 1997). Though not necessarily involving the direct expenditure of public funds per se, funding of the EAC accounts relies upon the use of public facilities. Given that those public facilities are constructed, maintained, and operated with public funds, it is indisputable that, indirectly at least, public funds are being used to support the EAC accounts, which are essentially private enterprises.

30. <u>Employee Activity Accounts & Vending</u> (Continued)

Likewise, in Op. Att'y Gen. No. 05013 (Oct. 4, 2005), the Attorney General has noted the common law prohibition against a public officer using public property for private gain. This precept is codified at Neb. Rev. Stat § 49-14,101.01(2) (Reissue 2010) of the Nebraska Accountability and Disclosure Act. That statute provides as follows:

> *A public official or public employee shall not use or authorize the use of personnel, resources, property, or funds under his or her official care and control other than in accordance with prescribed constitutional, statutory, and regulatory procedures or use such items, other than compensation provided by law, for personal financial gain.*

The EAC accounts receive their money from vending machines located – outside of any apparent formal authorization, much less Department oversight or supervision – in State facilities built, maintained, and operated with public funds. Wholly unrelated to compensation received for work performed, those proceeds accrue solely to the personal benefit of the Department employees. This would appear to conflict with § 49-14,101.01(2).

Even if it could be argued that using privately contracted vending machines on Department property to raise money for the EAC accounts is permissible under the provisions of common and statutory law noted above, the fact remains that the Department lacks the underlying authority to permit such activity.

The Nebraska Supreme Court has declared that an administrative agency "has only that power which has been granted to it by the Legislature." *Stoneman v. United Nebraska Bank*, 254 Neb. 477, 492, 577 N.W.2d 271, 281 (1998). Such power, the Court has observed, must "be strictly construed." *Governor's Policy Research Office v. KN Energy*, 264 Neb. 924, 932, 652 N.W.2d 865, 872 (2002). The Court has elaborated upon this rule:

> *An administrative body has no power or authority other than that specifically conferred by statute or by a construction necessary to accomplish the plain purpose of the act . . . . It is fundamental that in the legislative grant of power to an administrative agency such power must be limited to the express legislative purpose and administered in accordance with standards described in the legislative act.*

Nebraska Ass'n of Public Employees, Game and Parks Chapter v. Game, 220 Neb. 883, 884-885, 374 N.W.2d 46, 48 (1985). Nowhere in the statutes creating and governing the Department is express – or even implied – authority found for allowing privately contracted vending machines to be placed in State facilities and the resulting revenue to be funneled to EAC accounts that, despite their decidedly non-public use and nature, function under the State's FTIN.

Finally, it should be noted also that Neb. Rev. Stat. § 71-8611 (Cum. Supp. 2014) provides for the operation of vending facilities on State premises by blind persons. That statute says, in relevant part, the following:

> *Blind persons licensed by the commission [Nebraska Commission for the Blind and Visually Impaired] pursuant to its rules and regulations are authorized to operate vending facilities in any federally owned building or on any federally owned or controlled property, in any state-owned building or on any property*

30. Employee Activity Accounts & Vending (Continued)

> *owned or controlled by the state, or on any property owned or controlled by any county, city, or municipality with the approval of the local governing body, when, in the judgment of the director of the commission, such vending facilities may be properly and satisfactorily operated by blind persons. With respect to vending facilities in any state-owned building or on any property owned or controlled by the state, priority shall be given to blind persons,*

Despite this requirement, there is no documentation to support that any attempt has been made to allow blind persons to operate the vending machines at the Department. When questioned about compliance with § 71-8611, DSC Controller Inga Hookstra offered the following response:

> *This was reviewed by the Commission for the Blind and Visually Impaired several years ago. They deemed it was not feasible. Many of our vending machines are on the secure side of the facility (not accessible to the public) because they are for staff. Additionally, bus service is not available to most of our facilities. At some of the smaller facilities it was also deemed that it did not generate sufficient revenue. I don't know that anyone would have written documentation on this because I am sure it has been more than five years. I know this was raised during a previous audit and that lead to us having the Commission for the Blind and Visually Impaired complete a review.*

Information that the APA obtained from the Nebraska Commission for the Blind and Visually Impaired (Commission) appears to contradict Ms. Hookstra's explanation. According to Carlos Servan, Deputy Director for the Commission, an inquiry was made many years ago about the possibility of allowing blind persons to operate the DCS vending machines. At that time, the Commission was informed that the Department already had a vending machine contract; however, the Department promised to notify the Commission when that agreement had expired, and the vending machine operator contract came up for bid again. The Commission has heard nothing further from the Department since then.

Section 71-8611 is clear that the Director of the Commission is responsible for determining whether blind persons are capable of operating satisfactorily vending machines in, among other locations, "any state-owned building or on any property owned or controlled by the state." Moreover, failure to give blind persons priority when contracting for vending machine operators in such places violates that same statute.

Due to the legal issues raised herein, we are forwarding this comment to both the Nebraska Accountability and Disclosure Commission and the Attorney General for possible further review.

> We recommend that the Department take immediate action to remove the EAC accounts from under the State's FTIN. We recommend also that the Department obtain legal guidance as to the lawfulness of using the privately contracted employee break room vending machines as a source of funds for the EAC accounts. Lastly, we recommend that the Department work with the Commission to ensure that blind persons are given a priority in the operation of vending machines at the correctional facilities.

30. Employee Activity Accounts & Vending (Concluded)

Department's Response: The employee activity accounts that carried the State's FTIN or an individual SSN were corrected before the audit was completed and the information was provided to the audit team. We will consult with our legal counsel regarding the employee activity accounts using state facility space for vending machines; although each EAC pays $12 per machine annually to DCS. The Department will contact the Commission for the Blind and Visually Impaired again.

APA Response: The Department did not provide support for initially contacting the Commission for the Blind and Visually Impaired.

31. Canteen Price Reductions

All items sold in the canteens were tracked through the Department's CIT application. In order for an item to be sold at a reduced price, approval had to be granted by someone in Central Purchasing or Central Accounting. Once such approval was received, the canteen operator at the facility could lower the price of the item. The main reason prices were reduced was to move slow-selling inventory.

There was no coordination between the approvers in Central Purchasing and Central Accounting, which resulted in the two divisions having different processes and different requirements for the canteen operators.

A good internal control plan for canteen price reductions includes written policies identifying the following:

- The person or area to be notified when a canteen price reduction is requested.
- Appropriate reasons for granting canteen item price reductions.
- The allowed reduced selling price for the item.
- The allowed period of time the item can be reduced.
- A review of items sold at reduced prices to ensure the reductions are appropriate.

The Department did not have any written policies describing the process for canteen price reductions. The Department did generate a Sales Price Override Report, which identified all reduced-price sales, but this was not reviewed.

Additionally, a good internal control plan requires procedures for the periodic review of items with prior approval to be sold at reduced prices to ensure the product still requires the lower price; however, the Department had no such procedures. Central Accounting relied on notifications from canteen supervisors when the items no longer required the price reduction and Central Purchasing did not have access to query in CIT for current price reductions to ensure only properly reduced items were available for sale. As of April 29, 2015, there were 125 items that were approved to be sold at a lower price.

31. Canteen Price Reductions (Continued)

The APA tested 30 canteen items that were placed on sale at reduced prices as of May 1, 2015. We noted the following:

- Twenty-eight items had no approval on file for the price reduction.
- Twenty-eight items had no documented reason for the price reduction.
- None of the 30 items tested had documentation as to the proper reduced price.
    - Thirteen items had no sales from July 1, 2013, through May 1, 2015.
    - Eight items that did have sales from July 1, 2013, through May 1, 2015, were not sold at reduced prices.
    - Nine items that did have sales from July 1, 2013, through May 1, 2015, were sold at reduced prices; however, those reduced prices were not supported by documented approval. Of those nine items, four sold at unit cost, and two of those four items also had sales that were below unit cost.

The following table illustrates the sales of the nine reduced-price items that had sold from July 1, 2013, through May 1, 2015.

Item Description	Unit Cost	Normal Selling Price	Reduced Price(s)	Reduced Quantity Sold
Card, Greeting PR 3	$ 1.05	$ 1.43	$ 1.15	102
Hershey's Mini Candy Bars	$ 3.88	$ 5.28	$ 4.22	20
Beans with Pork Pouch	$ 1.03	$ 1.40	$ 1.03	2
Spicy Cheese Refried Beans	$ 0.65	$ 0.88	$ 0.65	53
X-Mas Meat Shredded Beef	$ 3.90	$ 5.30	$ 3.99	25
Polish Sausage Sandwich	$ 0.90	$ 1.22	$ 0.90/$0.85	67/3
Cookie, Twist Top Can	$ 2.21	$ 3.01	$ 2.41	15
Candy, Bar Mini Assortment	$ 3.80	$ 5.17	$ 4.14	56
XMAS Cocoa Hot Peppermint	Note 1	Note 2	Note 3	83

Note 1: The unit cost of this item ranged from $1.03 to $1.66 during the period reviewed.
Note 2: The normal sales price ranged from $1.40 to $2.26 during the period reviewed.
Note 3: This item was sold at various reduced prices during the period reviewed. Those reduced prices ranged from $1.00 to $1.90.

Without adequate controls over canteen sales price reductions, there is an increased risk that canteen items will be sold at improper prices.

31. Canteen Price Reductions (Concluded)

> We recommend the Department establish policies and procedures to ensure canteen price reductions are accurate, supported, and reviewed. We also recommend that policies indicate who should request price changes and when the reduced price is to end.

Department's Response: Administrative Regulation 113.20 now specifies the process for price reductions. These are all tracked in Accounting and Canteen Supervisor or Business Manager must make the request along with a justification. The price reduction is allowed only for the canteen justifying the request.

32. Overtime Policies

Section M.6.1 (Appendix M) of the 2013-2015 Labor Contract between the State of Nebraska and the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE/AFSCME) pertains specifically to the Department of Correctional Services. That provision states the following, in relevant part:

> *A standard work week shall be 40 hours plus roll call time. All hours in excess of this standard work week shall be considered overtime and compensated at one and one-half times the regular hourly rate for all members of the bargaining unit.*

Title 29 CFR § 778.107 (July 1, 2007) states, "The general overtime pay standard in section 7(a) requires that overtime must be compensated at a rate not less than one and one-half times the regular rate at which the employee is actually employed." In addition, Title 29 CFR § 778.108 (July 1, 2007) states, "Section 7(e) of the Act requires inclusion in the 'regular rate' of 'all remuneration for employment paid to, or on behalf of, the employee'. . . ."

Per the U.S. Department of Labor, the overtime premium due to employees should be calculated as follows: 1) Total straight-time earnings divided by total hours worked equals the employee's regular rate; 2) Multiply the regular rate by .5 to determine the half-time premium; 3) Multiply the half-time premium by the overtime hours to determine the total overtime premium due. Earnings must include on call and shift differential pay.

A good internal control plan and sound business practices require the Department to have written policies in place regarding payroll procedures, particularly when those procedures are inconsistent with terms of the labor contract.

The above-quoted provision of the 2013-2015 NAPE/AFSCME contract specifies that overtime work is to be paid at "one and one-half times the regular hourly rate for all members of the bargaining unit." However, the Department calculates overtime compensation in accordance with Federal regulations – which, unlike the NAPE/AFSCME contract, require the overtime premium calculation to take into account compensation received for shift differentials and on-call duty.

32. Overtime Policies (Concluded)

The difference in payment under the NAPE/AFSCME contract provision and the Federal regulation is illustrated by one employee whom the Department paid $39.632 per overtime hour using the Federal calculation. Had the Department adhered to the NAPE/AFSCME contract instead, that employee would have received only $38.939 per overtime hour.

We noted also that employees designated as "security" staff attended roll call prior to the start of their shifts. Three employees tested had six roll calls during a one-week period, with the sixth roll call being paid as overtime premium. According to the Department, after an employee has accumulated both five roll calls and 40 work hours in a single week, each additional roll call is paid as overtime. However, this does not appear to be in accordance with the NAPE/AFSCME contract; furthermore, the Department did not have a written policy to support this procedure.

Though calculated according to Federal regulations, the Department's manner of calculating overtime pay does not agree with the method specified in the NAPE/AFSCME contract. Without written policies for payroll procedures, moreover, there is an increased risk that such an inconsistency could result in employee overtime pay being calculated inconsistently. Additionally, when roll call is not calculated in accordance to the NAPE/AFSCME contract, there is an increased risk employees will be paid incorrectly.

> We recommend the Department work with the Nebraska Department of Administrative Services to review the language of the NAPE/AFSCME contract regarding overtime pay and roll call, pursuing whatever action necessary to ensure continuity between those provisions and the procedures utilized by the Department. We also recommend the Department implement a written policy regarding the treatment of roll call overtime.

Department's Response: The method for calculating overtime was a joint process with DAS State Personnel to define the methodology DCS was to use. We believe that our method complies with federal requirements issued by the U. S. Department of Labor. The Department will review our Administrative Regulation on time keeping and determine what changes are needed regarding roll call overtime.

APA Response: We continue to recommend the Department ensure there is continuity between their overtime pay practices and the NAPE/AFSCME contract.

33. Transportation Services Bureau (TSB) Expenditures

A good internal control plan requires someone with knowledge of vehicle usage to review Department mileage logs to ensure travel was for an acceptable purpose, mileage was reasonable, and the travel log was mathematically correct. Billings based upon those travel logs should also be reviewed for accuracy.

COMMENTS AND RECOMMENDATIONS
(Continued)

33. Transportation Services Bureau (TSB) Expenditures (Continued)

The Department did not have adequate procedures to review the Department of Administrative Services Transportation Services Bureau (TSB) travel logs and billings. TSB travel logs were sent to Central Office Accounting for review and approval; however, Central Office Accounting staff was not familiar enough with the travel to determine if the purpose of the travel was reasonable and appropriate. For instance, a mileage log for a parole officer in Hall County was approved by a Staff Assistant at the Central Office in Lincoln. The parole officer's mileage log indicated that the purpose of the two trips – one for 28 miles and the other for 85 miles – was for "Home Visits." The Department lacked documentation, however, to support that the mileage for either of those trips was reasonable.

During the period tested, the Department paid $1,076,941 to TSB for vehicle usage, which was based upon the travel logs filled out by the drivers.

The APA tested eight TSB travel expenditures for the Department and noted the following:

- The purpose of a round trip from McCook to Scottsbluff for 515 miles was not adequately identified. Per the travel log, the purpose of the trip was simply "Travel to Scottsbluff."

- A portion of the travel logs for five vehicles, two of which were driven by inmates, was missing. In total, The Department could not account for 1,799 miles. The Department paid $578 for the mileage on the missing travel logs.

- One mileage log claimed that 4,323 miles were driven, but the entries on the log indicated only 327 miles. Due to this, the Department was overcharged $1,359. The error occurred because an employee recorded the vehicle's mileage as 3,996 miles higher than it actually was, and this was not identified by the approver. The overpayment was corrected on subsequent invoices.

- The review of 16 TSB vehicle billings revealed the following:

    - Two vehicles were charged at a rate of $.28/mile but should have been charged $.31/mile.

    - One vehicle was charged a $309 monthly rate for high-mileage intermediate sedans, but there was no documentation to support the classification of the vehicle as high mileage.

    - One vehicle was charged a $266 monthly rate; however, that rate did not agree to any of the TSB monthly rates.

A similar finding was noted in our prior report.

Without adequate procedures to review and approve Department travel logs and TSB billings, there is increased risk that improper trips and billing errors will not be identified and corrected.

33. Transportation Services Bureau (TSB) Expenditures (Concluded)

We recommend the Department implement procedures to have staff with knowledge of mileage usage review and approve travel logs and TSB billings.

Department's Response: The Department will review our procedures on processing TSB bills and educate staff regarding the appropriate TSB rates.

34. Capital Asset Controls

A good internal control plan should include a proper segregation of duties, so no one individual is capable of handling all phases of a process from beginning to end. Such a system should also include a documented periodic review of capital asset reports by someone who does not maintain capital asset records.

A good internal control plan and sound business practice also require procedures to ensure all capital asset records are complete and accurate.

The Department lacked an adequate segregation of duties over capital assets, as one employee was capable of maintaining capital asset records, adding and removing assets from the records, and ensuring all items purchased were added to capital asset records. Furthermore, there was no documented periodic review of the capital asset Additions and Retirements Report to ensure all purchased assets were appropriately added, and only properly surplused assets were removed from the capital asset records. The Department also did not review all of the capital asset Integrity Reports, which should have been run to identify potential errors in capital asset records.

The Department had two buildings on the Capital Assets with No Cost Integrity Report. The purpose of the report is to identify assets acquired by the Department that do not have a cost assigned to them. It appears that the Department had run and reviewed the report; however, no corrective action was taken for these two buildings. The Department explained initially that the buildings were not added to its inventory because they were fully depreciated. Subsequently, the Department claimed the buildings had been demolished. Through both inquiry with the Department's Engineering staff and personal observation, we were able to determine that the buildings had not been demolished. Upon being acquired by the Department, the buildings should have been assigned a cost and been added to the capital asset records.

A similar finding was noted in our prior report.

Without proper internal controls, there is an increased risk individuals could conceal errors, irregularities, or fraud. The Department's capital asset records are neither complete nor accurate, moreover, when all acquired assets are not reflected therein. Finally, without documented periodic reviews of capital asset reports, there is an increased risk errors will not be detected and corrected.

34. Capital Asset Controls (Concluded)

We recommend the Department establish procedures for a proper segregation of duties. We also recommend the Department implement documented periodic reviews of capital asset reports by an individual who does not maintain capital asset records. Further, we recommend the Department assign costs to the two buildings identified and add them to its capital asset records.

Department's Response: Information regarding corrections to the building inventories has been provided to DAS Building Division by the Engineering Division.

35. No Contract for LabCorp Services

Per Neb. Rev. Stat. § 73-504(2) (Cum. Supp. 2014), services in excess of $50,000 must be bid as prescribed in the Department of Administrative Services' (DAS) procurement manual or through a process approved by the Director of DAS.

Additionally, good internal control and sound accounting practices require that procedures and adequate documentation be maintained to support the review and payment of expenses.

The Department had not bid out a contract for lab services and did not have a contract with its current lab service provider, LabCorp. Furthermore, invoices were not reviewed for the prices of the lab tests. During the examination period, the Department made 123 payments to LabCorp for lab services. Those payments totaled $833,311, which far exceeded the statutorily designated amount for which competitive bidding, pursuant to DAS guidelines or approval, is required.

The Department reviewed inmate names on the invoices to the lab order forms, but the prices of those labs were not reviewed or compared to any documentation. Due to the lack of a contract with LabCorp, moreover, the Department did not have a price list of the labs on file. The APA requested documentation of the lab service rates charged for August 2013, the month tested, but the Department was unable to provide them. The most recent rates the Department had on file were for July 2014. LabCorp was then contacted to provide a list of rates for August 2013; however, the rates provided by LabCorp did not match the rates charged on the August 2013 invoice.

The APA selected 10 inmate lab order forms and traced the orders back to the invoice. Of those 10 inmate lab orders, 6 had invoice prices that did not agree to documentation provided by LabCorp. The table below illustrates those price variances.

35. No Contract for LabCorp Services (Concluded)

Inmate	Lab Number	Invoice Price	Documentation Price	Variance	Documentation Used
	620	$ 15.60	$ 14.85	$ 0.75	LabCorp Price List
	27623	$ 10.80	$ 10.25	$ 0.55	LabCorp Price List
Inmate 1	140285	$ 11.90	$ 11.30	$ 0.60	LabCorp Price List
Inmate 2	10322	$ 10.00	$ 9.50	$ 0.50	LabCorp Price List
Inmate 3	7708	$ 8.90	$ 8.45	$ 0.45	LabCorp Price List
	83824	$ 15.50	$ 14.75	$ 0.75	LabCorp Price List
	203430	$ 7.80	$ 7.40	$ 0.40	LabCorp Price List
Inmate 4	264960	$ 34.80	$ 33.10	$ 1.70	LabCorp Price List
	620	$ 15.60	$ 14.85	$ 0.75	LabCorp Price List
	4283	$ 12.65	$ 12.30	$ 0.35	LabCorp Price List
	4416	$ 11.05	$ 10.50	$ 0.55	LabCorp Price List
	4465	$ 15.50	$ 14.75	$ 0.75	LabCorp Price List
Inmate 5	4515	$ 83.46	$ 92.57	$ (9.11)	2014 Documentation*
Inmate 6	9060	$ 81.40	$ 77.50	$ 3.90	LabCorp Price List
			Total Variance	$ 21.11	

* Because this lab was not on the August 2013 LabCorp price list, the APA used 2014 documentation to compare the rates.

By failing to bid a contract for its lab services, the Department is not in compliance with § 73-504(2). In addition, not bidding for lab services increases the risk that the Department may pay more than necessary for them. Also, when the Department does not reconcile invoices to price lists, there is an increased risk that incorrect billings will not be identified.

> We recommend the Department bid out its lab services, as required by State statute. We also recommend the Department keep accurate price lists on file and reconcile them with invoices in to ensure the accuracy of lab billings.

Department's Response: The Department is pursuing an agreement or contract for these services.

36. Parole Programming Fee

Neb. Rev. Stat. § 83-1,107.01(2) (Reissue 2014) requires a parole programming fee, as follows:

> *Parolees under the supervision of the Office of Parole Administration shall pay a monthly parole programming fee of twenty-five dollars, not later than the tenth day of each month, beginning the second month of parole supervision and continuing for the duration of the parole.*

36. Parole Programming Fee (Continued)

Administrative Regulation (AR) 410.14 (IV)(E)(3)(a), "Parole Programming Fees," provides the following:

> *The Administrator/designee will monitor status reports for parolees who are delinquent in their monthly programming fees and notify each supervising parole officer through his/her supervisor of any delinquent payments. The District Supervisor will direct parole officers to work with each of their parolees who are delinquent in their fees to resolve the issue. Payment schedules, disciplinary action, and waiver of fees would be considered for each delinquent parolee as is appropriate.*

Interstate Compact Rule 4.107 says the following regarding offender supervision fees:

> *Supervision fee – (1) A receiving state may impose a reasonable supervision fee on an offender whom the state accepts for supervision, which shall not be greater than the fee charged to the state's own offenders. (2) A sending state shall not impose a supervision fee on an offender whose supervision has been transferred to a receiving state.*

A good internal control plan requires policies and procedures to ensure programming fees are correctly assessed to parolees.

During our review of the Department's parole programming fee policies and procedures, we noted the following:

- When a parolee absconds, there is no policy to identify how the programming fee should be assessed. During testing, we identified instances of programming fees not being assessed after parolees on electronic monitoring had absconded; however, we noted that a parolee not on electronic monitoring was assessed a programming fee the day he absconded. One such parolee on electronic monitoring tested, did not have the programming fee assessed for the six days absconded.

- The reports that Central Accounting staff used to assess programming fees did not identify backdated parole dates. Backdated parole dates were caused when Parole division staff failed to enter the "parole begin" date in the same month that parole actually began. For instance, an inmate paroled on June 20, 2015, who was entered into the parole application in July 2015, would not be on the report that notified Central Accounting to begin assessing the programming fee. As a result, the parolee would not be set up for the recurring assessment of that fee.

- There was a lack of communication between the Parole division and Central Accounting, which caused instances of parolees not being assessed the programming fee after ending electronic monitoring. Most parolees on electronic monitoring had the programming fee waived, so they could pay the electronic monitoring fee they were assessed. When the parolee's electronic monitoring ended, the parole officer was responsible for notifying Central Accounting, so the programming fee could start being assessed.

36. Parole Programming Fee (Continued)

- The programming fee was to begin once a parolee had been taken off electronic monitoring; however, the Department did not have a policy specifying when to start the fee. During testing, it was noted that the certificates of parole directed the programming fee to be waived while the parolee was on electronic monitoring, but Central Accounting staff did not begin assessing the fee until the month following the end of electronic monitoring. One such parolee was taken off electronic monitoring on March 25, 2015 and programming fees were not assessed until April 2015.

During our testing of the programming fee, we noted the following:

- For 1 of 15 receipts tested, the programming fee was not properly assessed to the parolee. The parolee was taken into custody on November 26, 2013; however, the programming fee continued to be assessed to the parolee. As a result, the parolee was improperly assessed $65 in programming fees.

- Two parolees tested had overpaid their programming fees prior to being released from parole, and those funds were not returned to them upon release. One parolee had paid an excess $17 on October 1, 2014, and the overpayment was not returned until March 17, 2015, after it was brought to the Department's attention. The other parolee had a credit balance of $13 due to an overpayment made on July 30, 2014, and, as of July 21, 2015, the overpayment had not been returned to the parolee.

- For 11 of 20 parolees tested, documentation was not on file to support that the programming fees had been properly waived or were otherwise not being assessed appropriately.

    - Four parolees were assessed programming fees when the supporting documentation indicated that the fees had been waived. For one, according to his own case notes, which were dated between August 4, 2014, and May 12, 2015, the parole officer claimed to have directed Central Accounting to stop assessing the fee, but it continued to be assessed nonetheless. As of June 9, 2015, the parolee was still being assessed the programming fee.

    - Five parolees were not assessed programming fees, and there was no documentation to support waiving the fees.

    - Two parolees were not assessed programming fees while on parole; however, after discharge from parole, the fees were assessed.

- Four parolees tested had a programming fee balance in excess of $50 and none of their case files contained contact notes indicating that a parole officer had followed up with the parolees about the outstanding balances.

36. Parole Programming Fee (Concluded)

- For one parolee, the Department did not have documentation on file to support the assessment of $261 in programming fees.

Without adequate policies and procedures in place for assessing the parole programming fee, there is an increased risk the Department will not assess the fee properly. In addition, without procedures to review parole account balances, there is an increased risk programming fees will not be received.

We recommend the Department take the following actions:

- Implement procedures to ascertain parole account balances before parolees have been released.
- Implement procedures to ensure parolees are being assessed the programming fee properly.
- Implement policies specifying when the programming fee begins for parolees coming off electronic monitoring and when the fee should be assessed for parolees who abscond.
- Implement procedures to ensure that the programming fee is assessed or waived based upon conditions determined by the Board of Parole.

Department's Response: Adult Parole and Accounting will review the recommendations and consult with DCS legal counsel on issues that need a legal determination. Any changes needed will be added into the appropriate Administrative Regulation.

37. Maintenance Fees

Neb. Rev. Stat. § 83-183(1) (Reissue 2014) provides for inmate employment in private venture work, which is performed within the confines of the correctional facility. Neb. Rev. Stat. § 83-183.01(3) (Reissue 2014) authorizes the Department to adopt rules and regulations requiring deductions from inmate wages earned for that work "[t]o pay all or a part of the cost of their board, room, clothing, medical, dental, and other correctional services[.]"

Administrative Regulation (AR) 119.03, "Private Venture Projects – Inmate Accounting," establishes "a uniform practice and procedure for the depositing and accounting of inmate wages" earned through private venture employment. Under the heading "Room and Board," Section III(B) of that regulation specifies, "Two dollars ($2.00) per hour based on gross wages paid will be credited to the Inmate Maintenance Fund."

Neb. Rev. Stat. § 83-184(1) (Reissue 2014) authorizes work release programs, which allow inmates to find employment in the community. Subsection (3) of that same statute allows a portion of the inmate's work release earnings to be expropriated to pay "such costs incident to the person's confinement as the director deems appropriate and reasonable."

37. Maintenance Fees (Concluded)

AR 113.02(VIII)(A), "Inmate Accounting," provides the following:

> *1. Inmates in a work release status shall be assessed maintenance from the date when employment begins or on the eighth day in a work release status, whichever comes first. The maximum of seven days with no assessment is once per inmate identification number.*
>
> *2. The amount frozen shall be the maintenance daily rate of twelve dollar ($12.00) times the number of days that maintenance is due.*

Sound business practice requires the Department to document formally and to review periodically its rationale for determining the rates of the maintenance fees assessed to inmates.

The Department lacked documentation to support how the rates for both the private venture and work release maintenance fees were determined. For the examination period, the Department collected $177,119 and $1,234,022 for private venture and work release maintenance fees, respectively.

Testing revealed that one inmate was charged an incorrect maintenance fee while on work release. Although charged for 23 days in September, the inmate should have been charged for 25 days – a variance of $24.

Failure to maintain documentation to support the rates of the maintenance fees assessed to inmates increases the risk that such fees will be either excessive or insufficient to meet their objectives. When fees are not correctly charged, moreover, there is an increased risk for loss of Department funds.

> We recommend the Department implement procedures to document the rationale, including the review and approval thereof, for the rates of the maintenance fees charged to inmates. We also recommend the Department implement procedures to ensure maintenance fees are correctly charged to inmates.

Department's Response: We will review the Administrative Regulation and identify appropriate criteria. Accounting works with unit staff and Business Managers for both community centers regarding maintenance to assure that it is accurate.

38. Kalos Review Process

Sound business practices require that an adequate billing review and approval process be in place to ensure charges are reasonable and accurate.

Kalos provides a software platform for the Department's pharmacy. The Department was invoiced monthly for maintenance of, as well as user access to, this software. According to Department staff, however, no process was in place to verify that the number of users who accessed the application agreed to the number of users designated on the monthly invoice.

The Department paid Kalos $61,266 during the examination period.

38. Kalos Review Process (Concluded)

Without an adequate process in place for reviewing and approving invoices, there is an increased risk the Department will pay an incorrect amount for the services provided. This risk is compounded by the Department's lack of adequate procedures for removing terminated users from the application, as identified in Comment 18.

> We recommend the Department implement procedures to identify the number of users who access Kalos each month, comparing that information to the invoice user numbers.

Department's Response: Health Services Staff will develop a method for determining the number of users and verify this number for comparison to the billing.

39. Temporary Medical Staffing Procedures

Sound business practices require that procedures for the selection of temporary medical staffing vendors be documented and followed by Department personnel.

The Department has contracted with nine temporary medical staffing vendors to ensure that staff is available as needed to cover 17 types of medical positions within the facilities. A listing of the contracted rates for each position by vendor is available to Department personnel responsible for overseeing temporary staffing needs. Department personnel were trained to contact vendors on the list, working from those with the lowest rates to the highest, until the position is filled; however, this procedure was not formally documented.

While testing an expenditure for temporary staffing, the APA found a Department contact log that indicated the vendor with the lowest rates for the positions needed was contacted first. When that vendor was unavailable to provide the requested medical staff, however, the vendor with the second lowest rates was not contacted next. The variance in hourly rates between the vendor with the second lowest rates and the vendor who was contacted next was $1.97 per hour for RNs, $1.48 per hour for LPNs, and $0.25 per hour for Medical Aides.

When procedures for vendor selection are not documented, there is an increased risk the Department is not obtaining temporary medical staffing services at the lowest possible rates.

> We recommend the Department document its procedures for selecting temporary medical staffing vendors.

Department's Response: Procedure for selecting temporary medical staff from the various vendors will be documented and shared with appropriate Health Services staff.

40. Inmate Payroll

Administrative Regulation (AR) 113.17(V)(E), "Inmate Payroll," states the following:

> *Business Managers are responsible for monitoring inmate work assignments as compared to authorized positions. Additionally, they will complete a monthly review to see that inmate payroll was posted appropriately and identify any errors. Accounting will be notified of errors in accordance with the payroll procedures. This review should be documented for auditing procedures.*

40. Inmate Payroll (Continued)

Also, AR 113.18(III), "Cornhusker State Industries: Inmate Job Classification and Pay Plan," contains specifications for CSI inmate job classifications, hourly pay, and the maximum number of authorized inmate workers per shop. The AR also states that Clerks or other specialized positions are subject to approval by the CSI Deputy Director.

In an effort to alleviate overcrowding in the State's correctional facilities, the Department has transferred inmates to various county jails.

While examining inmate payroll for the months of November 2013, March 2014 and September 2014, we tested five CSI shops to the Position Authorization and Pay Structure guidelines in AR 113.18(III) and noted the following:

- For 11 of the 110 inmates tested, we noted the pay rates and classifications did not agree to the AR 113.18(III) requirements, as illustrated in the chart below. Per the Department, sometimes inmates will receive promotions but not pay raises.

Inmate #	Job Classification per CIPS	Hourly Rate Paid	Classification Hourly Rate per AR 113.18
Inmate 1	Clerk III	$ 0.76	$ 1.08
Inmate 2	Lead	$ 0.76	$ 1.08
Inmate 3	Lead	$ 0.76	$ 1.08
Inmate 4	Inmate Worker II	$ 0.76	$ 0.54
Inmate 5	Inmate Worker II	$ 0.76	$ 0.54
Inmate 6	Inmate Worker II	$ 0.76	$ 0.54
Inmate 7	Certified Braille	$ 0.76	$ 1.08
Inmate 8	Inmate Worker II	$ 0.76	$ 0.54
Inmate 9	Inmate Worker I	$ 0.54	$ 0.38
Inmate 10	Lead	$ 0.76	$ 1.08
Inmate 11	Inmate Worker II	$ 0.76	$ 0.54

- Four shops did not have documentation of the CSI Deputy Director's approval for the following nine specialized positions.

Inmate #	Job Classification per CIPS	Hourly Rate Paid
Inmate 1	Clerk III	$ 0.76
Inmate 2	Special Needs	$ 1.08
Inmate 3	Quality Assurance	$ 1.08
Inmate 4	Tool Clerk	$ 1.08
Inmate 5	NIS Clerk	$ 1.08
Inmate 6	Certified Braille	$ 0.76
Inmate 7	Certified Braille	$ 1.08
Inmate 8	Certified Braille	$ 1.08
Inmate 9	Quality Assurance	$ 1.08

40. Inmate Payroll (Concluded)

It was also noted, two inmate workers at the OCC Sewing shop were paid the incorrect rate in November 2013. These inmates were classified as Inmate Worker II's and should have received $0.54 per hour, but were paid $0.76 per hour.

Additionally, testing of 44 inmate workers' paychecks revealed the following:

- Business Managers did not keep documentation of their monthly reviews of inmate payroll, including work assignments and number of authorized positions, as required per AR 113.17(V)(E).

- When setting up the inmates in the Corrections Inmate Payroll System (CIPS), supervisors chose the rates at which the inmates were paid. Those rates agreed to the rates assigned in CIPS; however, there was no documentation to support that these rates were correct. As previously noted, CSI rates did not always agree to the AR, and there was no other documentation for the daily rates.

- Two of 44 inmates tested were housed at county jails and were paid $2.25 per day in June 2014 and $3.78 per day after July 1, 2014, in lieu of working. The Department could not provide support for how these rates were determined. The Department paid inmates at county jails a total of $93,394 from June 2014 through December 2014.

When a secondary review of information entered into CIPS is not completed, or supporting documentation thereof is not on file, there is an increased risk that inmate workers could be paid incorrectly.

> We recommend the Department implement procedures to maintain documentation of pay rates assigned to inmate workers. Additionally, we recommend a secondary review of inmate payroll to ensure inmate workers are paid correctly. We also recommend the Department keep written documentation of CSI Deputy Director approvals for specialized work positions.

Department's Response: Administrative Regulation 113.17 will be reviewed with the Business Managers and methods for documenting the monthly review in the Business Office will be outlined. Monitoring during the month to see work supervisors are completing rosters daily will help ensure accuracy of payroll. CSI will review their procedures on classifications and pay.

41. County Safekeeper

The Department contracts with counties for the safekeeping of county inmates within Department facilities. The contracts state that the counties are responsible for any medical costs incurred by such "safekeeper" inmates. The medical costs billed to the counties are determined by medical staff at each facility and sent to Central Accounting monthly for invoicing.

41. County Safekeeper (Concluded)

A good internal control plan and sound accounting practices require that procedures be in place to ensure adequate documentation is maintained to support the review of billings and rates charged to counties for safekeeping medical expenses.

The APA tested two invoices – one for $176 and the other for $335 – from the Department's medical lab vendor for lab services provided to county inmates in the Department's safekeeping. Neither of those invoiced amounts was billed to the counties for reimbursement, per the terms of the "safekeeper" agreements.

We also tested a receipt for an inmate's August 2014 county "safekeeper" medical expenses and noted the following:

- No documentation was on file to support the medical rates being charged to the counties, and no process was in place to review and update those rates.
- One $4 lab expense was not billed to the county.
- An initial mental health visit was overbilled to the county by $1.
- The county was billed for two mental health follow-up visits; however, it should have been billed for only one, causing an overbilling of $38.

Without an adequate review of "safekeeper" invoices, there is an increased risk that the Department will bill the counties improperly for inmates housed at Department facilities. Additionally, lack of documentation to support the rates charged for medical services increases the risk that the Department may not charge the counties sufficient fees to cover "safekeeper" expenses.

> We recommend the Department implement procedures to ensure county "safekeeper" medical costs are properly reimbursed by the county, as required by contract. We further recommend the Department implement procedures to document the rates charged to counties for "safekeeper" medical services.

Department's Response: Health Services will develop a schedule of medical costs to be used in billing the counties. These rates will be reviewed annually in June for implementation with the July medical billings each year. The Department does strive to bill the counties for all medical goods and services provided.

42. Department Aluminum Can Recycling

The Inmate Welfare and Club Accounts Fund (Fund) was established through LB 604 (2002), which is currently codified at Neb. Rev. Stat. § 83-915.01 (Reissue 2014). That statute provides the following:

42. Department Aluminum Can Recycling (Continued)

The Inmate Welfare and Club Accounts Fund is created. The fund shall consist of revenue from soft drinks sold to inmates in the custody of the Department of Correctional Services, profit from departmental canteens, interest earned by the fund, interest on inmate trust funds pursuant to section 83-915, or other revenue at the department's discretion. The fund shall be used to provide recreational activities and equipment for inmates at all of the department's correctional facilities. The fund shall be administered by the Director of Correctional Services or his or her designee. Any money in the fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.

Among the monies being deposited into the Fund is revenue from the recycling of discarded aluminum cans from soft drinks purchased by the inmates.

Eight of the Department's ten correctional facilities recycle the discarded inmate soft drink cans. During the period tested, those facilities deposited to the Fund a total $7,377 from the recycling proceeds. See the table below for a summary of the deposits by facility.

Facility	Amount Deposited
NCYF	$ 921
TSCI	$ 2,685
CCCL	$ 361
CCCO	$ 317
NSP	$ 1,887
LCC (Note 1)	$ 468
OCC	$ 738
Total	**$ 7,377**

Note 1: DEC's recycling is combined with LCC's and all deposits are recorded to LCC.

Among other things, § 83-915.01 directs "revenue from soft drinks sold to inmates in the custody of the Department of Correctional Services" to be deposited into the Fund. That statute does not specify, however, that such revenue should include proceeds from recycling the inmates' discarded soft drink cans.

More importantly, a recycling program for all State facilities is to be carried out under the State Government Management Recycling Act (Act), which is set out at Neb. Rev. Stat. §§ 81-1183 to 81-1189 (Reissue 2014). Section 81-1186 of the Act says:

A program for the collection for recycling and sale of state government recyclable material shall be designed and implemented by the Department of Administrative Services in all state-operated buildings.

Section 81-1185 of the Act defines "state government recyclable material" to include "aluminum and other metals."

42. <u>Department Aluminum Can Recycling</u> (Continued)

In addition to designing and implementing a recycling program for all State facilities, the Department of Administrative Services (DAS) is expressly designated by § 81-1187 of the Act as the exclusive seller of State government recyclable material, as follows:

> *The Department of Administrative Services shall obtain pricing information and shall contract to sell state government recyclable material for the best terms available in the marketplace.*

Finally, § 81-1188 of the Act directs proceeds from the sale of State government recyclable material to be deposited into the Resource Recovery Fund and made available for transfer to the General Fund by the Legislature. That statute provides, in relevant part, the following:

> *The Resource Recovery Fund is created. The fund shall be administered by the Department of Administrative Services. All proceeds from the program required by section 81-1186 and fifteen percent of all proceeds from the sale of surplus property sold to be remanufactured or reprocessed shall be deposited in the fund. The fund shall be used for the administration and implementation of the program, except that transfers from the fund to the General Fund may be made at the direction of the Legislature.*
>
> *Any money in the Resource Recovery Fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.*

Given all the above, the Department appears to have lacked the statutory authority, express or otherwise, to recycle aluminum soft drink cans discarded by inmates and to deposit the resulting proceeds to the Fund.

Such apparent lack of authority was problematic because the Nebraska Supreme Court has opined, "Administrative bodies . . . have only that authority specifically conferred upon them by statute or by construction necessary to achieve the purpose of the relevant act." *Southeast Rural Volunteer Fire Dep't v. Nebraska Dep't of Revenue, Charitable Gaming Div.,* 251 Neb. 852, 867, 560 N.W.2d 436, 446 (1997). Furthermore, according to the Court, "That authority which is necessary to accomplish the purposes of an act must be narrowly construed." *University Police Officers Union, etc. v. University of Nebraska,* 203 Neb. 4, 13, 277 N.W.2d 529, 535 (1979).

Moreover, the Act provides a clear legislative directive for DAS alone to carry out the State's recycling program, to deposit the proceeds into the Resource Recovery Fund, and to make that money available for transfer to the General Fund.

Consequently, the APA questioned the propriety of the Department's recycling aluminum soft drink cans discarded by inmates and depositing the resulting proceeds to the Fund. In response to our inquiries regarding this issue, both DAS and the Department asserted that such activity was acceptable because the inmate soft drink cans at issue were not "state government recyclable material" for purposes of the Act; rather, both agencies claimed, the cans were purchased by and, therefore, belonged to the inmates.

42. Department Aluminum Can Recycling (Continued)

We disagreed with that contention. Case law in various jurisdictions holds that trash, such as the empty soft drink cans discarded by the inmates, constitutes abandoned property whose ownership passes to the collector thereof. See *National Serv-All v. Indiana Dep't of State Revenue*, 644 N.E.2d 954 (1994).

Throughout the eight correctional facilities that recycle aluminum, the inmates discard their empty soft drink cans – doing so with no expectation of retaining their former individual property rights in them – into communal trash receptacles owned and maintained by the State. The commingled contents of those containers are emptied and collected by, or under the direction of, facility staff and transported on State vehicles, driven by facility employees, to the recycling centers, except for TSCI where the vendor collects the recycling at the facility. Payment for the recycled materials is made via receipt and cash or check made payable to either the State of Nebraska, the Department of Corrections, or the individual correctional facilities.

Based upon the routine activities described above, it seemed apparent to the APA that ownership of the discarded soft drink cans at issue follows their intentional abandonment by the inmates and subsequent collection by the State through the correctional facility staff.

The only exception among the eight participating facilities to the standard recycling routine occurs at the Community Corrections Center – Lincoln, where there are two separate payees for the recycling proceeds: 1) the Fund, 90%; and 2) the Employee Activity Committee, 10%. If, as claimed by DAS and the Department, the inmates retain an ownership interest in the recycled cans, it would be incongruous, the APA pointed out, for a percentage of the proceeds from the sale of those materials to be credited to the Employee Activity Committee.

By collecting and exercising custody and control over empty aluminum soft drink cans discarded by inmates, the APA maintained the State assumes ownership of those items – making them "state government recyclable material" for purposes of the Act. Accordingly, the Department lacked the authority to contravene the Act by allowing its facilities to recycle independently the discarded inmate soft drink cans or to deposit the resulting proceeds into the Fund.

Because the APA brought this issue to the Department's attention, legislation was passed by the 104th Legislature, First Session, to remove discarded inmate soft drink cans from those materials recycled by DAS. Specifically, LB 605 (2015), § 83, amended § 81-1185 of the Act with the following language:

> *State government recyclable material does not include cans or other containers recycled under section 83-915.01.*

Pursuant to Article III, § 27, of the Nebraska Constitution, the provisions of LB 605 took effect on August 30, 2015, three calendar months after the adjournment of the legislative session during which the bill was passed.

42. Department Aluminum Can Recycling (Concluded)

Consequently, as of that effective date, the Department is no longer prohibited under the Act from recycling aluminum soft drink cans discarded by inmates.

> We recommend the Department comply with the provisions of the Act, unless specifically authorized by statute to do otherwise.

Department's Response: This issue has been resolved with the passage of LB605 during the 2015 legislative session.

43. Department Recycling

In addition to the issue discussed in Comment 42, we noted that the Department also received and retained proceeds from the recycling of various materials.

The State Government Recycling Management Act (Act), which is set out at Neb. Rev. Stat. §§ 81-1183 to 81-1189 (Reissue 2014, Neb. Laws 2015, LB 605, § 83), provides specific guidelines for the disposition of "state government recyclable material." To start, § 81-1187 requires the Department of Administrative Services to "obtain pricing information and . . . contract to sell state government recyclable material for the best terms available in the marketplace." Likewise, § 81-1188 requires proceeds from the recycling of "state government recyclable material" to be deposited into the Resource Recovery Fund.

In addition to recycling various materials independently of DAS, the Department deposited the resulting proceeds into its own agency accounts.

During testing, we noted the following Department recycling activities:

- CSI delivered 110 empty chemical drums to a vendor who paid $2.00 for each of the 96 drums that could be reused, totaling $192. The remaining 14 drums were disposed of by the vendor at no cost to CSI. No contract was on file for the vendor, and no other documentation was available to support that the rate received of $2.00 per drum was reasonable. The proceeds were deposited into the Correctional Industries Revolving Fund.

- NCYF recycled miscellaneous scrap metal and received $377. No contract was on file for the vendor, and no other documentation was available to support either the amount of metal sold or the rate received for it. The proceeds were deposited into the Inmate Welfare and Club Accounts Fund.

- A receipt for $353 was noted for recycling used cooking oil at TSCI, OCC, NSP, and LCC. The Department did have a contract on file for the vendor, but no documentation was available to support the amount of oil recycled. Consequently, the rate received could not be verified to the contract. The proceeds were deposited into the Inmate Welfare and Club Accounts Fund.

43. Department Recycling (Concluded)

All of the above materials fall within the definition of "state government recyclable material," which § 81-1185 of the Act provides, in relevant part, as follows:

> *For purposes of the State Government Recycling Management Act, state government recyclable material means any product or material that has reached the end of its useful life, is obsolete, or is no longer needed by state government and for which there are readily available markets to take the material. State government recyclable material includes paper, paperboard, aluminum and other metals, yard waste, glass, tires, oil, and plastics.*

By selling "state government recyclable material" independently of DAS and depositing the proceeds into its own agency accounts, the Department has run afoul of the express requirements of the Act.

> We recommend the Department arrange with DAS to recycle any "state government recyclable material" in strict accordance with the provisions of the Act, including the deposit of all resulting proceeds into the Resource Recovery Fund.

Department's Response: DCS will review the options available as we believe that since CSI is an Enterprise Fund that recycling funds are appropriate to be returned to their fund. The funds received from the cooking grease will be forwarded to DAS.

APA Response: The State Government Recycling Management Act (Act) provides no exception or special provision of any kind for Enterprise Funds. Rather, the Act states expressly that the Department of Administrative Services is responsible for creating a program "for the collection for recycling and sale of state government recyclable material." The proceeds from that program are to be placed in the Resource Recovery Fund and are subject to being transferred to the General Fund at the direction of the Legislature. Enterprise Fund or not, no other options are available for review under the current law.

44. Inmate Welfare, Club & Religious Accounts Detail Testing

Neb. Rev. Stat. § 84-710 (Reissue 2014) requires money received by a State institution, such as the Department, to be deposited to the State Treasury "within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars."

Neb. Rev. Stat. § 84-602.02(3)(a)(i) (Reissue 2014) requires the Department of Administrative Service's web site to contain a "data base that includes a copy of each active contract that is a basis for an expenditure of state funds, including any amendment to such contract and any document incorporated by reference in such contract."

Additionally, that same subsection of statute says, "All agencies, boards, commissions, and departments of the state shall provide to the Department of Administrative Services, in electronic form, copies of such contracts for inclusion in the data base beginning with contracts that are active on and after January 1, 2014[.]"

44. Inmate Welfare, Club & Religious Accounts Detail Testing (Continued)

Administrative Regulation (AR) 113.19(IV), "Club Activities," requires the following:

> *The purchase of supplies or services with club funds shall be in accordance with Administrative Regulation 113.06, Purchasing Procedures. The club sponsor shall complete a Material Request for Purchase (DCS-A-pur-263) noting the amount of the item requested, a description of the goods or services to be purchased, an estimated price of the goods or services, and a suggested source. If the purchase is to be made via a Purchasing Card the above information should be provided to the business manager prior to the purchase. Justification for the request must be furnished along with an indication as to which club funds are to be utilized. Each such request must be signed by the club sponsor as the originator. The facility business manager must approve all purchases prior to placing the order. If a request is denied, the facility business manager will notify the club sponsor. The business manager may designate the approval authority to the club sponsor's supervisor.*

Per AR 113.06, "Purchasing Procedures," Attachment A, a Material Request for Purchase is required "to process requests for all goods and services," except for purchases made on a purchase card.

AR 113.06(II)(D) states, "All facility/program purchases $1,000 and up will have prior business manager approval, facilities can set lower limits as they deem appropriate."

Section (II)(B)(2) of that same AR also requires the following:

> *Purchases between $2,000 and $9,999 require three (3) bids (which may be provided by the facility), and detailed specifications for the purchase. The facility may also recommend vendors for Purchasing Buyers to solicit a bid.*

Similarly, AR 113.06(II)(D)(4) contains these requirements:

- *Three bids must be solicited from qualified vendors*
- *An online vendor is not considered a qualified vendor*
- *If the third vendor elects to not provide a bid, the options are:*
    - *Solicit a new bid, or*
    - *Have the declining vendor send an email or written communication showing the web address for email or letterhead for written communication, indicating they do not wish to bid.*

A good internal control plan requires the Department to implement procedures to ensure the following:

- Documentation is maintained to support receipts and expenditures.
- Transactions are correctly coded.
- The contracted or quoted amount is the amount paid by the Department.

During testing of 10 Inmate Welfare, Club & Religious Accounts revenue transactions, we noted the following:

44. Inmate Welfare, Club & Religious Accounts Detail Testing (Continued)

- Four receipts totaling $7,715 were for commissions from vending machine sales. A contract could not be provided for one receipt. For the other three receipts, the contracts required the vendor to provide the facility with either an inventory of each pop machine on the last day of each month or a monthly commission statement reporting the revenue and commission earned and meter readings; however, documentation of such submissions was not on file. Furthermore, there was no documentation to support the amount received, the time period covered by the commission, or the facility that earned it.

- Two receipts were not deposited in accordance with § 84-710. One receipt for the vending machine commissions noted above was for $599 and was deposited two days late. A second receipt in the amount of $50 was for hobby sales. The sale occurred on September 10, 2011, but the revenue was not deposited or credited to the inmate's account until December 11, 2013, over two years later.

- One receipt for the vending machine commissions noted above was coded to CCCO inmate welfare, but it should have been coded instead to OCC inmate welfare.

During testing of 22 Inmate Welfare, Club & Religious Accounts expenditure transactions, we noted the following:

- Five purchasing card expenditures ranging from $328 to $1,999 did not have a Material Request for Purchase on file, per AR 113.06, Attachment A, or document the amount of the item, a description of the goods or services to be purchased, an estimated price, and a suggested source prior to the purchase, as required by AR 113.19(IV).

- Eight expenditures ranging from $161 to $1,999 did not have proper approval prior to the orders being placed.

- For three club expenditures ranging from $328 to $525, an indication as to which club funds were to be utilized was not included because there was not a documented purchase request.

- Four expenditures tested were over the $2,000 threshold for which bids are required. Bids were not solicited from vendors for two of the expenditures, which were for $2,495 for broadband amplifiers and $5,200 for televisions. For the other two expenditures, bids were solicited, but the Department received fewer than three bids and did not solicit additional bids or provide written communication from the vendors indicating they did not wish to bid. These two expenditures were for $7,935 for asphalt and $7,295 for a chain link fence.

- The State Contract Database had no purchase order for one $897 expenditure tested.

44. Inmate Welfare, Club & Religious Accounts Detail Testing (Concluded)

- For one expenditure tested, an OCC club had a banquet for which items were supplied by the canteen. It was noted that the Department overcharged the club for two items totaling $13.

- Bank charges totaling $15,925 for the period tested were not coded correctly. The bank charges should have been coded to the Central Office welfare account but were coded instead to the DEC welfare account.

When procedures are not in place to ensure revenue and expenditure transactions are adequately supported, properly approved, and correctly coded, there is an increased risk for loss or misuse of State and inmate funds and noncompliance with State statutes and Department regulations. When receipts are not deposited in a timely manner, moreover, the Department is not in compliance with State statute. Furthermore, when expenditures do not go through the proper bidding procedures, there is an increased risk the State will pay more money than necessary.

> We recommend the Department implement procedures to ensure revenue and expenditure transactions are adequately supported, properly approved, and correctly coded. We also recommend the Department implement procedures to ensure deposits are made timely, in accordance with § 84-710. We further recommend the Department implement procedures to ensure proper bidding requirements are followed for applicable purchases.

Department's Response: The Department agrees that it is important to record transactions accurately. Several Business Units that are no longer needed will be reviewed and closed; this capability was not available when the current system was implemented. We also agree that receipts should be processed in accordance with 84-710. Department regulations outline procedures as to when bids are required and will be addressed with the Business Managers to ensure procedure is followed.

45. Timesheets

Neb. Rev. Stat. § 84-1001(1) (Reissue 2014) states the following, in relevant part:

> *All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees . . . not required to render full-time service, shall render not less than forty hours of labor each week in which a paid holiday may occur.*

In addition, a good internal control plan requires that hours worked be adequately documented, via timesheets or time logs, etc., and that such documentation be kept on file to provide evidence of compliance with § 84-1001(1). Furthermore, a good internal control plan also requires the maintenance of adequate documentation to support that accrued employee sick and vacation leave was actually earned.

45. Timesheets (Concluded)

The Department's overtime-exempt employees were not required to maintain timesheets or other similar supporting documentation; rather, they were required only to record leave used. As a result of the Department's policy, there was no support that full-time employees rendered at least 40 hours of labor each week, as required by § 84-1001(1), or part-time employees rendered the hours required each week. During the period July 1, 2013, through December 31, 2014, the Department had 400 full-time and 5 part-time exempt employees.

A similar finding was noted in our prior report.

Without adequate records to support hours worked, there is an increased risk for fraudulent or inaccurate payment of regular hours and accumulation of leave.

> We recommend the Department establish a policy requiring all employees to maintain adequate documentation, such as timesheets or certifications, to support hours worked.

Department's Response: Based on the Fair Labor Standards Act exempt employees must receive the full salary for any week in which the employee performs any work without regard to the number of days or hours worked, unless certain exceptions are met. With these situations we believe that exception reporting of leave is an appropriate process. Exempt employees are expected to work 40 hours per week, except when taking leave, and they often work more than 40 hours per week.

APA Response: As noted, Neb. Rev. Stat. § 84-1001(1) requires all state officers and heads of departments and their deputies, assistants, and employees to work no less than forty hours each week. Therefore, documentation should be retained, such as a certification or a detailed timesheet to document compliance with State statute.

46. Personal Service Spending Authority Exceeded

The Legislature makes appropriations for each fiscal year. An appropriation is an authorization to make expenditures and incur obligations, and each agency is expected to operate within those legislatively established fiscal limits.

For 2014, the 103rd Legislature appropriated a total of $98,798,054 to the Department for personal services, as follows:

- LB 195 provided an initial appropriation of $94,802,231 and also reappropriated unexpended General Fund and Cash Fund appropriation balances existing on June 30, 2013, which amounted to an additional $3,726,539.

- LB 483A appropriated $250,000.

46. Personal Service Spending Authority Exceeded (Concluded)

- LB 905 then revised the appropriations in LB 195 to $94,821,515, an increase of $19,284.

Department personal service expenditures for fiscal year 2014, including expenditures obligated in fiscal year 2014 and paid in fiscal year 2015, totaled $99,224,714. Thus, the Department exceeded its appropriated personal service spending authority by $426,660.

The Department was not in compliance with the spending limitations established by the State Legislature.

> We recommend the Department implement controls to ensure it operates within the spending limitations established by the State Legislature.

Department's Response: Personal Services is monitored and a deficit was requested and funded.

APA Response: The APA agrees a budget deficit was requested for fiscal year ending June 30, 2014, in October 2014 and appeared to have been approved by LB 656, which was approved in May 2015.

47. On-Call Hours

Administrative Regulation 112.12(I)(A)(9), "Compensation: Timekeeping, Overtime, Pay Warrants and Flex Time," states the following:

> *The overtime eligible employee who is required to be on call/standby status is compensated at 8% of the normal hourly rate of pay for each hour of being on call/standby status. Required is defined as advance written supervisory approval. In extenuating circumstances when it is not possible to get advanced approval in writing, the supervisor shall review the pay for the Officer of the Day duties and approve it after the fact. Examples of which include OD duty, e.g., a Maintenance employee being ready to return to the facility; an IT Help Desk employee required to respond to emergencies, and so forth. If the overtime eligible employee on an on call/standby status returns to the facility, the method of compensation changes to a call back pay status. Upon clocking-out of the facility, the employee returns to their on call/standby status.*

A good internal control plan requires time entered into KRONOS, the Department's time-keeping application, by supervisors for on-call hours to be reviewed by a second individual for accuracy.

During our testing of payroll, which included testing five employees who were paid for on-call hours, we noted the following:

- The Department did not have a written policy regarding the review of on-call hours. On-call hours were manually entered into KRONOS by the employees' supervisors and were usually entered as a lump sum of hours, rather than by day. Employee timesheets were approved by Human Resources staff, who did not recalculate the on-call hours for accuracy or obtain documentation to support that the employees were scheduled to be on call.

47. On-Call Hours (Concluded)

- No documentation was on file to support that two employees were scheduled to be on-call for the weeks tested and, thus, to support the on-call hours paid to them.

- One employee tested was paid 99 on-call hours for August 18, 2014, through August 24, 2014, but should have been paid 120 on-call hours, a variance of 21 hours or $27.

When a secondary review of on-call hours is not completed, there is an increased risk those hours could be calculated incorrectly or entered inaccurately into KRONOS, resulting in improper payments to the employees.

> We recommend the Department implement policies and procedures for Human Resources to receive documentation of schedules that show when employees are on-call and recalculate a sample of on-call employees every pay period to ensure supervisors are correctly calculating and entering on-call hours into KRONOS.

Department's Response: The Department believes that supervisors have the most knowledge about who are on-call and what days and hours. We have added three employees to the random sample each biweekly to verify the employees were paid the correct number of hours for on-call.

48. Assets Valued at $1

As the official accounting system of the State of Nebraska, EnterpriseOne (E1) should accurately list all capital assets owned by the Department. A good internal control plan would include a review of E1 asset listings to ensure asset values are accurately recorded and listed at cost or fair market value at the date of acquisition or donation.

As of December 31, 2014, the Department had 38 assets on its capital asset listing that were inappropriately valued at a cost of $1 instead of their cost or fair market value at the date of donation or acquisition. Of these 38 assets, 6 were land, 17 were buildings, and 15 were a combination of machinery and equipment, law enforcement and security equipment, computer hardware and software, and other capital assets that did not fit into the prior categories. The Department did not provide any documentation to support the dates acquired and cost of assets at the time of acquisition.

Description	Item Code Description	Date Acquired	Cost	Accum. Depr.	Net Book Value
LCC & D & E (Old Reformatory)	Land	1/1/01	$ 1.00	$ -	$ 1.00
Corrections West Farm (46)	Land	1/1/01	$ 1.00	$ -	$ 1.00
West Farm (Warden's Residence)	Land	1/1/01	$ 1.00	$ -	$ 1.00
Maximum Security Penitentiary	Land	1/1/01	$ 1.00	$ -	$ 1.00

COMMENTS AND RECOMMENDATIONS
(Continued)

48. Assets Valued at $1 (Continued)

Description	Item Code Description	Date Acquired	Cost	Accum. Depr.	Net Book Value
Building - CCL 2770 West Van Dorn	Land	9/1/94	$ 1.00	$ -	$ 1.00
LCC / D & E Center	Land	1/1/21	$ 1.00	$ -	$ 1.00
West Farm Firing Range Storage	Buildings	7/1/06	$ 1.00	$ (0.21)	$ 0.79
Dog Kennel	Buildings	3/1/06	$ 1.00	$ (0.22)	$ 0.78
Wire Gate Building	Buildings	2/27/06	$ 1.00	$ (0.22)	$ 0.78
Officer Station	Buildings	7/1/98	$ 1.00	$ (0.41)	$ 0.59
Recycling Building	Buildings	7/1/97	$ 1.00	$ (0.43)	$ 0.57
Central Pharmacy Annex	Buildings	7/1/97	$ 1.00	$ (0.43)	$ 0.57
Paper Recycling	Buildings	1/1/92	$ 1.00	$ (0.57)	$ 0.43
Garage/Maintenance YY	Buildings	6/1/90	$ 1.00	$ (0.61)	$ 0.39
Recreation Building	Buildings	7/1/85	$ 1.00	$ (0.73)	$ 0.27
Storage/Welding Shop	Buildings	7/1/85	$ 1.00	$ (0.73)	$ 0.27
Building Q - A/R Storage	Buildings	7/1/84	$ 1.00	$ (0.76)	$ 0.24
Tower #1	Buildings	7/1/79	$ 1.00	$ (0.88)	$ 0.12
Tower #2	Buildings	7/1/79	$ 1.00	$ (0.88)	$ 0.12
Tower #3	Buildings	7/1/79	$ 1.00	$ (0.88)	$ 0.12
LCC Warehouse Cellar	Buildings	6/1/48	$ 1.00	$ (1.00)	$ -
Federal Surplus Office	Buildings	7/1/25	$ 1.00	$ (1.00)	$ -
Federal Surplus Warehouse	Buildings	7/1/25	$ 1.00	$ (1.00)	$ -
Paint Sprayer	Machinery & Equipment	6/2/03	$ 1.00	$ (1.00)	$ -
Safe	Machinery & Equipment	4/10/03	$ 1.00	$ (1.00)	$ -
Weapon – Pepperball Gun	Law Enforcement & Security Equipment	2/22/06	$ 1.00	$ (0.89)	$ 0.11
Weapon – Pepperball Gun	Law Enforcement & Security Equipment	2/22/06	$ 1.00	$ (0.89)	$ 0.11
Etching Tool	Law Enforcement & Security Equipment	6/2/03	$ 1.00	$ (1.00)	$ -
Narcotic Safe	Law Enforcement & Security Equipment	4/15/03	$ 1.00	$ (1.00)	$ -
Microscope	Law Enforcement & Security Equipment	4/15/03	$ 1.00	$ (1.00)	$ -
Timekeeper - KRONOS	Computer Hardware & Software	12/23/11	$ 1.00	$ (1.00)	$ -
Timekeeper - KRONOS	Computer Hardware & Software	12/23/11	$ 1.00	$ (1.00)	$ -
Timekeeper - KRONOS	Computer Hardware & Software	12/23/11	$ 1.00	$ (1.00)	$ -

48. Assets Valued at $1 (Concluded)

Description	Item Code Description	Date Acquired	Cost	Accum. Depr.	Net Book Value
Printer – HP Laserjet 4600	Computer Hardware & Software	5/8/03	$ 1.00	$ (1.00)	$ -
PC-Dell GX60	Computer Hardware & Software	4/15/03	$ 1.00	$ (1.00)	$ -
Workflow Unit – 2 Bay Work	Other Capital Assets	6/21/11	$ 1.00	$ (0.36)	$ 0.64
Replenishing Kit	Other Capital Assets	6/21/11	$ 1.00	$ (0.36)	$ 0.64
Parata Mini Machine	Other Capital Assets	6/21/11	$ 1.00	$ (0.36)	$ 0.64

A similar finding was noted in our prior report.

When assets are not recorded accurately in E1, there is an increased risk of loss, theft, or misuse of State property and an increased risk that capital assets and depreciation will be understated.

> We recommend the Department review its E1 capital asset listing to ensure assets are accurately recorded and listed at cost or fair market value at the date of acquisition or donation and maintain documentation of this information.

Department's Response: The Department will review the listing and determine appropriate values for the items valued at $1.

49. Department of Administrative Services (DAS) Specialized Office Services (SOS) Expenditure

A good internal control plan requires procedures for obtaining supporting documentation to ensure that amounts being invoiced are reasonable and accurate.

The Department utilized temporary employees through DAS SOS and timesheets for those temporary employees were not available. DAS invoiced the Department for 14 SOS employees who worked during the period of October 21, 2013, to November 3, 2013. Five of the 14 employees did not have timesheets documented, but the Department noted on the invoice that the timesheets were pending. The Department sent requests for the timesheets to DAS in February 2014. That request was not followed up on until the missing timesheets were brought to the Department's attention by the APA during fieldwork. The timesheets were received and reviewed on April 10, 2015.

Additionally, during testing, the APA noted that five employees' timesheets from the above invoice did not have documented supervisor approval. The Department paid DAS Personnel $652,236 during the examination period.

49. Department of Administrative Services (DAS) Specialized Office Services (SOS) Expenditure (Concluded)

When timesheets for SOS employees are not properly reviewed and approved by the employees' supervisors, there is increased risk that the Department could be incorrectly billed for SOS employee services.

> We recommend the Department obtain and review timesheets for all SOS temporary employees prior to paying DAS for their services.

Department's Response: The Department agrees that we need the timesheets for all SOS employees prior to paying DAS for their services.

50. Confiscated Inmate Accounts

A good internal control plan requires that inmate funds be confiscated only when sufficient evidence supports such action.

Administrative Regulation (AR) 113.02(II)(B), "Inmate Accounting," lists unauthorized inmate funds and the circumstances under which they may be confiscated. Among those funds listed for confiscation are receipts from another inmate or the family of another inmate as well as cash receipts.

One of 10 inmates tested had 14 receipts confiscated. Dated from March 25, 2014, to May 23, 2014, those receipts totaled $1,222. According to a subsequent investigation performed by the Department, however, sufficient evidence did not exist to support confiscation of the inmate's funds. Nevertheless, the confiscated funds were not returned to the inmate until February 19, 2015, nearly a year after they were received.

> We recommend the Department review its procedures for confiscating inmate funds to ensure that such confiscations occur only when sufficient evidence supports such action. We recommend also that funds determined to have been confiscated in violation of Department's regulations be returned to the inmate in a timely manner.

Department's Response: The Department is authorized to confiscate funds when we have a suspect that a Department rule may have been violated or a potential crime was committed. Research on these items especially those involving law enforcement may take a considerable amount of time before a determination can be made.

51. Inmate Trust Accounts

A good internal control plan requires policies and procedures to be in place to ensure that funds due to the Inmate Trust are moved timely. A good internal control plan and sound business practices also require the Department to implement procedures to ensure it receives and maintains current information on all accounts in the Department's name.

51. Inmate Trust Accounts (Concluded)

The Hastings Detainee Center has been closed since 2005. Nevertheless, the prior attestation review for fiscal year 2008 noted that the Hastings Detainee Fund had a balance of $211 in Enterprise One (E1), the State's accounting system. That money was moved to the Inmate Trust Fund in E1 in June 2009. As of June 12, 2015, the Hastings Detainee Fund had a balance of $2,705, which was not transferred to the Inmate Trust Fund until July 1, 2015, after the APA pointed out the existence of the money.

It appears that the bank account for the Hastings Detainee Fund was subject to a service charge of approximately $30 per month. The APA was unable to determine how much State money was expended needlessly on those service charge fees due to the Department's failure to transfer the funds when the Hastings Detainee Center closed. It was noted also that the Department lacked documentation of a complete reconciliation to determine the variance, if any, between the fund and bank account balances.

One Department inmate had a savings account at Wells Fargo Bank in Lincoln, Nebraska. In the past, the Department allowed inmates to put excess cash in personal savings accounts held at a bank. At the time of our examination, one inmate account was still held at Wells Fargo. That account was held in the inmate's name, and the Department was responsible for the custody of the account records. The Department was responsible also for tracking the activity of that account on the Corrections Information and Tracking (CIT) application since it related to funds earned by the inmate while in a correctional facility; however, the Department did not track the account balance. The account had a withdrawal of $350 in May 2014, but the Department was unaware of that activity until July 15, 2015, when it requested and received a bank statement.

The inmate savings account at Wells Fargo Bank was not used in the reconciliation of the Inmate Trust Fund because the Department did not regularly receive bank statements necessary to update the inmate's account balance on CIT. Consequently, the inmate's account balance on CIT was $623 until July 28, 2015, but the bank balance was $273 as of May 2014. The Department did adjust the inmate's CIT account to $273 on July 28, 2015.

A similar finding was noted in our prior report.

Failure to track outside bank accounts increases the risk that the Department will not become aware of improper activity in a timely manner.

> We recommend the Department implement procedures to ensure outside bank accounts are adequately monitored.

Department's Response: DCS only has one inmate that has an external savings account. Previous conversations with the bank were not successful in obtaining statements. Once a statement was received we entered an adjustment in CIT.

COMMENTS AND RECOMMENDATIONS
(Continued)

52. Shift Differential

Article 7.7 of the 2013-2015 Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE/AFSCME) Labor Contract provides the following:

> *Bargaining unit members on duty and working fifty percent or more of a shift between the hours of 6:00 p.m. and 6:00 a.m. shall receive sixty cents per hour shift differential for all hours worked on that shift.*

Additionally, Article 7.7.2 of that same document states the following:

> *Shift differential for Registered Nurse is as follows: 2nd and 3rd shifts weekdays $1.50; 1st shift weekends (Saturday and Sunday) and holidays $2.00; 2nd shift weekends (Saturday and Sunday) and holidays $2.50; and 3rd shift weekends (Friday and Saturday) and holidays $2.50.*

Furthermore, Article 7.7.1 contains this directive:

> *Shift differential for all direct care staff is as follows for the following classifications: 2nd and 3rd shifts weekdays $1.00; 1st shift weekends (Saturday and Sunday) and holidays $1.25; 2nd shift weekends (Saturday and Sunday) and holidays $1.50; and 3rd shift weekends (Friday and Saturday) and holidays $1.50.*

A good internal control plan requires the Department to maintain written policies and procedures regarding shift times for employees who receive shift differential pay and to ensure those employees receive shift differential pay in accordance with the labor contract.

During testing of payroll, the following was noted regarding the shift differential:

- The Department lacked an approved, written policy regarding shift times for employees who receive shift differential pay. For Protective Service Bargaining Unit employees, the normal shifts worked were as follows: 1st shift – 6:00 a.m. to 2:00 p.m.; 2nd shift – 2:00 p.m. to 10:00 p.m.; and 3rd shift – 10:00 p.m. to 6:00 a.m. For nurses, the shifts were set by the facilities and varied accordingly.

- Six employees were paid the incorrect shift differential hours. Five were Protective Service Bargaining Unit employees and one was a Registered Nurse. For Protective Service Bargaining Unit employees, time worked during the 2nd and 3rd shifts was eligible for shift differential. The Department paid the employees shift differential for any hours worked during those shifts as long as 50% or more of one of the shifts was worked, plus any additional hours worked from 6:00 pm to 6:00 a.m. For Registered Nurses, time worked during the 2nd and 3rd shifts on weekdays and all shifts on weekends were eligible for shift differential. The rates paid for shift differential vary between the shifts.

52. Shift Differential (Continued)

Employee	Job Title	Date	Hours Worked		Shift Diff. Paid	Actual Shift Diff.	Variance
1	Caseworker	10/21/13	2:00 pm	10:15 pm	8.25	8.00	.25
1	Caseworker	10/25/13	2:00 pm	10:30 pm	8.50	8.00	.50
1	Caseworker	10/28/13	6:00 am	10:15 pm	8.25	8.00	.25
2	Corporal	10/24/13	2:00 pm	10:15 pm	8.25	8.00	.25
3	Caseworker	10/21/13	6:00 am	10:15 pm	8.25	8.00	.25
3	Caseworker	10/25/13	6:00 am	10:15 pm	8.25	8.00	.25
3	Caseworker	10/28/13	6:00 am	10:15 pm	8.25	8.00	.25
3	Caseworker	11/2/13	6:00 am	10:15 pm	8.25	8.00	.25
4	Sergeant	2/27/14	9:00 pm	6:00 am	9.00	8.00	1.00
4	Sergeant	2/28/14	9:30 pm	6:00 am	8.50	8.00	.50
4	Sergeant	3/1/14	9:30 pm	6:00 am	8.50	8.00	.50
4	Sergeant	3/7/14	9:30 pm	6:00 am	8.50	8.00	.50
4	Sergeant	3/8/14	9:30 pm	2:30 am	5.00	4.50	.50
5	Caseworker	8/18/14	1:50 pm	2:00 pm	.17	0.00	.17
				Total	**105.92**	**100.50**	**5.42**
6	RN	8/15/14	9:30 pm	7:45 am	10.00	10.25	(.25)
6	RN	8/16/14	9:30 pm	8:00 am	10.00	10.50	(.50)
6	RN	8/21/14	9:30 pm	7:30 am	0.00	10.00	(10.00)
6	RN	8/23/14	9:30 pm	7:45 am	10.00	10.25	(.25)
				Total	**30.00**	**41.00**	**(11.00)**

The shift differential hourly rate for Protective Service Unit Bargaining Unit employees was $0.60, so the amount overpaid to the employees for shift differential was $3.25. The difference in shift differential also affected the overtime premium calculation, resulting in an overpayment of $0.29. The total overpayment to the Protective Service Unit Bargaining Unit employees was $3.54.

The sixth employee, who was a Registered Nurse, normally worked 3rd shift. For the three days during which the employee worked past 7:30 am, the additional time was worked during 1st shift weekend and would have been paid at a rate of $2.00 per hour. The one day for which the employee received no shift differential pay was a Thursday, so the employee should have received 3rd shift weekday shift differential at a rate of $1.50 per hour. The total underpayment to the employee was $17.00.

- The APA also reviewed shift differential paid to all Protective Service Unit Bargaining Unit employees for the period July 1, 2013, through December 31, 2014. Based on the number of hours paid that could not be 50% or more of a shift, it was determined 1,258 employees received gross pay of $10,274 for shift differential hours not paid in accordance with the NAPE/AFSCME contract.

52. <u>Shift Differential</u> (Continued)

- Two employees were paid the incorrect shift differential rate. One employee, who was a Licensed Practical Nurse, worked .75 hours in addition to her normal shift and was paid at a rate of $1.25 rather than $1.50 for an underpayment of $.19. The other employee was a Registered Nurse and worked .75 hours in addition to the normal shift and was paid at a rate of $2.50 rather than $2.00 for an overpayment of $.38.

    - As a result of these two items, the APA also reviewed the job classifications of all Department employees for the examination period, finding a total of 26 direct care staff, per the classifications noted in the NAPE/AFSCME contract, and 35 registered nurses who potentially could have been paid shift differential at the incorrect rates during the period.

- An audit of one terminated employee's shift differential was completed by the Department for the two-year period prior to the employee's termination. The APA reviewed that audit, noting 14 days in the audit period where the difference in the number of shift differential hours needed versus originally paid to the employee were incorrect, ranging from 0.25 to 1.25 hours, for a total overpayment to the employee of $4.80.

A similar finding was noted in our prior report.

When there is no approved, written policy regarding shift times, and shift differential is not paid in accordance with the NAPE/AFSCME contract, there is an increased risk of incorrect payment of shift differential.

> We recommend the Department develop and approve a written policy regarding shift times for employees who receive shift differential pay. We also recommend the Department develop policies and procedures to ensure the correct number of hours and the hourly rate are paid for shift differential in accordance with the NAPE/AFSCME contract.

Department's Response: The Department will review our timekeeping Administrative Regulation and determine appropriate information to add in the policy. We believe shift differential pay is appropriate and in accordance with guidance from DAS State Personnel.

APA Response: Article 7.7 of the 2013-2015 NAPE/AFSCME labor contract, which was negotiated pursuant to the State Employees Collective Bargaining Act, as set out at Neb. Rev. Stat. §§ 81-1369 to 81-1388 (Reissue 2014), governs shift differential payments for State employees covered by that agreement, including Department personnel. Section 81-1371(9) of the Act permits labor contracts to contain "terms and conditions of employment which may otherwise be provided by law for state employees . . . ." Likewise, Title 273 NAC 004.03 (2006), which sets out the DAS "Personnel Rules and Regulations," says,

52. Shift Differential (Concluded)

"Employees subject to certified Collective Bargaining Agreements as prescribed in Section 81-1373 and 1374 are not covered by these rules to the extent that wages, hours and other terms and conditions of employment are provided for by contract." Consequently, it is improper for the Department to seek, much less follow, guidance from DAS State Personnel that conflicts with the plain language of the labor contract.

53. Howard's Day Pay

Neb. Rev. Stat. § 83-454 (Reissue 2014) states the following:

> *The second day of September in each year, the birthday of John Howard, the author of prison reform throughout the world, shall be observed as a legal holiday in all the penal and reformatory institutions of this state and shall be known as "Howard's Day".*

A good internal control plan requires that adequate procedures be in place to ensure inmate payroll is correct.

Cornhusker State Industries (CSI) employed 485 inmates in September 2014. Of those, 361 received the incorrect number of holiday pay hours for Howard's Day. This resulted in full-time employees being paid for 12 hours of work, instead of the correct 7.8 hours, and part-time employees being paid for 6 hours, instead of the correct 3.9 hours.

The APA also noted that upwards of 290 institutional inmate workers had not been paid for Howard's Day as of December 31, 2014. Those inmates were mistakenly not paid because their supervisors failed to check the box in the payroll application to authorize Howard's Day pay. Exact numbers could not be determined, as all of the inmates would have had to be reviewed to determine whether they were eligible for, or subsequently received, Howard's Day pay. The APA did test 16 inmates, however, and two of them did not receive pay for Howard's Day. Those inmates were paid after the APA's inquiry.

In addition, two of the 16 inmates tested were housed at county jails due to overcrowding and were not paid for Howard's Day, as they were already paid $3.78 for each day spent at county facilities. The Department's upper management made this decision; however, supporting documentation was initially unavailable for it. Only after requesting such documentation did the APA receive a memo dated March 13, 2015, from the Deputy Director of Programs and Community Services confirming the decision to not grant Howard's Day pay to the 196 inmates housed in county facilities as of September 2014.

> We recommend the Department implement policies and procedures for reviewing Howard's Day pay to ensure that all qualifying inmate workers are paid the correct amount.

Department's Response: The Department agrees that paying Howard's Day accurately is important. This pay was discussed at the most recent Business Managers' Meetings as well as sending out reminders.

54. Inmate Timecards and Inmate Incentive Calculation

Cornhusker State Industries (CSI) shops paid inmates on an hourly basis and required them to record time worked by punching in and out on timecards each day.

Operational Memorandum (OM) 113.18.02(VI) states the following:

> *Time card entries will be calculated as follows: A. If the time card reflects early punch in or a later than authorized punch out, the time reflected on the card will be standard check in/out times unless authorization for overtime was given. No overtime is permitted on the time cards unless previously approved and authorized by the CSI Assistant Administrator, Manufacturing Manager, or designee. B. For morning or after lunch punch ins, if the time card reflects a late punch of 5 minutes or less, the time reflected on the card will be standard start time. The actual punch in time will be used for late punches exceeding 5 minutes. C. Daily time will be calculated as total minutes worked (adjusted for early or late starts as specified in A & B above) rounded up to the nearest one-tenth of an hour. Under no circumstance can an inmate worker's time exceed the available work time for the shop unless overtime was authorized.*

Work hours recorded on timecards were calculated manually by inmates, but Department staff performed no review of those calculations. Scheduled hours for CSI shops or inmates could not be provided. Without those schedules, the APA could not determine whether inmates were late or early for shifts and, therefore, could not round work hours per OM 113.18.02(VI).

During testing, it was noted also that the rounding guidelines in OM 113.18.02(VI) were not followed consistently. Rather, some inmate timecards were rounded according to the memorandum, but others used the actual time worked. According to Department CSI Business Office staff, the rounding "tends to vary depending on transportation to the CSI warehouse."

Because rounding and scheduled start/stop times could not be determined, the APA used the actual time on the CSI timecards to recalculate the number of inmate hours worked. From the 20 inmate timecards tested, we noted a total variance of 163 hours – resulting in both over and underpayments – between the APA's calculations and what the inmates received. Of that variance, 113 hours were due to the inability of the Department to provide four weeks of timecards for one inmate.

Timecards were used also to determine whether inmates were eligible for the CSI Inmate Incentive. This incentive is a bonus payment to CSI inmate laborers who work the majority of available hours in a given quarter. According to OM 113.18.01(IV)(C), "Inmate Worker Incentive calculation equals twelve percent (12%) of total CSI quarterly profits divided by the number of eligible inmate workers."

OM 113.18.01(VI) provides the following eligibility requirements for receiving the CSI Inmate Incentive:

> *A. An inmate worker must be employed the first business day of the quarter through the last business day of the quarter with no break in services, except for institutional transfer, to be eligible. B. An inmate is not eligible if they do not work at least ninety-four percent (94%) of the hours that are available during the quarter (all overtime hours are excluded from computation).*

54. <u>Inmate Timecards and Inmate Incentive Calculation</u> (Continued)

Additionally, Administrative Regulation (AR) 113.18(X), "Cornhusker State Industries: Inmate Job Classification and Pay Plan," states the following:

> *The normal workday is a 7.8-hour day, Monday through Friday. Some shops may be designated to work a four day work week with standard hours of 9.5 per day. All such overtime work (over 39 hours per work week of Monday through Sunday) shall be paid at a rate of one and one-half times the inmate worker hourly rate.*

The rounding inconsistencies on timecards and lack of schedules previously mentioned would also affect the inmate incentive calculations. For the inmate incentive calculation, CSI used the written notes on the timecards to gather hours worked and hours available for each inmate. If the rounding of the times on the timecards was not properly recorded, the resulting incentive calculation would be computed inaccurately.

For the CSI inmate incentive, the APA tested 10 inmates – 5 of whom were not paid the incentive, and 5 of whom were. The following was noted:

- Of the five inmates not paid the incentive, two were paid correctly later in the quarter, and two of the remaining three were determined by the APA to be eligible for the incentive. Per OM 113.18.01(VI), inmates must work at least 94% of the hours that were available during the quarter to be eligible for the incentive payment. The two inmates tested had calculated APA percentages of 94.21% and 94.52% for the quarter tested.

    - The differences in the calculations were caused by CSI not using the definition of overtime provided in AR 113.18(X) when calculating inmate work hours. For the purpose of calculating inmate incentive, CSI considers overtime as any time worked over 7.8 hours a day, even if the inmate does not work 39 hours in a week. The APA calculated hours worked using the overtime definition in AR 113.18(X), which designates overtime as anything over 39 hours worked in a week. We noted also that CIPS, the inmate payroll application, automatically calculated overtime as any time worked over 39 hours a week – and, as CSI inmates were paid through CIPS, overtime on inmate paystubs would reflect time over 39 hours, not 7.8 hours a day.

- CSI's treatment of overtime also caused variances for hours available for all inmates, including the five inmates tested who received incentive pay. Using the APA's method, the number of calculated hours available was 29 hours greater than what CSI calculated for the five inmates tested. One of the five inmates comprised 17 hours of that variance. The APA recalculated hours worked/hours available using the APA's method, and all five inmates still met the 94% requirement and were properly paid the incentive.

- It was also noted that CSI manually calculates incentive pay using inmate timecards instead of CIPS, the inmate payroll application used to pay inmates, which maintains inmate hours worked and paid.

54. Inmate Timecards and Inmate Incentive Calculation (Concluded)

When Department policies are not followed consistently, there is an increased risk that inmate payroll and earned bonuses will not be calculated correctly. Moreover, manually calculating inmate incentive payments, when inmate hours worked and paid are readily available in CIPS, increases the risk of miscalculations.

> We recommend the Department consider using an electronic system of tracking inmate work times to ensure hours are calculated correctly and rounding is applied consistently. We also recommend the Department utilize CIPS data when calculating the inmate incentive. CIPS calculates overtime in accordance with AR 113.18(X) and should reduce the risk of errors caused by manual miscalculations.

Department's Response: CSI does use a time clock, but CSI will work to make the rounding consistent. Starting with FY 2015-2016 CSI will use the hours in CIPS for calculating the inmate incentive pay.

55. Contracts not on State Contracts Database

Neb. Rev. Stat. § 84-602.02(3)(a)(i) (Reissue 2014) requires State agencies to submit a copy of any contract that serves as "a basis for an expenditure of state funds" and is active on and after January 1, 2014, to the Department of Administrative Services (DAS) for inclusion in the State Contracts Database (Database). Such contracts must include any amendments and any documents incorporated by reference. Furthermore, a January 22, 2014, memo from the DAS Material Administrator requires any purchase order not tied to a contract to be included also on the Database. The Database can be accessed on the internet through the following link: https://statecontracts.nebraska.gov/Search.

A good internal control plan requires that procedures be in place to ensure all applicable contracts and purchase orders are reported on the Database.

During testing, the APA found that 8 of 30 purchases that should have been reported on the Database were not. The purchase orders listed below should have been reported on the Database because none were tied to a contract, and all were active on or after January 1, 2014:

- Purchase order for a $36,942 dishwasher.
- Purchase order for a $28,500 motorized man lift.
- Purchase order for a $28,310 color printer.
- Purchase order for $863 of disposable clothing and hygiene products.
- Purchase order for $5,865 of chemicals to be used for laundry products.
- Purchase order for $14,874 of plywood.
- Contract for a $93,187 motorized gate.
- Contract with the American Correctional Association (ACA) for the reaccreditation of NCCW.

55. Contracts not on State Contracts Database (Concluded)

The Department claimed to have a process in place to ensure compliance with § 84-602.02(3)(a)(i). This involved loading, as received, all applicable contracts and purchase orders on an internal drive and then uploading those documents to the Database weekly. Additionally, the Department received an exceptions report each week from DAS, listing contracts or purchase orders that needed to be added to the Database. The Department reviewed this report and attempted to take action to upload any missing items; however, it does not appear that the Department's review of the exceptions report identified the purchase orders noted above in a timely manner, so that corrective action could be taken.

When failing to submit to DAS copies of all applicable contracts and purchase orders for inclusion in the Database, the Department is not in compliance with § 84-602.02(3)(a)(i).

> We recommend the Department implement procedures to ensure compliance with the statutory requirements for reporting contracts and purchase orders on the Database.

Department's Response: The Department has worked extensively on correcting issues identified on the contract database error report and will continue working on this report.

56. Inmate Trust Fund Unclaimed Property

Neb. Rev. Stat. § 69-1307.01 (Reissue 2009) provides the following:

> *Except as otherwise provided by law, all intangible personal property held for the owner by any court, public corporation, public authority, or public officer of this state, or a political subdivision thereof, that has remained unclaimed by the owner for more than three years is presumed abandoned.*

Neb. Rev. Stat. § 69-1310 (Reissue 2009) requires abandoned property to be reported to the Nebraska State Treasurer "before November 1 of each year as of June 30 next preceding."

Neb. Rev. Stat. § 83-153 (Reissue 2014) states the following, in part:

> *Any claim to money or personal property in the hands of the . . . Department of Correctional Services to the credit of an inmate or patient of any institution subject to the jurisdiction of such departments shall be required to be asserted within two years from and after either (1) the date of the death of the inmate or patient, while confined in such institution, or (2) the date of the discharge of the inmate or patient from such institution. If such claim is not presented within the time limited by this section, it shall be forever barred.*

Neb. Rev. Stat. § 83-154 (Reissue 2014) states the following, in part:

> *Upon the failure to assert a claim for money within two years as prescribed by section 83-153 . . . the Department of Correctional Services shall transfer such money to a special fund to be set up for the use and benefit of all the inmates or patients of the institution in which the deceased or discharged inmate or patient was confined.*

COMMENTS AND RECOMMENDATIONS
(Continued)

56. Inmate Trust Fund Unclaimed Property (Concluded)

A good internal control plan requires procedures to be in place for the review of outstanding checks to ensure the proper disposition, either to the Inmate Welfare and Club Account Fund or to Unclaimed Property, of those items.

The Department transferred all Inmate Trust Fund outstanding checks more than two years old – regardless of whether the payee was an inmate or vendor – to the Inmate Welfare and Club Account Fund. Instead, outstanding checks not payable to an inmate should have been treated as abandoned property after three years and delivered to the State Treasurer. During the examination period, $22,559 in checks, outstanding for more than two years, was transferred to the Inmate Welfare and Club Account Fund.

A similar finding was noted in our prior report.

Without adequate procedures to determine whether outstanding items are due to inmates or vendors, there is an increased risk of noncompliance with State statute regarding the disposition of abandoned property.

> We recommend the Department implement procedures to ensure the proper disposition of outstanding items. This includes reviewing those items to determine if monies are due to an inmate and should be transferred to the Inmate Welfare and Club Account Fund or to other individuals and should be treated as abandoned property and delivered to the State Treasurer.

Department's Response: Our legal counsel reviewed the DCS statute and our process and concurs that our current method is appropriate. These funds were sent on behalf of an inmate; therefore, we believe that it is appropriate for these funds to be placed in the Inmate Welfare Fund.

APA Response: The language in Neb. Rev. Stat. § 83-153 (Reissue 2014) is clear that the provisions of that statute apply only to "money or personal property in the hands of the . . . Department of Correctional services to the credit of an inmate . . . ." Likewise, Neb. Rev. Stat. § 83-154 (Reissue 2014) makes specific reference to "failure to assert a claim for money within two years as prescribed by section 83-153 . . . ." For purposes of the Department, therefore, it is indisputable that the provisions of both statutes are applicable only to unclaimed inmate money or property – not to outstanding vendor payments. Nevertheless, if any doubt remains as to the proper interpretation of the unambiguous terminology in these controlling statutes, we encourage the Department to seek formal guidance from the Attorney General.

57. Inmate I-9s

The employment verification requirements in 8 CFR § 274a.2(b)(1)(i) of the Immigration Reform and Control Act of 1986 (IRCA) contain the following:

> *A person or entity that hires or recruits or refers for a fee an individual for employment must ensure that the individual properly: (A) Completes section 1 – "Employee Information and Verification" – on the Form I-9 at the time of hire and signs the attestation with a handwritten or electronic signature in accordance with paragraph (h) of this section; or if an individual is unable to complete the Form I-9 or needs it translated, someone may assist him or her.*

Among the definitions for the IRCA found in 8 CFR § 274a.1 are the following:

> *(f) The term employee means an individual who provides services or labor for an employer for wages or other remuneration but does not mean independent contractors as defined in paragraph (j) of this section or those engaged in casual domestic employment as stated in paragraph (h) of this section;*
>
> *(g) The term employer means a person or entity, including an agent or anyone acting directly or indirectly in the interest thereof, who engages the services or labor of an employee to be performed in the United States for wages or other remuneration. In the case of an independent contractor or contract labor or services, the term employer shall mean the independent contractor or contractor and not the person or entity using the contract labor;*
>
> *(h) The term employment means any service or labor performed by an employee for an employer within the United States, including service or labor performed on a vessel or aircraft that has arrived in the United States and has been inspected, or otherwise included within the provisions of the Anti-Reflagging Act codified at 46 U.S.C. 8704, but not including duties performed by nonimmigrant crewmen defined in sections 101 (a)(10) and (a)(15)(D) of the Act. However, employment does not include casual employment by individuals who provide domestic service in a private home that is sporadic, irregular or intermittent[.]*

Administrative Regulation (AR) 113.17(III), "Inmate Payroll," states the following, in relevant part:

> *A. All inmate institutional payrolls will be based on a calendar month and paid on the twelfth workday of the month.*
>
> *B. Inmates shall only be paid for actual days or hours worked . . . .*

Those inmates who receive remuneration for their services within a correctional facility appear to qualify as employees for purposes of the IRCA. Nevertheless, the Department did not require such working inmates to complete I-9 forms.

> We recommend the Department discuss this issue with the U.S. Department of Homeland Security to receive clarification as to whether employed inmates should be required to complete I-9.

Department's Response: The Department did check with the National Correctional Industries Association and they did not know of any requirements for obtaining I-9's under the Prison Industry Enhancement Certification Program.

57. Inmate I-9s (Concluded)

APA Response: Rather than relying upon the advice of an unaccountable nonprofit association, we urge the Department to review for itself the definitional language in 8 CFR 274a.1 of the Immigration Reform and Control Act of 1986 (Act). It is evident that the Department, the inmate laborers, and the work performed all fall within those provisions. We are unaware, moreover, of any exceptions applicable to the Department under Part 274a. Continued uncertainty by the Department regarding its responsibilities under the Act should be resolved immediately at the direction of the appropriate Federal authorities.

58. Central Warehouse Adjustments

Administrative Regulation (AR) 113.05, "Fiscal Management, Purchasing, and Inventory Control: Supplies," requires inventory adjustments exceeding $200 to be reviewed and approved by the NDCS Materiel Control Manager and inventory adjustments exceeding $1,000 to be reviewed and approved by the NDCS Materiel Administrator.

A good internal control plan requires that procedures be in place to ensure all adjustments to inventory records are approved by the proper personnel.

For 5 of 10 Central Warehouse inventory adjustments tested, the Department lacked documentation to support that the proper approvals were obtained. See the following table for a summary of those five adjustments.

When Variance Identified	Inventory Item	Amount (Short) or Long	Dollar Amount (Short) or Long	Approved by Material Control Manager	Approved by Material Administrator
Daily Cycle Count	Beef Hamburger	(345) Pounds	$ (636)	NO	N/A
Daily Cycle Count	Ground Turkey	(380) Pounds	$ (475)	NO	N/A
Annual Inventory	Cinnamon Wheat Squares Cereal	30 Cases	$ 350	NO	N/A
Annual Inventory	Institutional Forms	72 Forms	$ 411	NO	N/A
Annual Inventory	Shredded Pizza Blend Cheese	160 Pounds	$ 202	NO	N/A

During the examination period, Central Warehouse adjustments related to physical inventory counts increased inventory by $132,407 and decreased inventory by $131,214.

Without proper approvals of adjustments, the Department is not in compliance with its own administrative regulations. In addition, failure to obtain appropriate approvals increases the risk that management will be unaware of the adjustments made to Central Warehouse inventory.

58. Central Warehouse Adjustments (Concluded)

> We recommend the Department implement procedures to ensure the approvals for inventory adjustments required by AR 113.05 are obtained and maintained on file.

Department's Response: Central Warehouse adjustments will be submitted for review in accordance with Administrative Regulation 113.05.

59. Cornhusker State Industries (CSI) Raw Materials Purchases

Neb. Rev. Stat. § 81-1118(5)(a) (Reissue 2014) provides the following:

> *The state purchasing bureau shall be responsible for all purchases by all state agencies . . . . All purchases of and contracts for materials, supplies, or equipment and all leases of personal property shall be made in the following manner except in emergencies approved by the Governor:*
>
> *(a) By a competitive formal sealed bidding process through the materiel division in all cases in which the purchases are of estimated value in the amount of twenty-five thousand dollars or more[.]*

Three of 15 Cornhusker State Industries (CSI) raw materials purchases tested exceeded $25,000, but none were not bid using a formal sealed competitive bidding process. Instead, the Department used informal bidding processes that involved mailing bid requests to a select number of vendors and then selecting one based upon the returned bids. In all three instances, the Department either chose the lowest-cost vendor or documented why it did not.

The following are brief descriptions of the three raw material purchases noted by the APA:

- One vendor was paid $47,200 for 10,000 square yards of polyester quilting fill for jackets.
- One vendor was paid $31,782 for 19,200 square feet of birch plywood.
- One vendor was paid $40,377 for 1,200 plastic lumber planks.

When purchases for "materials, supplies, or equipment" having an estimated value of $25,000 or more are not made by "a competitive formal sealed bidding process through the materiel division," the Department is not in compliance with § 81-1118(5)(a) and the Department may not receive the lowest price available.

> We recommend the Department implement procedures to ensure that a sealed formal competitive bidding process is used for purchases of goods with an estimated value of $25,000 or more.

Department's Response: The Department agrees that CSI will comply with obtaining formal bids for raw materials with an estimated value of $25,000 or more.

60. Department Control Environment

Neb. Rev. Stat. § 84-305 (Reissue 2014) grants the Auditor of Public Accounts (APA) access to any information held by a public entity, as follows:

> *The Auditor of Public Accounts shall have access to all records of any public entity, in whatever form or mode the records may be, unless the auditor's access to the records is specifically prohibited or limited by federal or state law.*

In Op. Att'y Gen. 02030 (Dec. 2. 2002), the Attorney General addressed the scope of the authority granted by § 84-305, offering the following observation:

> *We believe that the APA has broad authority to review any and all records of public entities, including state agencies, in the performance of his or her proper duties, absent a state or federal law which specifically limits the Auditor's access.*

Compliance with the APA's authority under § 84-305, the Attorney General opined further, could be enforced by a court order:

> *[T]he Auditor has broad statutory authority to review any and all records of public entities, including state agencies, in the performance of his or her proper duties, unless there is another state or federal law which specifically limits the Auditor's access to particular records. Given that broad statutory authority, it is likely that a court would order an agency to provide documents requested by the Auditor to the Auditor if the agency refused to provide them. An action in that regard might involve either declaratory judgment or mandamus.*

Moreover, the Attorney General has concluded that § 84-305 empowers the APA not only to access any and all records or information of a public entity but also to question public employees about matters relevant to an audit:

> *[I]t seems to us that the Auditor can pose questions to auditees in the context of a proper financial audit. Given that authority, we also believe it likely that a court would order an agency to answer questions posed by the Auditor in the conduct of a proper financial audit, so long as those questions were pertinent to the audit. Again, the cause of action in such a case might involve either declaratory judgment or mandamus.*

In an email message obtained by the APA, the Department's Controller directed facility staff that, if necessary to change the FTIN associated with the Employee Activity Account to one that is not associated with the State's FTIN, prior to responding to our inquiry. That email contained the following:

> *The FTIN for the bank account cannot be the State's number . . . or an employee's SSN. If the account is using the State's or an employee's SSN we need to get it fixed before information is sent to the auditors. Let me know if I can help.*

At best, this is a very poorly worded email message. At worst, the email message appears to constitute an attempt to obfuscate or falsify records before providing them to the APA. In order to determine if similar emails had been sent by the Controller, the APA obtained copies of the Controller's email correspondence.

COMMENTS AND RECOMMENDATIONS
(Concluded)

60. Department Control Environment (Concluded)

While no similarly suspect email messages were found, the APA identified numerous directives requiring Department staff to submit documents or correspondence for the Controller's review before providing them to the auditors. These emails messages, along with the fact that significant delays for document requests were encountered, cause concerns that items were corrected or altered before we obtained them. The following are two examples of significant delays for information requested:

- The APA originally requested a listing of checks processed through the Inmate Trust in a meeting with the Controller on February 13, 2015. Follow-up email reminders were sent on February 25, 2015, March 2, 2015, and March 16, 2015. The listing of Inmate Trust checks was finally provided more than a month after the initial request.

- One document selected for testing was originally requested on February 2, 2015, and subsequent requests were made February 19, 2015, March 2, 2015, March 9, 2015, March 24, 2015, April 1, 2015, April 6, 2015, June 23, 2015, June 30, 2015, and July 9, 2015. The document requested was not obtained until July 10, 2015, after the Department had made adjusting entries on June 22, 2015 and June 23, 2015, to correct the original entry selected for testing.

Between the Controller's directives that staff require her to review any information prior to making it available to the auditors, the significant delays in providing requested documentation to support the Department's activities, and changes made to examination records, it is difficult to say that the Department was fully compliant with § 84-305.

> We recommend the Department respond to the APA's request for documentation in a forthright and timely manner. Doing so will not only facilitate and expedite the examination process but also ensure compliance with § 84-305.

Department's Response: The Department did strive to provide information timely and as requested. Staffing shortages and workload did impact the ability to respond at times.

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NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Correctional Services
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Department of Correctional Services (Department) for the period July 1, 2013, through December 31, 2014. The Department's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements 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 Revenues, Expenditures, and Changes in Fund Balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balance of the Nebraska Department of Correctional Services for the period July 1, 2013, through December 31, 2014, based on the accounting system and procedures prescribed by the State of Nebraska's Director of the Department of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of

Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report

This report is intended solely for the information and use of management, others within the Department, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

October 19, 2015

Charlie Janssen
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE PERIOD JULY 1, 2013, THROUGH DECEMBER 31, 2014

	General Fund 10000	Parole Program Fund 24610	Reentry Cash Fund 24680	Correctional Facility Cash Fund 24690, 24691	State Capital Construction Fund 38000	Community Base Service Funds 48130, 48132, 48133	Community Base Service Fund 48138
REVENUES:							
Appropriations	$ 272,687,665	$ -	$ -	$ -	$ 585,049	$ -	$ -
Intergovernmental	-	-	-	190,000	-	1,552,015	-
Sales & Charges	63	334,615	91,370	1,676,380	-	-	-
Miscellaneous	118,383	24,836	4,253	1,770,300	-	189,907	31,220
TOTAL REVENUES	272,806,111	359,451	95,623	3,636,680	585,049	1,741,922	31,220
EXPENDITURES:							
Personal Services	186,040,862	-	-	-	-	863,528	-
Operating	84,538,364	401,418	33,352	2,080,373	585,049	808,761	-
Travel	1,108,292	-	-	-	-	8,737	-
Capital Outlay	1,000,147	-	-	-	-	5,723	-
TOTAL EXPENDITURES	272,687,665	401,418	33,352	2,080,373	585,049	1,686,749	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	118,446	(41,967)	62,271	1,556,307	-	55,173	31,220
OTHER FINANCING SOURCES (USES):							
Sales of Assets	56,062	-	-	-	-	-	-
Deposit to General Fund	(174,508)	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(118,446)	-	-	-	-	-	-
Net Change in Fund Balances	-	(41,967)	62,271	1,556,307	-	55,173	31,220
FUND BALANCES, JULY 1, 2013	19,658	828,125	117,411	241,693	-	766,895	276,451
FUND BALANCES, DECEMBER 31, 2014	$ 19,658	$ 786,158	$ 179,682	$ 1,798,000	$ -	$ 822,068	$ 307,671
FUND BALANCES CONSIST OF:							
General Cash	$ -	$ 786,158	$ 188,106	$ 1,703,813	$ -	$ 790,394	$ 307,671
Petty Cash	11,100	-	-	-	-	-	-
NSF Items	-	-	-	622	-	-	-
Deposits with Vendors	8,558	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	97,421	-	36,166	-
Due From Other Government	-	-	-	1,097	-	-	-
Raw Materials	-	-	-	-	-	-	-
Work-In-Process	-	-	-	-	-	-	-
Finished Goods	-	-	-	-	-	-	-
Due to Vendors	-	-	(8,424)	(4,400)	-	(4,492)	-
Tax Refunds Payable	-	-	-	(19)	-	-	-
Due to Fund	-	-	-	(534)	-	-	-
TOTAL FUND BALANCES	$ 19,658	$ 786,158	$ 179,682	$ 1,798,000	$ -	$ 822,068	$ 307,671

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE PERIOD JULY 1, 2013, THROUGH DECEMBER 31, 2014

	Correctional Industries Fund 52510	Federal Surplus Other Operations Funds 52700 & 52701	DCS Central Warehouse Fund 54610	Inmate Trust Fund 64612	Confiscated Inmate Trust Fund 64613	Canteen Accounts Funds 64640 & 64641	Inmate Welfare & Club Accounts Funds 64650 to 64660	**Totals (Memorandum Only)**
REVENUES:								
Appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 273,272,714
Intergovernmental	186,105	127,047	-	-	-	-	-	2,055,167
Sales & Charges	16,779,410	1,304,228	3,198,451	-	-	7,088,110	811,111	31,283,738
Miscellaneous	391,658	23,939	16,108	18,606,419	45,480	24,860	94,606	21,341,969
TOTAL REVENUES	17,357,173	1,455,214	3,214,559	18,606,419	45,480	7,112,970	905,717	327,953,588
EXPENDITURES:								
Personal Services	7,106,255	403,013	-	-	-	1,254,479	89,615	195,757,752
Operating	9,370,365	950,795	3,223,442	17,566,276	25,855	5,512,305	972,491	126,068,846
Travel	173,905	13,825	-	-	-	-	-	1,304,759
Capital Outlay	1,290,327	-	-	-	-	8,564	37,058	2,341,819
TOTAL EXPENDITURES	17,940,852	1,367,633	3,223,442	17,566,276	25,855	6,775,348	1,099,164	325,473,176
Excess (Deficiency) of Revenues Over (Under) Expenditures	(583,679)	87,581	(8,883)	1,040,143	19,625	337,622	(193,447)	2,480,412
OTHER FINANCING SOURCES (USES):								
Sales of Assets	8,737	-	-	-	-	-	-	64,799
Deposit to General Fund	-	-	-	-	-	-	-	(174,508)
Operating Transfers In	-	-	-	173	-	154,542	435,077	589,792
Operating Transfers Out	-	-	-	(383,680)	(25)	(488,067)	(12,366)	(884,138)
TOTAL OTHER FINANCING SOURCES (USES)	8,737	-	-	(383,507)	(25)	(333,525)	422,711	(404,055)
Net Change in Fund Balances	(574,942)	87,581	(8,883)	656,636	19,600	4,097	229,264	2,076,357
FUND BALANCES, JULY 1, 2013	13,447,527	767,343	561,118	2,689,617	81,923	348,491	2,494,573	22,640,825
FUND BALANCES, DECEMBER 31, 2014	$ 12,872,585	$ 854,924	$ 552,235	$ 3,346,253	$ 101,523	$ 352,588	$ 2,723,837	$ 24,717,182
FUND BALANCES CONSIST OF:								
General Cash	$ 8,502,689	$ 783,050	$ 421,049	$ 3,317,153	$ 101,670	$ 707,314	$ 2,767,960	$ 20,377,027
Petty Cash	-	-	-	40,000	-	1,300	-	52,400
NSF Items	-	-	-	-	-	-	-	622
Deposits with Vendors	275	375	-	-	-	-	-	9,208
Accounts Receivable Invoiced	1,567,408	115,760	-	-	-	-	408	1,817,163
Due From Other Government	-	-	-	-	-	-	-	1,097
Raw Materials	1,830,817	-	413,602	-	-	-	-	2,244,419
Work-In-Process	47,153	-	-	-	-	-	-	47,153
Finished Goods	1,159,136	-	-	-	-	-	-	1,159,136
Due to Vendors	(215,251)	(44,261)	(282,416)	(10,900)	(147)	(345,166)	(44,878)	(960,335)
Tax Refunds Payable	-	-	-	-	-	-	-	(19)
Due to Fund	(19,642)	-	-	-	-	(10,860)	347	(30,689)
TOTAL FUND BALANCES	$ 12,872,585	$ 854,924	$ 552,235	$ 3,346,253	$ 101,523	$ 352,588	$ 2,723,837	$ 24,717,182

The accompanying notes are an integral part of the schedule.

(Concluded)

NOTES TO THE SCHEDULE

For the period July 1, 2013, through December 31, 2014

1. Criteria

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) 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[.]*

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2014), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public.

The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows. State Accounting does not require the Department to record all accounts receivable and related revenues in EnterpriseOne; as such, the Department's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of December 31, 2014, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2014, **does not** include amounts for goods and services received before December 31, 2014, which had not been posted to the general ledger as of December 31, 2014.

Other liabilities are recorded in accounts entitled Tax Refund Payable and Due to Fund for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Department are:

> **10000 – General Fund** – accounts for activities funded by general tax dollars and related expenditures and transfers.

NOTES TO THE SCHEDULE
(Continued)

1. **Criteria** (Continued)

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Sources of receipts in the Cash funds also include parole fees charged to parolees that are deposited into the Parole Program Fund and work release and private venture maintenance fees charged to inmates that are deposited to the Correctional Facility Cash Fund. Cash funds are established by State statutes and must be used in accordance with those statutes.

30000 – Construction Funds – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

40000 – Federal Funds – account for the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

50000 – Revolving Funds – account for the operation of State agencies that provide goods and services to other departments or agencies within State government. The Correctional Industries Fund is used by Cornhusker State Industries to manage the industrial shops at the correctional facilities. Items made from the industrial shops are sold to State and local government agencies and non-profits. The Federal Surplus Property Fund is used by the Department to obtain and resell surplused Federal property to State and local governments, non-profits, and small businesses, if they meet Federal requirements. The Central Warehouse Fund is used to purchase bulk food and other products that are used by the Department's facilities. The purchased items are purchased by the Central Warehouse and then distributed to the facilities as needed and then the facilities are billed for those purchases.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust. The Inmate Trust Funds are used to account for inmate funds. Receipts are from family members, work release pay, and inmate pay from the Department. Expenditures are initiated by the inmate or are required per Department Administrative Regulation. The Canteen Accounts Funds are used to administer the facility canteens. Revenues and expenditures are driven by the acquisition and sale of items in the canteens. The Inmate Welfare & Club Accounts Funds are used to provide recreational activities and equipment for inmates.

The major revenue account classifications established by State Accounting and used by the Department are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Continued)

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

Sales & Charges – Income derived from sales of merchandise and commodities, and compensation for services rendered. Sales and charges included charges to other funds of the Department from the Central Warehouse; sales of products and services rendered in Cornhusker State Industries and Federal Surplus Property operations; sales of items to inmates through the Canteen and Inmate Welfare & Club Funds.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income. The Correctional Facility Cash Fund's miscellaneous receipts are from maintenance fees charged to inmates in work release and private venture. Miscellaneous receipts recorded in the Inmate Trust Fund include private source receipts, inmate payroll, and work release payroll.

The major expenditure account classifications established by State Accounting and used by the Department are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Department.

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.

Capital Outlay – Expenditures that result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Other significant accounting classifications and procedures established by State Accounting and used by the Department include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, receivable accounts, and inventories of materials. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger. Inventories of materials and supplies are determined by both physical counts and through perpetual inventory systems. Inventories are valued using weighted average cost.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Department's funds at December 31, 2014, included amounts recorded in Tax Refund Payable, and Due to Fund. The activity of these accounts is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

Other Financing Sources – Operating transfers, Deposits to the General Fund, and proceeds of capital asset dispositions.

2. Reporting Entity

The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department included in the general ledger.

The Nebraska Department of Correctional Services is part of the primary government for the State of Nebraska.

3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory, recording in the State Accounting System all equipment that has a cost of $1,500 or more at the date of acquisition for all programs, except for Cornhusker State Industries. For Cornhusker State Industries, the Department records in the State Accounting System all equipment that has a cost of $1,000 or more at the date of acquisition.

For the CAFR, the State requires the Department to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of $5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Substantially, all initial building costs, land, and land improvements are capitalized. Building improvements and renovations are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Buildings and Equipment are depreciated in the CAFR using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	3 – 20 years

Capital asset activity of the Department recorded in the State Accounting System for the period July 1, 2013, through December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Land	$ 1,934,578	$ -	$ -	$ 1,934,578
Buildings	183,785,070	-	-	183,785,070
Equipment	16,498,632	1,502,960	955,339	17,046,253
Total	$ 202,218,280	$ 1,502,960	$ 955,339	202,765,901
Less accumulated depreciation for:				
Buildings				94,824,595
Equipment				13,448,094
Total				108,272,689
Total capital assets, net of depreciation				$ 94,493,212

NOTES TO THE SCHEDULE
(Continued)

6. Inventories

Significant inventories of materials and supplies are maintained in EnterpriseOne (E1), the State's accounting system, which also includes a perpetual inventory system. Perpetual inventory for Cornhusker State Industries (CSI) and the Central Warehouse are accounted for using the weighted average cost method and recorded in separate revolving funds within E1. Materials and supplies are purchased as raw materials and then are transferred to work-in-process and finished goods as they are completed.

Description	Balance July 1, 2013	Increases	Decreases	Balance December 31, 2014
CSI:				
Raw Materials	$ 1,706,782	$ 5,861,579	$ 5,737,635	$ 1,830,817
Work-in-Process	61,187	9,405,015	9,419,049	47,153
Finished Goods	924,037	9,666,319	9,431,220	1,159,136
Total CSI	$ 2,692,006			$ 3,037,106
Central Warehouse	328,435	3,690,187	3,605,020	413,602
Total	$ 3,020,441			$ 3,450,708

The increase in raw materials is the acquisition of materials used by the CSI workshops to complete goods sold to State agencies and nonprofits, as well as items used internally by the Department.

The decrease in raw materials is driven by CSI inmates pulling the raw materials and issuing those materials to a work order. The decrease also includes transfers, adjustments, and reclassifications. Once the raw materials have been pulled and issued to a work order they are decreased from raw materials and moved to work-in-process. When work orders are completed, direct labor and overhead is assigned to work-in-process, based upon predetermined rates. The reduction of work-in-process is performed when finished work orders are moved to finished goods.

Finished goods are increased when work orders are completed and decreased when completed CSI products are sold. Both the increases and decreases of finished goods include adjustments and reclassifications of inventory.

The increase to Central Warehouse Inventory is the result of the acquisition of food and other items to be used by the correctional facilities. Likewise, the decrease of Central Warehouse inventory is the result of the distribution of food and other items to the different correctional facilities.

NOTES TO THE SCHEDULE
(Concluded)

7. Transfers

Transfers In and Transfers Out for the Department do not equal due to two reasons; the Department transfers funds out to non-Department managed funds and the Department was not recording Transfers In correct, as identified by Comment 17. The Department withholds 5% of work release and private venture inmate pay, as required by Neb. Rev. Stat. § 83-184 (Reissue 2014). These funds are distributed in accordance with Neb. Rev. Stat. § 33-157 (Cum. Supp. 2014) which requires 25% be distributed to the Nebraska Reentry Cash Fund and 75% to the Victim Compensation Fund. During the examination period, the Department transferred $294,373 from the Inmate Trust Fund and $73,586 to the Nebraska Reentry Cash Fund and $220,787 to the Victim Compensation Fund. The transfer to the Victim Compensation Fund is not shown as a Transfer In because the fund is not a Department fund. The $73,586 does not appear as a Transfer In, as it should; instead, the Department has incorrectly recorded this as a Sales and Charges Revenue, as identified in Comment 17.

8. Confiscated Inmate Trust Fund

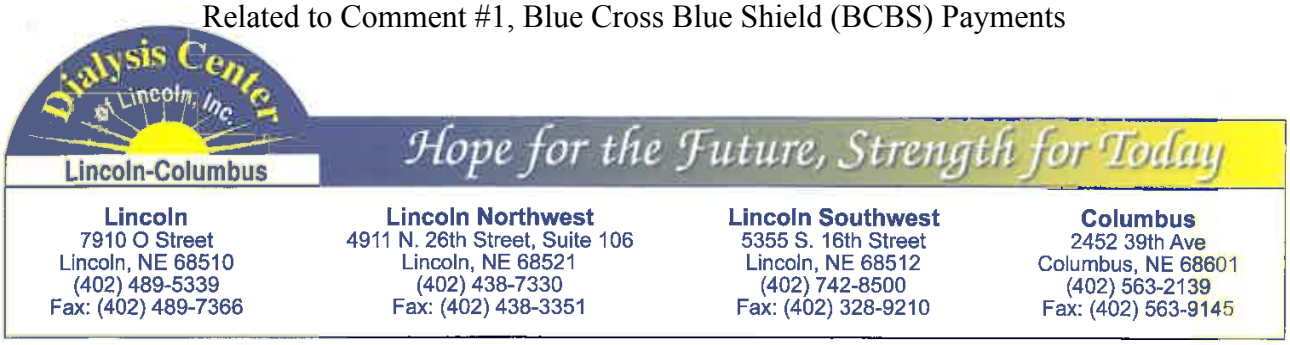
Fund 64613 is the Confiscated Inmate Trust Fund. This fund holds inmate money that has been confiscated because it has been improperly received and the funds do not earn interest. Instances where an inmate may have funds confiscated are when an inmate is found with cash or excess pop tokens and money sent to the facility for an inmate is from the family of another inmate. The confiscated inmate funds are tracked using the Correctional Information and Tracking application. Upon release or parole, the inmate's confiscated account will be included in the release check.

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary 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 Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

Provider Letter

Related to Comment #1, Blue Cross Blue Shield (BCBS) Payments



August 12, 2015

Mr. John Wilson, MHSA
COO, Health Services
NDCS Central Office
PO Box 94661
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john.wilson@nebraska.gov

Larry Emerson, FACHE
CEO of Dialysis Center of Lincoln
and Home Dialysis of Lincoln, LLC
7910 O Street
Lincoln, NE 68510
lemerson@dialysiscenteroflincoln.org

RE: Contract Number 42420 04, Nebraska Department of Correctional Services and Home Dialysis of Lincoln, LLC.

Gentlemen:

This letter will memorialize and document the resolution of a billing account variance identified through an external audit conducted by the Nebraska Auditor of Public accounts ("the State"). The billing account variance concerns dialysis services provided to inmates of the Nebraska Department of Correctional Services by Home Dialysis of Lincoln, LLC pursuant to Contract Number 42420 04 ("the Contract"). The Nebraska Department of Correctional Services ("the Department") and Home Dialysis of Lincoln, LLC ("HDL"), are referred to individually in this letter as "a party" and collectively as "the parties."

The State's external audit reviewed the services provided under the Contract from March 2010 through May 2015. Of the eight inmates served under the Contract, billing errors were found with respect to three of the inmates beginning in August 2013 through May 2015. Due to a miscommunication between and among the parties, HDL billed Blue Cross

Blue Shield of Nebraska ("BCBS-NE") for certain services which should have been billed directly to the Department pursuant to the Contract. The parties agree that this unintentional and inadvertent error resulted in an overpayment to HDL from BCBS-NE in the amount of $369,503.50.

The parties acknowledge and agree that

- They have fully investigated the issue of the billing account variance identified under Contract 42420 04 by the recent external audit by the State of Nebraska (Nebraska Auditor of Public Accounts);
- Home Dialysis of Lincoln, LLC and its representatives have fully cooperated with the Department and BCBS-NE with respect to the audit involving HDL's services under the Contract;
- No other billing variances from March 2010 through May 2015, were identified by the parties during the course of the audit or the parties' subsequent investigation of the matter for services provided by HDL under the Contract;
- Identifying data for the claims at issue are found in the spreadsheets, HDL 1-5, attached to this letter as Exhibit 1;
- The representatives who are signing this letter are doing so in their official capacities and have been authorized to do so on behalf of the respective parties;
- By the signing this letter, the parties agree that they consider this matter to be closed and completely resolved without the necessity of further action by any of them other than as described below; and
- This letter may be signed in two counterparts, which in the aggregate, will be considered one and the same.

Upon receipt of a signed copy of this letter from the Department, HDL will have its representative sign this letter. HDL then shall promptly remit and transmit by overnight courier (1) a check in the amount of $369,503.50 from HDL made payable to Blue Cross and Blue Shield of Nebraska, and (2) a copy of this letter signed by the parties or counterparts signed by the parties' representatives. The transmittal to BCBS-NE shall be addressed to Blue Cross and Blue Shield of Nebraska, 1919 Aksarben Drive, Omaha, NE 68180 Attn: Refunds. HDL will also transmit to the parties' respective representatives by regular U.S. Mail or via secure e-mail a copy of this

letter with its signed counterparts and a copy of the check to BCBS-NE for the parties' records.

Payment by HDL in this matter shall be in full satisfaction of the amount due to BCBS-NE concerning the billing account variance identified by the State's external audit for services provided under the Contract from March 2010 through May 2015.

Upon receipt of the refund check from HDL, BCBS-NE will adjust all necessary claims and will issue a credit to the Department's groups when the refund process is completed.

Accepted and Agreed by:

Nebraska Department of
Correctional Services

John Wilson

John Wilson, MHSA
COO, Health Services
Nebraska Department of
Correctional Services

Home Dialysis of Lincoln, LLC

Larry Emerson, FACHE 8/13/2015
CEO, Home Dialysis of Lincoln, LLC

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT B**

Blue Cross Blue Shield (BCBS) Payments vs. Contracted Payment Amounts

Related to Comment #1, Blue Cross Blue Shield (BCBS) Payments

Inmate	Service Period	Amount Paid to BCBS	Amount That Should Have Been Paid Under Provider Contract	Variance	
Inmate 1	August 2013	$ 4,200	$ 1,050	$ 3,150	Note 4
Inmate 1	September 2013	$ 17,123	$ 4,930	$ 12,193	
Inmate 1	October 2013	$ 15,814	$ 4,930	$ 10,884	
Inmate 1	November 2013	$ 9,135	$ 4,930	$ 4,205	
Inmate 1	December 2013	$ 1,523	$ 1,050	$ 473	Note 4
Inmate 1	January 2014	$ 19,238	$ 4,930	$ 14,308	
Inmate 1	February 2014	$ 17,100	$ 4,930	$ 12,170	
Inmate 1	March 2014	$ 18,525	$ 5,037	$ 13,488	
Inmate 1	April 2014	$ 18,525	$ 5,037	$ 13,488	
Inmate 1	May 2014	$ 18,525	$ 5,037	$ 13,488	
Inmate 1	June 2014	$ 18,525	$ 5,037	$ 13,488	
Inmate 1	July 2014	$ 19,238	$ 5,037	$ 14,201	
Inmate 1	August 2014	$ 18,525	$ 5,037	$ 13,488	
Inmate 1	September 2014	$ 19,578	$ 5,037	$ 14,541	
Inmate 1	October 2014	$ 20,331	$ 5,037	$ 15,294	
Inmate 1	November 2014	$ 18,825	$ 5,037	$ 13,788	
Inmate 1	December 2014	$ 20,331	$ 5,037	$ 15,294	
Inmate 1	January 2015	$ 19,578	$ 5,037	$ 14,541	
Inmate 1	February 2015	$ 18,072	$ 5,037	$ 13,035	
Inmate 1	March 2015	$ 20,331	$ 5,188	$ 15,143	
Inmate 1	April 2015	$ 19,578	$ 5,188	$ 14,390	Note 3
Inmate 1	May 2015	$ 19,578	$ 5,188	$ 14,390	Note 3
Inmate 2	June 2014	$ 18,525	$ -	$ 18,525	Note 5
Inmate 3	December 2014	$ 13,554	$ 5,037	$ 8,517	
Inmate 3	January 2015	$ 19,578	$ 5,037	$ 14,541	
Inmate 3	February 2015	$ 18,072	$ 5,037	$ 13,035	
Inmate 3	March 2015	$ 20,331	$ 5,188	$ 15,143	
Inmate 3	April 2015	$ 20,912	$ 5,188	$ 15,724	Note 3
Inmate 3	May 2015	$ 19,768	$ 5,188	$ 14,580	Note 3
	TOTAL			**$ 369,504**	

Note 1: The overpayments were identified as a result of the testing of one of these BCBS claims. The amounts listed are the total overpayments the Department was reimbursed as a result of the APA's testing.

Note 2: The amounts tested are the payments the Department should have made directly to the provider based upon the provider's contract with the Department.

Note 3: These amounts were not on the data file the APA obtained from BCBS. This data was obtained from the Department.

Note 4: These payments were for services provided for just a few days. The BCBS claim data the APA obtained did not identify how many days the inmate was seen to calculate what the Department should have paid. For these, the contract amount was provided from the Department.

Note 5: Per the Department, the provider billed through BCBS and through the Department's normal contract. Both were paid, thus the amount overpaid through BCBS was the entire amount.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT C**

Employees Paid Over 40 Hours a Week

Related to Comment #4, Pay in Excess of 40 Hours a Week with Leave

For the Period July 1, 2013, Through December 31, 2014

Employee	Job Description	Total Hours Paid Over 40 During Examination Period (Note)	Excess Pay Not Required
Employee 1	Corrections Corporal	439.75	$ 7,163.53
Employee 2	Corrections Unit Case Manager	338.00	$ 6,364.54
Employee 3	Corrections Sergeant	332.00	$ 6,010.86
Employee 4	Corrections Corporal	268.50	$ 4,373.87
Employee 5	Corrections Investigator	263.50	$ 7,160.09
Employee 6	Corrections Unit Case Manager	263.25	$ 5,292.11
Employee 7	Corrections Corporal	246.00	$ 4,007.34
Employee 8	Corrections Corporal	240.25	$ 3,913.67
Employee 9	Corrections Officer	234.50	$ 4,337.31
Employee 10	Corrections Corporal	223.75	$ 3,644.89
Employee 11	Corrections Corporal	223.75	$ 3,644.89
Employee 12	Corrections Corporal	220.25	$ 3,863.19
Employee 13	Corrections Corporal	220.00	$ 4,374.26
Employee 14	Corrections Corporal	218.25	$ 3,555.29
Employee 15	Corrections Corporal	216.75	$ 3,536.93
Employee 16	Corrections Corporal	199.00	$ 3,241.71
Employee 17	Corrections Corporal	197.00	$ 3,209.13
Employee 18	Corrections Corporal	196.75	$ 3,820.89
Employee 19	Corrections Sergeant	190.75	$ 3,453.53
Employee 20	Corrections Corporal	190.50	$ 3,103.25
Employee 21	Corrections Unit Case Manager	189.00	$ 3,707.42
Employee 22	Corrections Officer	184.25	$ 2,791.94
Employee 23	Corrections Sergeant	181.00	$ 3,277.01
Employee 24	Corrections Corporal	178.50	$ 2,907.77
Employee 25	Corrections Sergeant	176.75	$ 3,200.06
Employee 26	Corrections Unit Caseworker	174.75	$ 2,982.11
Employee 27	Corrections Corporal	174.25	$ 3,216.83
Employee 28	Corrections Officer	169.25	$ 2,906.70
Employee 29	Corrections Unit Caseworker	162.25	$ 3,410.50
Employee 30	Corrections Officer	161.25	$ 2,982.48
Employee 31	Corrections Officer	161.00	$ 2,439.63
Employee 32	Corrections Sergeant	160.00	$ 2,896.80
Employee 33	Corrections Corporal	159.25	$ 2,594.18
Employee 34	Corrections Officer	159.25	$ 2,413.12
Employee 35	Corrections Officer	156.00	$ 2,885.38
Employee 36	Corrections Corporal	155.50	$ 2,653.61
Employee 37	Corrections Unit Case Manager	154.50	$ 2,909.24
Employee 38	Corrections Corporal	154.25	$ 2,512.73
Employee 39	Corrections Corporal	152.25	$ 2,480.15
Employee 40	Corrections Sergeant	150.75	$ 2,851.13
	Top 40 Employees	8,236.50	$ 146,090.03
	Other 1,768 Employees	50,583.90	$ 857,332.00
	TOTAL	**58,820.40**	**$ 1,003,422.03**

Note: Staff is granted paid leave regardless of the number of hours worked during the week. For example, if an employee works 36 hours in four days and then takes the fifth day off, he or she will be required to use 8 hours of vacation time. This results in the employee being paid for 44 hours and using 8 hours of paid leave when only 4 would be necessary. The four hours would be included in this column.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT D**

Top 25 Employees Paid Overtime

Related to Comment #5, Department Overtime

For the Period July 1, 2013, Through December 31, 2014

Employee	Job Title	Institution	Normal Hourly Pay Rate	Overtime & Comp Hours	Overtime & Comp Paid/Earned
1	Corrections Unit Caseworker	NSP	$ 21.02	3,244	$ 101,770
2	Corrections Corporal	NSP	$ 19.42	2,591	$ 75,170
3	Corrections Officer	NSP	$ 17.17	2,721	$ 66,926
4	Corrections Officer	LCC	$ 16.32	2,370	$ 57,977
5	Corrections Officer	NSP	$ 15.15	2,562	$ 57,637
6	Corrections Unit Caseworker	LCC	$ 17.07	2,157	$ 54,440
7	Corrections Unit Case Manager	NSP	$ 20.10	1,734	$ 51,983
8	Corrections Officer	NSP	$ 15.92	2,166	$ 51,491
9	Corrections Unit Caseworker	TSCI	$ 17.07	1,955	$ 49,688
10	Corrections Corporal	OCC	$ 16.29	1,975	$ 48,111
11	Corrections Officer	OCC	$ 16.32	1,971	$ 47,866
12	Corrections Officer	NSP	$ 15.15	2,234	$ 47,561
13	Corrections Corporal	TSCI	$ 16.32	1,882	$ 46,487
14	Corrections Sergeant	NSP	$ 18.11	1,489	$ 40,801
15	Corrections Corporal	TSCI	$ 16.29	1,627	$ 39,810
16	Corrections Unit Caseworker	NSP	$ 17.10	1,575	$ 39,514
17	Corrections Corporal	NSP	$ 16.73	1,572	$ 39,254
18	Corrections Corporal	NSP	$ 18.46	1,426	$ 39,134
19	Corrections Corporal	TSCI	$ 16.29	1,736	$ 39,031
20	Corrections Unit Caseworker	NSP	$ 17.07	1,453	$ 36,628
21	Corrections Unit Case Manager	NSP	$ 18.83	1,307	$ 36,555
22	Corrections Unit Caseworker	NSP	$ 18.71	1,304	$ 36,358
23	Corrections Unit Caseworker	TSCI	$ 17.07	1,449	$ 35,761
24	Corrections Corporal	NSP	$ 16.29	1,475	$ 35,728
25	Corrections Officer	DEC	$ 16.29	1,418	$ 34,794

Note 1: The hourly rate times the overtime and comp hours does not equal the overtime and comp paid/earned because: 1) the hours noted include comp hours earned, but there is no dollar amount associated with these hours in the overtime and comp paid/earned because the employee has not yet been paid for these hours earned and 2) the overtime and comp/paid earned includes the dollar amount employees were paid for premium pay for overtime (overtime at 1.5), but the hours associated with these dollars were not included in order to avoid double counting the hours because they were already included for the straight overtime.

Note 2: The hourly rate of pay is as of December 31, 2014 or most recent hourly rate if terminated prior to December 31, 2014.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

EXHIBIT E

Top 3 Employees Paid Overtime

Related to Comment #5, Department Overtime

For the Period July 1, 2013, Through December 31, 2014

Corrections Unit Caseworker	CY 2010		CY 2011		CY 2012		CY 2013		CY 2014	
	Hours	Pay	Hours	Pay	Hours	Pay	Hours	Pay	Hours	Pay
Regular Pay	746	$ 15,052	2,206	$ 44,959	2,218	$ 46,312	2,224	$ 47,516	2,219	$ 48,539
Overtime/Comp	2	$ 67	94	$ 2,684	870	$ 25,670	1,769	$ 53,922	2,401	$ 74,342
TOTAL	748	$ 15,119	2,300	$ 47,643	3,088	$ 71,982	3,993	$ 101,438	4,620	$ 122,881

Note: The employee began employment with the Department in August 2010, resulting in low regular and overtime hours paid.

Corrections Officer	CY 2010		CY 2011		CY 2012		CY 2013		CY 2014	
	Hours	Pay	Hours	Pay	Hours	Pay	Hours	Pay	Hours	Pay
Regular Pay	2,175	$ 36,448	2,151	$ 36,314	2,175	$ 37,850	2,174	$ 37,940	2,150	$ 38,076
Overtime/Comp	1,883	$ 44,919	1,789	$ 43,191	1,941	$ 46,985	1,874	$ 46,519	1,635	$ 41,052
TOTAL	4,058	$ 81,367	3,940	$ 79,505	4,116	$ 84,835	4,048	$ 84,459	3,785	$ 79,128

Corrections Corporal	CY 2010		CY 2011		CY 2012		CY 2013		CY 2014	
	Hours	Pay	Hours	Pay	Hours	Pay	Hours	Pay	Hours	Pay
Regular Pay	2,198	$ 42,097	2,194	$ 42,368	2,193	$ 42,508	2,201	$ 43,311	2,190	$ 44,116
Overtime/Comp	1,353	$ 36,825	2,309	$ 62,242	2,065	$ 56,529	2,070	$ 57,925	1,808	$ 51,309
TOTAL	3,551	$ 78,922	4,503	$ 104,610	4,258	$ 99,037	4,271	$ 101,236	3,998	$ 95,425

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

EXHIBIT F

Examples of Medical Distribution Records

Related to Comment #8, Facility Pharmaceutical Inventory Procedures

010.056.039.2

3/16/2015
1200 Hours

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
MEDICATION DISTRIBUTION LOG

Not Initialed

Facility: NSP
HU: 1

Inmate Name & Number	Monday		Tuesday		Wednesday		Thursday		Friday		Saturday		Sunday	
	# of Meds Taken vs. # of Meds Avail.	Inmate Initals &/or Error Key Code	# of Meds Taken vs. # of Meds Avail.	Inmate Initals &/or Error Key Code	# of Meds Taken vs. # of Meds Avail.	Inmate Initals &/or Error Key Code	# of Meds Taken vs. # of Meds Avail.	Inmate Initals &/or Error Key Code	# of Meds Taken vs. # of Meds Avail.	Inmate Initals &/or Error Key Code	# of Meds Taken vs. # of Meds Avail.	Inmate Initals &/or Error Key Code	# of Meds Taken vs. # of Meds Avail.	Inmate Initals &/or Error Key Code
Staff Signatures														

Initialed In Advance

Error Key Code
R Refused Medication
U Unable/Refused to Sign
W Wrong Medication
M Medication Not Available
NS No Show
IT Inmate Transfer

Page 2

EXHIBIT F

Examples of Medical Distribution Records

Related to Comment #8, Facility Pharmaceutical Inventory Procedures

PAGE: 1 of

Facility: **WORK ETHIC CAMP (WEC)**

Medication Administration Record

Month/Year: **03/2015**

Prescriptions	Time	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Order Date 01/11/15 **AMITRIPTYLINE 50 MG #**																																
Exp. Date 07/09/15																																
RX # 531708	1900	AT	SY	SY	SY	OB	OB	OB	OB	OB	VS	VS	VS	VS	OT	OT	SY	SY	SY	SY	SY	m	OB	VS	VS	VS						
Order Date 01/11/15 **MIRTAZAPINE 15 MG**																																
Exp. Date 07/09/15																																
RX # 531712	1900	AT	SY	SY	SY	OB	OB	OB	OB	OB	VS	VS	VS	VS	OT	OT	SY	SY	SY	SY	SY	m	OB	VS	VS	VS						
Order Date 1-11-15 Sertraline 50mg	0600	(E)	VS	VS	VS	VS	VS	self med																								
Exp. Date 2-09-15 TPO QD in AM		D/C		3-25-15																												
RX # 531709																																
Order Date																																
Exp. Date																																
RX #																																
Order Date																																
Exp. Date																																
RX #																																
Order Date																																
Exp. Date																																
RX #																																
Order Date																																
Exp. Date																																
RX #																																

Documentation Codes: H - Hold | R - Refused | DC - Discontinued Order | S - Self Administered | NS - No Show | O - Other

DOB: 04/14/1970 HT: 0' 0" WT:

Allergies: NO KNOWN DRUG ALLERGY

Diagnosis:

Unit: DRMA25L

Pill Line#: Pt. Name:

Registration #:

Physician:

Examples of Tracking of Manual Food Inventory

Related to Comment #9, Facility Inventories

Work Ethic Camp

Inventory Sheets

Dry and Frozen

item: Turkey Roll (not lbs) item #: 571024

Date	Item	Beginning Inventory	Amount Pulled	Ending Inventory	Name
10-22-14	1508509	0	+4	4	VB
11-11-14	1518211	4	+6	10	
	Adj	0	3 20 lb Boxes	6	mR NL
11-21-14		6	-3	3 60 lbs	
11-20-14		60 lbs	-20 lbs	40 lbs	RGO
11-29-14			-50 lbs		
12-2-14	Correction			0 lbs	RGO
12-2-14	1527177	2	+8	10	mL
12-2-14	Correction		-66 lbs	40 lbs	RGO
12-6-14	Adj.			4	L.G.
12-9-14	1530326	4	+4	8	mL
12-15-14		6	-2	4	RGO
1-18-15		4	-4	0	RGO
03-03-15	571024	0	+6	6	KB
03-9-15		6	-40	2	KB

134½

EXHIBIT G

Examples of Tracking of Manual Food Inventory

Related to Comment #9, Facility Inventories

DCS-A-pur-002 (rev 10/96) 2014-2015 RECORD OF INVENTORY

DATE	ORD. NO.	DEPART.	DELIV. REC'D	BAL.	PRICE	DATE	ORD. NO.	DEPART.	DELIV. REC'D	BAL.	PRICE
7-1-14	1458710	18.40	BF	3-0		9-30-14				2-3	10-1-14
7-2-14	1463939	18.40	2-0	5-0		10-1-14	1499719	2-0	18.40	4-3	
7-9-14	1465817	18.40	2-0	7-0		10-8-14	1502730	18.40	3-0	7-3	
7-16-14	1468169	18.40	3-0	10-0		10-15-14	1505904	18.40	2-0	5-3	
7-23-14	1476448	18.40	3-0	13-0		10-22-14	1509346	18.40	3-0	8-3	
7-30-14	1472777	18.40	1-0	14-0		10-29-14	1512565	18.40	2-0	10-3	
7-31-14				5-1	8-1-14	10-2-14				3-3	11-1-14
8-6-14	1475231	18.40	2-0	7-1		11-5-14	1515811	18.40	3-0	6-3	
8-13-14	1477865	18.40	4-0	11-1		11-12-14	1519082	18.40	3-0	9-3	
8-20-14	1480923	18.40	2-0	13-1		11-19-14	1522489	18.40	3-0	12-3	
8-27-14	1484035	18.40	2-0	15-1		11-26-14	1525891	18.40	3-0	15-3	
8-31-14				4-2	9-1-14	11-30-14				4-1	12-1-14
9-4-14	1487786	18.40	2-0	6-2		12-3-14	1529112	18.40	7-0	11-1	
9-10-14	1490112	18.40	2-0	8-2		12-17-14	1534656	18.40	1-0	12-1	
9-17-14	1493359	18.40	2-0	10-2		12-24-14	1537341	18.40	3-0	15-1	
9-24-14	1496510	18.40	2-0	12-2		12-31-14	1538878	18.40	4-0	19-1	

NO. T DESCRIPTION Salad Dressing Odd Medal UNIT 4/1 gal

This card appears to only be tracking increases to the inventory and then at the end of each month an adjustment is recorded to reflect actual balance on hand.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

EXHIBIT G

Examples of Tracking of Manual Food Inventory

Related to Comment #9, Facility Inventories

DCS-A-pur-002 (rev 10/96) 2014 - 2015 RECORD OF INVENTORY

DATE	ORD. NO.	DEPART.	DELIV. REC'D	BAL.	PRICE	DATE	ORD. NO.	DEPART.	DELIV. REC'D	BAL.	PRICE
7-1-14	1446411	$2.44 lb	BF	560		12-29-14	Return		10	180	
7-16-14			30	530		12-31-14			60	120	
7-16-14	Return	9-4-14	30	560	8-4-14	12-31-14			20	100	1-4-15
7-16-14				560	10-1-14	1-3-15			80	20	
10-31-14		12-4-14		560	11-1-14	1-5-15	Return		30	50	
12-2-14			50	510		1-6-15			50	0	
12-4-14	Return		10	520		1-15-15	9870389	1018.20	1040	1040	
12-4-14			30	490		1-29-15		2.59		1020	2-4-15
12-5-14			40	450		2-10-15			10	1010	
12-11-14			70	380		2-12-15			90	920	
12-12-14	Return		10	390		2-11-15			30	890	
12-15-14			10	380		2-14-15			70	820	
12-16-14			100	320		2-19-15			120	700	
12-18-14			40	280		2-23-15			110	590	
12-25-14			60	220		2-25-15	Return		10	600	3-4-15
12-26-14			50	170		~~2-25-15~~	3-4-15	5000.21	80	520	

NO. 1069 DESCRIPTION Ground Beef Round ~~245178~~ UNIT ~~80#~~ 8 lb

Nothing was noted as to why balance was reduced by 20.

Examples of Tracking of Manual Food Inventory

Related to Comment #9, Facility Inventories

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
INVENTORY RECORD

DATE	ORDER OR REG. NO.	QUANTITY IN	QUANTITY OUT	BALANCE ON HAND	DATE	ORDER OR REG. NO.	QUANTITY IN	QUANTITY OUT	BALANCE ON HAND	DATE	ORDER OR REG. NO.	QUANTITY IN	QUANTITY OUT	BALANCE ON HAND
9/21	644	200		200	9/20	Inv			400	1-7	Inv			320
9/26	ID			200	10/4	Inv			400	1-10	INV			320
10-5	INV			200	10/10	Inv			400	1-17	INV			320
10-18	967		40	160	10/17	411		40	360	1-24	Inv			320
10-11	349	320		480	10/18	Inv			360	1-31	Inv			320
10-21	479		40	440	10/25	Inv			360	2/4	Inv			320
10-21	454		40	400	10/31	INV			360	2-20	INV			320
10-25	460	40		440	11/7	INV			360	2/26	Inv			320
10-26	462		40	400	11/14	INV			360	3-5	INV			320
11-3	572		40	360	11/19	421		40	320	3-13	441		40	280
11-6	562	40		400	11/22	INV			320	3-13	INV			280
11/21	ADJ			440	11/29	INV			320	3-20	INV			280
11/30	Inv			440	12/6	INV			320	4-2	INV			280
11/05	402		40	400	12/12	INV			320	4-8	596		40	240
11/05	Inv			400	12/20	Inv			320					
11/12	Inv			400	12/26	INV			320					

DESCRIPTION

MINIMUM				
MAXIMUM				

SHORT NUMBER	ARTICLE	ORDERED	SHIPPED	LONG	SECTION	BIN
	approximate 2.13 Serv per BOX		1.57			

DCS-A-pur-004 (rev. 1/97) Meat Balls Printed on Recycled Paper with Soy Ink

These lines are adjustments to the inventory balances.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
INVENTORY RECORD

DATE	ORDER OR REG. NO.	QUANTITY IN	QUANTITY OUT	BALANCE ON HAND	DATE	ORDER OR REG. NO.	QUANTITY IN	QUANTITY OUT	BALANCE ON HAND	DATE	ORDER OR REG. NO.	QUANTITY IN	QUANTITY OUT	BALANCE ON HAND
12/18	486		20	290	2/14	499		60	350	3-31	597		20	240
12/20	ADJ			280	2/14	ADJ			450	4-2	INV			240
12/23	444		10	270	2/18	619	80		510	4-8	596		10	230
12/26	INV			270	2/20	500		10	500	4-10	438		20	210
12/28	489		10	260	2-20	ADJ			420					
12/31	490		20	240	2/22	445		40	380					
1-1	ADJ			250	2/26	444		10	370					
1-7	492		30	220	2/26	Inv			370					
1-10	INV			220	3-2	443		20	350					
1-14	494		30	190	3-5	INV			350					
1-17	495		10	180	3-13	441		30	320					
1-14	026	300		480	3-13	INV			320					
1-17	INV			480	3/18	439		40	280					
1-24	496		20	460	3/20	599		10	270					
1-31	497		10	450	3-20	Inv			270					
2/7	498		40	410	3-26	598		10	260					

DESCRIPTION

MINIMUM				
MAXIMUM				

SHORT NUMBER	ARTICLE	ORDERED	SHIPPED	LONG	SECTION	BIN
~~202894~~			2.07 ~~2.04~~			

DCS-A-pur-004 (rev. 1/97) GROUND TURKEY Printed on Recycled Paper with Soy Ink THOMPSON

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT H**

Food Inventory Counts

Related to Comment #9, Facility Inventories

Facility	Item Description	APA Count	Qty per Facility Records	Variance Long (Short)	Cost per Facility Records	Total $ Variance
NCCW	Gold Medal Salad Dressing	7 gal	20 gal	(13 gal)	$4.60/gal	$ (59.80)
NCCW	Mashed Potatoes (40lb bags)	4 bags	9 bags	(5 bags)	$40.45/bag	$ (202.25)
NCCW	Flour (50lb bag)	3 bags	4 bags	(1 bag)	$15.64/bag	$ (15.64)
NCCW	Diced Pears	14 cans	7 cans	7 cans	$5.11/can	$ 35.77
NCCW	Plain Potato Chips	15 pkgs	0 pkgs	15 pkgs	$.25/ea	$ 3.75
NCCW	Ground Beef Round	381.3 lbs	110 lbs	271.3 lbs	$2.59/lb	$ 702.67
Net Variance NCCW						**$ 464.50**
NSP	Beef Round Flats	0 lbs	351 lbs	(351 lbs)	$2.31/lb	$ (810.81)
NSP	Beef Hamburger 80%	900 lbs	1,000 lbs	(100 lbs)	$2.45/lb	$ (245.00)
NSP	Margarine, Solid	480 lbs	500 lbs	(20 lbs)	$1/lb	$ (20.00)
NSP	Apricot Halves	2 cans	6 cans	(4 cans)	$4.67/can	$ (18.68)
NSP	Vegetable Oil	3 cases	4 cases	(1 case)	$42.84/case	$ (42.84)
NSP	Cereal, Toasted Oats	11 cases	12 cases	(1 case)	$35.85/case	$ (35.85)
NSP	Turkey Franks	23 cases	22 cases	1 case	$13.35/case	$ 13.35
NSP	Apricots	46 cans	45 cans	1 can	$6.36/can	$ 6.36
NSP	Coffee, Nescafe	7 cases	6 cases	1 case	$83.12/case	$ 83.12
NSP	Spinach	5 cases	1 case	4 cases	$21.89/case	$ 87.56
NSP	Spice, Cinnamon	20 lbs	10 lbs	10 lbs	$1.19/lb	$ 11.90
Net Variance NSP						**$ (970.89)**
LCC	Beef, Ground 80% Lean	700 lbs	740 lbs	(40 lbs)	$2.48/lb	$ (99.20)
LCC	Peanut Butter (Thompson)	3 cases	5 cases	(2 cases)	$49.80/case	$ (99.60)
LCC	Fruit Cocktail, Canned	22 cases	23 cases	(1 case)	$34.98/case	$ (34.98)
Net Variance LCC						**$ (233.78)**
TSCI	Beef, Patties Country Fried	5 cases	6 cases	(1 case)	$15.71/case	$ (15.71)
TSCI	Tomato Paste 26% Fancy	13 cases	13.5 cases	(.5 cases)	$27.84/case	$ (13.92)
Net Variance TSCI						**$ (29.63)**
OCC	Turkey Ends & Pieces	110.2 lbs	131.84 lbs	(21.64 lbs)	$.69/lb	$ (14.93)
OCC	Turkey Sausage Patties	181.14 lbs	180.16 lbs	.98 lbs	$1.36/lb	$ 1.33
OCC	Beef Flats Roast (IBP)	194.7 lbs	191.94 lbs	2.76 lbs	$2.89/lb	$ 7.98
OCC	Spaghetti Sauce	33 cans	25 cans	8 cans	$2.21/can	$ 17.68
Net Variance OCC						**$ 12.06**
NCYF	Ground Beef Thompson	270 lbs	490 lbs	(220 lbs)	$2.79/lb	$ (613.80)
NCYF	100% Apple Juice	5 cases	22 cases	(17 cases)	$63.79/case	$ (1,084.43)
NCYF	Tri Taters	12 bags	16 bags	(4 bags)	$2.81/bag	$ (11.24)
NCYF	Rotini/Fusilli	1 case	4 cases	(3 cases)	$9.95/case	$ (29.85)
NCYF	Marshmallows	12 pkgs	6 pkgs	6 pkgs	$1.70/pkg	$ 10.20
Net Variance NCYF						**$ (1,729.12)**

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT I**

Other Supplies Inventory Counts

Related to Comment #9, Facility Inventories

Facility	Item Description	APA Count	Qty per Facility Records	Variance Long (Short)	Cost per Facility Records	Total $ Variance
NSP	Boots 14D (New)	19	16	3	$ 15.41	$ 46.23
NSP	Khaki Pants size 34x28 (Used)	22	23	(1)	$ 14.50	$ (14.50)
NSP	XL White Shirts (Used)	13	28	(15)	$ 11.10	$ (166.50)
NSP	Khaki Pants size 34x30 (Used)	32	60	(28)	$ 14.50	$ (406.00)
Net Variance NSP						**$ (540.77)**
LCC	3XL Khaki Shirts	81	101	(20)	Unknown	Unknown
LCC	5X Boxers	5	10	(5)	Unknown	Unknown
LCC	46 Waist Khaki Pants	22	21	1	Unknown	Unknown
LCC	5XL Jackets	14	11	3	Unknown	Unknown
Net Variance LCC						**Unknown**

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT J**

Canteen Adjustments to Inventory

Related to Comment #13, Lack of Control Over Canteen Adjustments

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
1	NSPS1 - Adjustment 1	Soap, Bar Lever 2000 w/ Aloe	139	$ 0.730	$ 101.47	6/27/2014
2	NSPS1 - Adjustment 2	Shoes, Nike Dart IX Med Width	2	$ 44.340	$ 88.68	6/28/2014
3	NSPS1 - Adjustment 2	Short, Dbl Mesh w/ Pocket S-3XL	7	$ 11.500	$ 80.50	6/28/2014
4	NSPS1 - Adjustment 2	Sweat Pants, Gray 3XL-6XL	7	$ 20.250	$ 141.75	6/28/2014
5	NSPS1 - Adjustment 2	CD Player, Sony	(1)	$ 51.990	$ (51.99)	6/28/2014
6	NSPS1 - Adjustment 3	Adhesive, Denture Poligrip 1.4	14	$ 3.753	$ 52.54	6/28/2014
7	NSPS1 - Adjustment 3	Ball, Raquet Penn, 3 Pk	24	$ 3.150	$ 75.60	6/28/2014
8	NSPS1 - Adjustment 3	Beans, Refried/Rice, Hot Chili	78	$ 0.510	$ 39.78	6/28/2014
9	NSPS1 - Adjustment 3	Beans, Rice, Chili Flavor	(50)	$ 0.500	$ (25.00)	6/28/2014
10	NSPS1 - Adjustment 3	Body Wash, Suave Ocean Breeze	57	$ 2.280	$ 129.96	6/28/2014
11	NSPS1 - Adjustment 3	Candy Bar, Nutrageous	(80)	$ 0.650	$ (52.00)	6/28/2014
12	NSPS1 - Adjustment 3	Candy Bar, Nutrageous	52	$ 0.650	$ 33.80	6/28/2014
13	NSPS1 - Adjustment 3	Candy Bar, Starburst Orig	(42)	$ 0.850	$ (35.70)	6/28/2014
14	NSPS1 - Adjustment 3	Candy, Bag Hot Tamales	(39)	$ 1.950	$ (76.05)	6/28/2014
15	NSPS1 - Adjustment 3	Chili, w/ Beans, Hot, Brushy Creek	(45)	$ 1.130	$ (50.85)	6/28/2014
16	NSPS1 - Adjustment 3	Coffee, Col Frz Drd, 3 oz	(24)	$ 1.920	$ (46.08)	6/28/2014
17	NSPS1 - Adjustment 3	Cookie, Iced Oatmeal, Zippy	(36)	$ 1.100	$ (39.60)	6/28/2014
18	NSPS1 - Adjustment 3	Deodorant, Dial Roll On 1.5 oz	(163)	$ 0.850	$ (138.55)	6/28/2014
19	NSPS1 - Adjustment 3	Deodorant, Dial Rollon, Sctd	110	$ 0.850	$ 93.50	6/28/2014
20	NSPS1 - Adjustment 3	Deodorant, Speed Stick A/P Talc	(31)	$ 1.880	$ (58.28)	6/28/2014
21	NSPS1 - Adjustment 3	Earbud, Audio Koss CL-3	(52)	$ 2.280	$ (118.56)	6/28/2014
22	NSPS1 - Adjustment 3	Headphone, Earbuds Sony MDR-J10	(27)	$ 8.250	$ (222.75)	6/28/2014
23	NSPS1 - Adjustment 3	Meat, Beef Saug Ht/Sp Obrien 50	105	$ 1.400	$ 147.00	6/28/2014
24	NSPS1 - Adjustment 3	Meat, Chicken Breast Brushy Crk	(42)	$ 1.597	$ (67.07)	6/28/2014
25	NSPS1 - Adjustment 3	Meat, Ham Sweet Sue Chnk 7 oz	(15)	$ 2.810	$ (42.15)	6/28/2014
26	NSPS1 - Adjustment 3	Meat, Pc Taco Filling	(35)	$ 1.780	$ (62.30)	6/28/2014
27	NSPS1 - Adjustment 3	Meat, Pepperoni Sliced Hormel	(25)	$ 1.380	$ (34.50)	6/28/2014
28	NSPS1 - Adjustment 3	Meat, Salami O'Brien	(39)	$ 1.400	$ (54.60)	6/28/2014
29	NSPS1 - Adjustment 3	Meat, Turkey Sticks, Cured	106	$ 0.460	$ 48.76	6/28/2014
30	NSPS1 - Adjustment 3	Nuts, Kar Sw & Salty, 2 oz	186	$ 0.480	$ 89.28	6/28/2014
31	NSPS1 - Adjustment 3	Sausage, Legendary Beef Summer	(22)	$ 1.250	$ (27.50)	6/28/2014
32	NSPS1 - Adjustment 3	Shampoo, Suave, Green Apple	(49)	$ 1.130	$ (55.37)	6/28/2014
33	NSPS1 - Adjustment 3	Soap, Bar Dial Deodorant 4.0 oz	(235)	$ 0.520	$ (122.20)	6/28/2014
34	NSPS1 - Adjustment 3	Tumbler, White 22 oz	120	$ 0.270	$ 32.40	6/28/2014
35	NSPS1 - Adjustment 3	Tumbler, With Lid, 22 oz	(240)	$ 0.240	$ (57.60)	6/28/2014
36	NSPS1 - Adjustment 3	Xmas Meat, Beef Shred Comal	(27)	$ 3.750	$ (101.25)	6/28/2014
37	NSPS1 - Adjustment 3	Xmas Treat, Rice Krispie Choc	(84)	$ 0.540	$ (45.36)	6/28/2014
38	NSPS2 - Adjustment 1	Gatorade, Fruit Punch, 2.12	114	$ 0.410	$ 46.74	6/27/2014
39	NSPS2 - Adjustment 1	Candy, Starlite Mints	(169)	$ 0.420	$ (70.98)	6/27/2014
40	NSPS2 - Adjustment 2	Adhesive, Denture Staydent	74	$ 2.100	$ 155.40	6/28/2014
41	NSPS2 - Adjustment 2	Antacid, Tums	(59)	$ 0.720	$ (42.48)	6/28/2014
42	NSPS2 - Adjustment 2	Battery, AA Ion 3	78	$ 0.680	$ 53.04	6/28/2014
43	NSPS2 - Adjustment 2	Brownie, Fudge, Choc Chip, Zippy	(26)	$ 1.330	$ (34.58)	6/28/2014

(Continued)

Canteen Adjustments to Inventory

Related to Comment #13, Lack of Control Over Canteen Adjustments

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
44	NSPS2 - Adjustment 2	Cable, Splitter	(42)	$ 0.860	$ (36.12)	6/28/2014
45	NSPS2 - Adjustment 2	Candy Bar, Hershey Almond	(59)	$ 0.650	$ (38.35)	6/28/2014
46	NSPS2 - Adjustment 2	Candy Bar, Hershey Mlk Chc	(246)	$ 0.650	$ (159.90)	6/28/2014
47	NSPS2 - Adjustment 2	Candy Bar, Nutrageous	(85)	$ 0.650	$ (55.25)	6/28/2014
48	NSPS2 - Adjustment 2	Candy Bar, Snickers 1.86 oz	(88)	$ 0.650	$ (57.20)	6/28/2014
49	NSPS2 - Adjustment 2	Candy, Atomic Balls	(103)	$ 0.420	$ (43.26)	6/28/2014
50	NSPS2 - Adjustment 2	Candy, M&M's, Peanut	(28)	$ 2.710	$ (75.88)	6/28/2014
51	NSPS2 - Adjustment 2	Candy, M&M's, Plain	(38)	$ 2.710	$ (102.98)	6/28/2014
52	NSPS2 - Adjustment 2	Candy, Peanut Clusters 5 oz	(51)	$ 1.140	$ (58.14)	6/28/2014
53	NSPS2 - Adjustment 2	Candy, Twizzlers, 5 oz	50	$ 0.810	$ 40.50	6/28/2014
54	NSPS2 - Adjustment 2	Card, Greeting	(534)	$ 0.250	$ (133.50)	6/28/2014
55	NSPS2 - Adjustment 2	Card, Greeting	809	$ 0.250	$ 202.25	6/28/2014
56	NSPS2 - Adjustment 2	Card, Greeting Ea	613	$ 1.050	$ 643.65	6/28/2014
57	NSPS2 - Adjustment 2	Card, Greeting Samhain	(62)	$ 1.800	$ (111.60)	6/28/2014
58	NSPS2 - Adjustment 2	Cheese Stick, Jalapeno	(511)	$ 0.920	$ (470.12)	6/28/2014
59	NSPS2 - Adjustment 2	Cheese, Cactus Annie Sharp	(238)	$ 1.570	$ (373.66)	6/28/2014
60	NSPS2 - Adjustment 2	Chips, Cactus Annie Habanero	51	$ 1.170	$ 59.67	6/28/2014
61	NSPS2 - Adjustment 2	Chips, Moon Lodge Hot BBQ	(51)	$ 0.770	$ (39.27)	6/28/2014
62	NSPS2 - Adjustment 2	Coffee, Foldgers Instant, 8 oz	86	$ 4.960	$ 426.56	6/28/2014
63	NSPS2 - Adjustment 2	Comb, Hair Pocket 5 in	295	$ 0.020	$ 5.90	6/28/2014
64	NSPS2 - Adjustment 2	Conditioner, Pantene Pro-V	(18)	$ 4.100	$ (73.80)	6/28/2014
65	NSPS2 - Adjustment 2	Cookie, Chocolate Chip ZC	(104)	$ 0.310	$ (32.24)	6/28/2014
66	NSPS2 - Adjustment 2	Cough Drops, Halls Mentho, 30	(24)	$ 1.650	$ (39.60)	6/28/2014
67	NSPS2 - Adjustment 2	Crackers, Ritz Sandw w/ cheese	(358)	$ 0.225	$ (80.55)	6/28/2014
68	NSPS2 - Adjustment 2	Deodorant, Dial Roll On 1.5 oz	(275)	$ 0.850	$ (233.75)	6/28/2014
69	NSPS2 - Adjustment 2	Deodorant, Speed Stick Ocean	(36)	$ 1.880	$ (67.68)	6/28/2014
70	NSPS2 - Adjustment 2	Earbud, Audio Koss CL-3	46	$ 2.280	$ 104.88	6/28/2014
71	NSPS2 - Adjustment 2	Envelope, 10 X 13, No Clasp	(522)	$ 0.052	$ (27.14)	6/28/2014
72	NSPS2 - Adjustment 2	File Folder, Single Multi Color	(1,011)	$ 0.080	$ (80.88)	6/28/2014
73	NSPS2 - Adjustment 2	Gatorade, Lemon-Lime 2.12 oz	148	$ 0.410	$ 60.68	6/28/2014
74	NSPS2 - Adjustment 2	Gum, Doublemint	(96)	$ 0.390	$ (37.44)	6/28/2014
75	NSPS2 - Adjustment 2	Headphone, Cable 6 Foot 1/4"	67	$ 1.270	$ 85.09	6/28/2014
76	NSPS2 - Adjustment 2	Headphone, Earbuds Sony MDR-J10	(12)	$ 8.250	$ (99.00)	6/28/2014
77	NSPS2 - Adjustment 2	Hi Liter, Green	(264)	$ 0.228	$ (60.19)	6/28/2014
78	NSPS2 - Adjustment 2	Highlighter, Pink	(190)	$ 0.228	$ (43.32)	6/28/2014
79	NSPS2 - Adjustment 2	Lotion, Jergens, Chry Almd 10 oz	(38)	$ 3.470	$ (131.86)	6/28/2014
80	NSPS2 - Adjustment 2	Lotion, Lubricating, 8 oz	84	$ 0.990	$ 83.16	6/28/2014
81	NSPS2 - Adjustment 2	Meat, Bacon, Single Serve	(100)	$ 1.290	$ (129.00)	6/28/2014
82	NSPS2 - Adjustment 2	Meat, Beef Saug Ht/Sp Obrien 50	(148)	$ 1.400	$ (207.20)	6/28/2014
83	NSPS2 - Adjustment 2	Meat, Chicken Breast Brushy Crk	(305)	$ 1.597	$ (487.09)	6/28/2014
84	NSPS2 - Adjustment 2	Meat, Ham Sweet Sue Chnk 7 oz	(27)	$ 2.810	$ (75.87)	6/28/2014
85	NSPS2 - Adjustment 2	Meat, Pepperoni Bridgeford 3.5 oz	(110)	$ 1.350	$ (148.50)	6/28/2014
86	NSPS2 - Adjustment 2	Meat, Salami O'Brien	(82)	$ 1.400	$ (114.80)	6/28/2014
87	NSPS2 - Adjustment 2	Meat, Salmon Flakes, 3.53 oz	(105)	$ 0.980	$ (102.90)	6/28/2014

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT J**

Canteen Adjustments to Inventory

Related to Comment #13, Lack of Control Over Canteen Adjustments

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date
88	NSPS2 - Adjustment 2	Meat, Tuna Sp/Thai Chili	(110)	$ 1.390	$ (152.90)	6/28/2014
89	NSPS2 - Adjustment 2	Mouthwash, Crest Pro Health	(29)	$ 3.220	$ (93.38)	6/28/2014
90	NSPS2 - Adjustment 2	Nasal Spray, Afrin 1/2 oz	(106)	$ 0.710	$ (75.26)	6/28/2014
91	NSPS2 - Adjustment 2	Nuts, Kar Sw & Salty, 2 oz	(130)	$ 0.480	$ (62.40)	6/28/2014
92	NSPS2 - Adjustment 2	Paper, Pad Legal 8.5" X 11"	(215)	$ 0.399	$ (85.79)	6/28/2014
93	NSPS2 - Adjustment 2	Shampoo, Pantene	(27)	$ 4.100	$ (110.70)	6/28/2014
94	NSPS2 - Adjustment 2	Soup, Texas Beef, Hot & Spicy	(223)	$ 0.340	$ (75.82)	6/28/2014
95	NSPS2 - Adjustment 2	Sugar Cubes C&H	(47)	$ 1.390	$ (65.33)	6/28/2014
96	NSPS2 - Adjustment 2	Tuna, Jalapeno	(135)	$ 1.860	$ (251.10)	6/28/2014
97	LCC - Adjustment 1	Candy, Chick-O-Stick, .7 oz	(38)	$ 0.125	$ (4.75)	6/30/2014
98	LCC - Adjustment 1	Candy, Twix Caramel Bar	(59)	$ 0.650	$ (38.35)	6/30/2014
99	LCC - Adjustment 1	Cap, Baseball Gray	(12)	$ 1.810	$ (21.72)	6/30/2014
100	LCC - Adjustment 1	Card, Greeting Miss You	(91)	$ 0.250	$ (22.75)	6/30/2014
101	LCC - Adjustment 1	Cheese, City Cow Nacho w/ Jlpno	49	$ 0.580	$ 28.42	6/30/2014
102	LCC - Adjustment 1	Chips, CA, Hot & Spicy, Pork Rinds	41	$ 0.470	$ 19.27	6/30/2014
103	LCC - Adjustment 1	Chips, Moon Lodge Hot BBQ	26	$ 0.770	$ 20.02	6/30/2014
104	LCC - Adjustment 1	Cookie, Chocolate Chip ZC	106	$ 0.310	$ 32.86	6/30/2014
105	LCC - Adjustment 1	Crackers, Ritz Peanut Butter	(47)	$ 0.225	$ (10.58)	6/30/2014
106	LCC - Adjustment 1	Emery Boards, Trim	37	$ 0.480	$ 17.76	6/30/2014
107	LCC - Adjustment 1	Game, Pinochle Cards, Maverick	(36)	$ 0.890	$ (32.04)	6/30/2014
108	LCC - Adjustment 1	Game, Poker Cards, Maverick	33	$ 0.890	$ 29.37	6/30/2014
109	LCC - Adjustment 1	Headphone, Adptr 1/8 to 1/4	(27)	$ 0.600	$ (16.20)	6/30/2014
110	LCC - Adjustment 1	Headphone, Adptr 1/4 - 1/8	22	$ 0.600	$ 13.20	6/30/2014
111	LCC - Adjustment 1	Headphone, Cable 6 Foot 1/4"	87	$ 1.270	$ 110.49	6/30/2014
112	LCC - Adjustment 1	July 4 Cookies & Cream Malt	97	$ 0.580	$ 56.26	6/30/2014
113	LCC - Adjustment 1	July 4 Orange Sherbert	(58)	$ 0.780	$ (45.24)	6/30/2014
114	LCC - Adjustment 1	Paper, Pad Legal 8.5" X 11"	(82)	$ 0.399	$ (32.72)	6/30/2014
115	LCC - Adjustment 1	Soap, Bar Caress Silky Blossom	(49)	$ 0.970	$ (47.53)	6/30/2014
116	LCC - Adjustment 1	Soap, Bar Dial Deodorant 4.0 oz	90	$ 0.520	$ 46.80	6/30/2014
117	LCC - Adjustment 1	Soup, Maruchan Cal Veg	(32)	$ 0.340	$ (10.88)	6/30/2014
118	LCC - Adjustment 1	Spoons, Plastic Ea Med Weight	986	$ 0.007	$ 6.90	6/30/2014
119	LCC - Adjustment 1	Toothbrush, Tek, Pro	73	$ 0.290	$ 21.17	6/30/2014
120	TSCI - Adjustment 1	Battery, AA Panasonic 4 Pk	6	$ 0.950	$ 5.70	6/30/2014
121	TSCI - Adjustment 1	Battery, AAA Rayovac	(6)	$ 3.780	$ (22.68)	6/30/2014
122	TSCI - Adjustment 1	Body Puff	(19)	$ 0.630	$ (11.97)	6/30/2014
123	TSCI - Adjustment 1	Chips, Cactus Annie Habanero	(37)	$ 1.170	$ (43.29)	6/30/2014
124	TSCI - Adjustment 1	Dictionary, Spanish to English	56	$ 1.130	$ 63.28	6/30/2014
125	TSCI - Adjustment 1	Dictionary, Webster, Eng/Spanish	(56)	$ 1.720	$ (96.32)	6/30/2014
126	TSCI - Adjustment 1	Floss, Dental Loops	(12)	$ 1.560	$ (18.72)	6/30/2014
127	TSCI - Adjustment 1	Headphone, Adptr 1/8 to 1/4	(31)	$ 1.340	$ (41.54)	6/30/2014
128	TSCI - Adjustment 1	Headphone, Mono Stero Adpt	(28)	$ 0.690	$ (19.32)	6/30/2014
129	TSCI - Adjustment 1	Lock, Master Craft, Heavy Duty	(6)	$ 12.000	$ (72.00)	6/30/2014
130	TSCI - Adjustment 1	Meat, Salmon Flakes, 3.53 oz	(69)	$ 0.980	$ (67.62)	6/30/2014
131	TSCI - Adjustment 1	Pen, BIC, Med, Blue	(162)	$ 0.070	$ (11.34)	6/30/2014

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT J**

Canteen Adjustments to Inventory

Related to Comment #13, Lack of Control Over Canteen Adjustments

	Facility	Item Description	Quantity Change	Cost per Item	Dollar Amount Change	Adjustment Date	
132	TSCI - Adjustment 2	Stamped Envelopes, Legal 2014	500	$ 0.550	$ 275.00	6/30/2014	
133	OCC - Adjustment 1	Calculator	(30)	$ 2.970	$ (89.10)	12/31/2014	
134	OCC - Adjustment 1	Candy, Twizzlers, 5 oz	19	$ 0.810	$ 15.39	12/31/2014	
135	OCC - Adjustment 1	Copy Tokens	(23)	$ 0.100	$ (2.30)	12/31/2014	
136	OCC - Adjustment 1	Folders, Colored	(26)	$ 0.080	$ (2.08)	12/31/2014	
137	OCC - Adjustment 1	Jellies, Single Mixed Fruit	(22)	$ 0.040	$ (0.88)	12/31/2014	
138	OCC - Adjustment 1	Meat, Chicken Breast Brushy Crk	(15)	$ 1.597	$ (23.96)	12/31/2014	
139	OCC - Adjustment 1	Meat, Spam 3 oz	(12)	$ 1.080	$ (12.96)	12/31/2014	
140	OCC - Adjustment 1	Paper, Buff, 8.5 X 11	(110)	$ 0.010	$ (1.10)	12/31/2014	
141	OCC - Adjustment 1	Paper, White, 8.5 X 11, 20# O Depot	1,274	$ 0.010	$ 12.74	12/31/2014	
142	OCC - Adjustment 1	Peppers, Cactus Annie Jalape O	24	$ 0.950	$ 22.80	12/31/2014	
143	OCC - Adjustment 1	Salad Dress, Mir Whip Thompson	(202)	$ 0.085	$ (17.17)	12/31/2014	
144	OCC - Adjustment 1	Wash, Body Suave Ocean Breeze	(6)	$ 2.280	$ (13.68)	12/31/2014	
145	OCC - Adjustment 1	X-Mas Pie, Pecan Fancy Southern	(42)	$ 0.550	$ (23.10)	12/31/2014	
146	OCC - Adjustment 1	Xmas Meat, Sausage Summer Chedd	(6)	$ 3.550	$ (21.30)	12/31/2014	
147	OCC - Adjustment 3	Battery, AAA 4 Pack Generic	(46)	$ 0.680	$ (31.28)	6/30/2014	
148	OCC - Adjustment 3	Card, Greeting	70	$ 0.250	$ 17.50	6/30/2014	
149	OCC - Adjustment 3	Card, Greeting Miss You	(28)	$ 0.250	$ (7.00)	6/30/2014	
150	OCC - Adjustment 3	Card, Greeting PR 2	(75)	$ 1.050	$ (78.75)	6/30/2014	
151	OCC - Adjustment 3	Cookie, Chocolate Chip, Zippy	(74)	$ 0.490	$ (36.26)	6/30/2014	*
152	OCC - Adjustment 3	ID Holder w/ Clip, Clear	(16)	$ 1.060	$ (16.96)	6/30/2014	
153	OCC - Adjustment 3	Meat, Hot Beef Summer Sausage	16	$ 1.250	$ 20.00	6/30/2014	
154	OCC - Adjustment 3	Meat, Sliced Salami	18	$ 1.480	$ 26.64	6/30/2014	
155	OCC - Adjustment 3	Paper, Buff, 8.5 X 11	(280)	$ 0.010	$ (2.80)	6/30/2014	
156	OCC - Adjustment 3	Paper, White, 8.5 X 11, 20# O Depot	1,056	$ 0.010	$ 10.56	6/30/2014	
157	OCC - Adjustment 3	Pop Tart, Toastum, Keefe	(23)	$ 1.020	$ (23.46)	6/30/2014	*
158	OCC - Adjustment 3	Pop Tokens	(58)	$ 0.500	$ (29.00)	6/30/2014	
159	OCC - Adjustment 3	Spoons, Plastic, 3 Pk Med Weight	846	$ 0.022	$ 18.61	6/30/2014	
160	OCC - Adjustment 3	Tortillas, Cactus Annie	50	$ 0.480	$ 24.00	6/30/2014	
161	CCC-L - Adjustment 3	Bowl, Disposable, 5 oz	(299)	$ 0.400	$ (119.60)	6/13/2014	
162	CCC-L - Adjustment 3	Bowl, Disposable 12 oz 2 Pk CCL	299	$ 0.030	$ 8.97	6/13/2014	
163	CCC-L - Adjustment 4	Bag, Canteen Green Handled	(3)	$ 3.800	$ (11.40)	6/30/2014	
164	CCC-L - Adjustment 4	Card, Greeting Ea	(137)	$ 1.050	$ (143.85)	6/30/2014	
165	CCC-L - Adjustment 5	Candy, Gracey Sugar Free, 3.25 oz	(8)	$ 1.130	$ (9.04)	6/30/2014	
166	CCC-L - Adjustment 5	Candy, Sour Brite Crawlers	(13)	$ 1.350	$ (17.55)	6/30/2014	
167	CCC-L - Adjustment 5	Meat, Beef Saug Ht/Sp Obrien 50	(8)	$ 1.400	$ (11.20)	6/30/2014	
168	CCC-L - Adjustment 5	Meat, Chicken Breast Brushy Crk	(7)	$ 1.597	$ (11.18)	6/30/2014	
169	NCYF - Adjustment 1	TV, RCA Color Digital No Remote	2	$ 150.000	$ 300.00	6/12/2014	

* The APA originally requested documentation on February 23, 2015, to support the adjustment. The Facility responded on March 10, 2015, and noted that they were unable to see product sales in CIT for the month for these items. On April 10, 2015, the Facility provided the APA documentation that these items were received into CIT incorrectly, therefore the adjustment appeared reasonable and supported. However, the APA still included in the exhibit as it didn't appear the Facility researched these items at the time the adjustment was made.

(Concluded)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT K**

Unable to Locate (UL) Assets as of December 31, 2014

Related to Comment #15, Unable to Locate Assets

	Asset Description	Date Acquired	Cost	See Note	
1	Rough Planer, 25 In.	10/1/2007	$ 8,798	X	
2	Tilt Grill, Electric	6/6/2007	$ 8,330	X	
3	Boring Block Machine	2/13/2006	$ 7,500	X	
4	Shelving	9/1/1998	$ 6,960	X	
5	Remote Sampler	5/12/2003	$ 5,611	X	
6	Camera-Security Camera	1/1/1999	$ 5,233	X	
7	Food Cutter	11/25/2003	$ 4,979	X	
8	Scanner-Scoring & Testing	5/14/2014	$ 4,637		
9	Meat Slicer	7/1/1999	$ 4,559	X	
10	Troy Extractor	3/1/1975	$ 4,500	X	
11	Desk Top Touchscreen	6/1/2001	$ 4,155	X	
12	Desk Top Touchscreen	8/20/2003	$ 4,155	X	
13	Cabinet Proofing Cres-Cor	4/1/1984	$ 3,907	X	
14	Table Saw	10/1/2007	$ 3,730	X	
15	Security-Monitor,15" XGA Touch	9/28/2011	$ 3,601	X	
16	Air Compressor-Dental	3/8/2014	$ 3,600		
17	Laptop-Gateway Solo 9100	2/1/1999	$ 3,535	X	
18	Scanner	3/24/2003	$ 3,500	X	
19	Phoropter Rx Master	6/1/1980	$ 3,456	X	
20	Tonometer Non-Contact	6/1/1976	$ 3,426	X	Y
21	Dental Chair	12/1/1991	$ 3,400	X	
22	Chair Mounted Dental Unit	6/1/2002	$ 3,350	X	
23	Projector-View Sonic	4/1/2000	$ 3,295	X	
24	Monitor-Touch Screen	6/30/2009	$ 3,164	X	
25	Projector-View Sonic	10/1/2000	$ 3,138	X	
26	Voice Recorder	11/10/2003	$ 3,048	X	
27	Bill Changer W/Optional Dual	8/1/1983	$ 2,777	X	Y
28	Paper Shredder	8/1/1998	$ 2,400	X	Y
29	5 Camera Color Multiplexer	6/1/1996	$ 2,200	X	
30	Confer-Corder	2/1/2000	$ 2,195	X	
31	Base Station W/Surge Arrestor	6/1/1990	$ 2,150	X	
32	Steam Cleaner	5/1/1998	$ 1,995	X	Y
33	Chart File Cabinet	7/29/2008	$ 1,972	X	
34	Renaissance II Spiromentry	10/13/2009	$ 1,963	X	
35	Xray-Mobile Machine	4/1/1984	$ 1,916	X	Y
36	Paper Shredder/Cart	1/1/1990	$ 1,885	X	Y
37	Encoder-Decoder	6/1/1990	$ 1,870	X	
38	Tape Recorder W/Amplifier	6/1/1976	$ 1,845	X	
39	Audiometer	11/1/1998	$ 1,795	X	
40	Timekeeper-Kronos 4500	9/1/2002	$ 1,795	X	
41	Speedrooter	12/1/1998	$ 1,782	X	
42	Grill, II Porta W/Bread Box	8/1/1989	$ 1,775	X	
43	EKG Machine	5/1/2006	$ 1,700	X	
44	Autoclave For Dental -White	11/1/1998	$ 1,685	X	Y
45	Systems Controller	1/7/2008	$ 1,675	X	
46	Laptop-Dell D610	5/8/2006	$ 1,601	X	

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT K**

Unable to Locate (UL) Assets as of December 31, 2014

Related to Comment #15, Unable to Locate Assets

	Asset Description	Date Acquired	Cost	See Note	
47	Oven-Gas 4 Burner Fry	11/1/1983	$ 1,596	X	
48	Laptop-Dell D600	4/23/2004	$ 1,569	X	
49	Television Console	6/1/1978	$ 1,568	X	
50	Shredder W/Stand -Heavy Duty	6/1/1994	$ 1,532	X	
51	TV, 46"W RCA Super Shield	11/1/1994	$ 1,505	X	
52	DC Remote Sampler	11/1/2000	$ 1,500	X	
53	AED	7/31/2013	$ 1,495		
54	Panasonic Camera	11/1/1999	$ 1,488	X	Y
55	Armor-Vest, Riot Control	7/12/2006	$ 1,359	X	
56	Armor-Vest, Riot Control	7/12/2006	$ 1,359	X	
57	Burnisher Clarke #1500	4/1/1986	$ 1,249	X	Y
58	PC-Dell Optiplex 745	10/11/2007	$ 1,198	X	
59	Armor-Body, TTTPV	2/12/2003	$ 1,128	X	
60	Camera-Video, GP-5AU	6/1/1980	$ 1,100	X	
61	PC-Dell Optiplex 745	8/16/2007	$ 1,044	X	
62	Camera-Video Pro-Line	7/1/1984	$ 1,010	X	
63	PC-Dell Optiplex GX520	7/12/2006	$ 1,003	X	
64	Armor-Ballistic Plate	2/1/1996	$ 894	X	
65	Armor-Ballistic Plate	6/1/1996	$ 894	X	
66	Armor-Vest, Safety W/Inserts	6/1/1996	$ 894	X	
67	Armor-Vest, Safety W/Inserts	6/1/1996	$ 894	X	
68	Armor-Ballistic Plate	5/12/2004	$ 894	X	
69	Refractometer	5/1/2002	$ 840	X	
70	Printer for Ionscan	11/1/2000	$ 800	X	
71	Server-Multiplex Unit	2/1/1999	$ 750	X	
72	Monitor	3/1/1996	$ 718	X	
73	Monitor-Security, Color 14"	5/1/1999	$ 621	X	
74	Monitor-Security, Color 14"	5/1/1999	$ 621	X	
75	Monitor-Security, Color 14"	5/1/1999	$ 621	X	
76	Monitor-Security, Color 14"	5/1/1999	$ 621	X	
77	Storage Cabinet Flamable 45	12/1/1985	$ 593	X	Y
78	Monitor-Color Monitor	6/1/1996	$ 525	X	
79	Color Monitor	6/1/1996	$ 525	X	
80	Hand Piece Quiet Air	12/1/1997	$ 520	X	Y
81	Color Video Monitor, 9"	4/1/1996	$ 518	X	
82	Alco Sensor With Case	8/1/1987	$ 495	X	Y
83	Recorder-Time Lapse, AG-RT650	12/1/2001	$ 480	X	
84	Body-Armor, Vest	5/22/2012	$ 468	X	
85	Kalatel Video Sequenser	4/1/1996	$ 350	X	
86	Armor-Vest, Tactical	6/1/2001	$ 109	X	
	Total Cost		**$ 193,886**		

Note:

X - Indicates the asset was also UL as of 6/30/2012 and 6/30/2013

Y - Indicates the asset was also UL as of 6/30/2008

(Concluded)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT L**

Canteen Inventory Counts

Related to Comment #26, Canteen Inventory Procedures and Support

Facility	Item Description	APA Physical Count	CIT Quanity on Hand	Variance	Unit Cost Note 1	Cost Variance	Corrections Physical Count Note 2	Variance Between APA and Corrections Physical Count	
NCCW	Cookies, Zippy Peanut Butter	78	77	1	$ 0.31	$ 0.31	N/A	N/A	
NCCW	Lip Balm, Carmex	278	279	(1)	$ 1.13	$ (1.13)	N/A	N/A	
NSP (Store 1)	Candy Bar, Starburst Orig	43	46	(3)	$ 0.85	$ (2.55)	40	3	
NSP (Store 1)	Cookie, Duplex 6 oz	107	137	(30)	$ 0.44	$ (13.20)	137	(30)	
NSP (Store 1)	Dip, Onion, Cactus Annie 3.5 oz	198	197	1	$ 0.77	$ 0.77	198	0	
NSP (Store 1)	Meat, Fish Steak Spcy Mustard	379	391	(12)	$ 0.59	$ (7.08)	379	0	
NSP (Store 1)	Meat, Salami O'Brien	158	263	(105)	$ 1.40	$ (147.00)	158	0	
NSP (Store 1)	Cocoa Butter Stick, 1 oz	83	85	(2)	$ 0.98	$ (1.96)	83	0	Note 3
NSP (Store 1)	Coffee, Folgers Instant, 8 oz	298	306	(8)	$ 4.96	$ (39.68)	298	0	
NSP (Store 1)	Chips, Moon Lodge Hot BBQ	104	103	1	$ 0.77	$ 0.77	104	0	
NSP (Store 1)	Cakes, Swiss Rolls, Zippy	86	104	(18)	$ 1.33	$ (23.94)	86	0	Note 4
NSP (Store 1)	Gatorade, Lemon-Lime, 2.12 oz	319	293	26	$ 0.41	$ 10.66	319	0	
NSP (Store 1)	Candy Bar, Kit Kat	416	484	(68)	$ 0.65	$ (44.20)	416	0	Note 4
NSP (Store 1)	Candy Bar, Snickers 1.86 oz	150	320	(170)	$ 0.65	$ (110.50)	150	0	Note 4
NSP (Store 1)	Candy, Milky Way 1.84 oz	324	342	(18)	$ 0.65	$ (11.70)	324	0	Note 4
NSP (Store 1)	Candy, Twizzlers, 5 oz	134	138	(4)	$ 0.81	$ (3.24)	134	0	
NSP (Store 1)	Cheese Stick, Jalapeno	514	516	(2)	$ 0.92	$ (1.84)	514	0	
NSP (Store 1)	Battery, AA Ion 3	728	521	207	$ 0.68	$ 140.76	528	200	
NSP (Store 1)	Game, Poker Cards, Maverick	118	134	(16)	$ 0.89	$ (14.24)	118	0	
NSP (Store 1)	Soap, Bar Dial Deodorant 4.0 oz	256	268	(12)	$ 0.52	$ (6.24)	256	0	
NSP (Store 1)	Razor, Twin Bic Sensitive 10 pk	231	238	(7)	$ 1.18	$ (8.26)	243	(12)	
NSP (Store 1)	Pint, Homemade Vanilla	47	37	10	$ 0.88	$ 8.80	37	10	Note 5
NSP (Store 1)	Pint, Vanilla	0	10	(10)	$ 0.88	$ (8.80)	10	(10)	Note 5
NSP (Store 2)	Candy Bar, Snickers 1.86 oz	257	315	(58)	$ 0.65	$ (37.70)	257	0	
NSP (Store 2)	Chips, Nacho Tortia, 10 oz	128	140	(12)	$ 0.99	$ (11.88)	128	0	
NSP (Store 2)	Cornnuts, Chili Picante, 1.4 oz	129	130	(1)	$ 0.34	$ (0.34)	128	1	
NSP (Store 2)	Crackers, Cheese, 1.35 oz	456	406	50	$ 0.22	$ 11.00	456	0	Note 6
NSP (Store 2)	Crackers, Ritz Sandw w/ Cheese	0	4	(4)	$ 0.22	$ (0.88)	0	0	Note 6
NSP (Store 2)	Gum, Wrigley Juicy Fruit	78	95	(17)	$ 0.39	$ (6.63)	78	0	
NSP (Store 2)	Highliter, Yellow	1,440	1,419	21	$ 0.22	$ 4.62	1,440	0	
NSP (Store 2)	Soap, Bar Irish Spring, 4 oz	722	868	(146)	$ 0.68	$ (99.28)	720	2	
NSP (Store 2)	Lip Balm, Carmex	46	51	(5)	$ 1.13	$ (5.65)	46	0	
NSP (Store 2)	Cookie, Chocolate Chip ZC	516	442	74	$ 0.31	$ 22.94	516	0	Note 7
NSP (Store 2)	Stamps, 49 cent	4,743	4,765	(22)	$ 0.49	$ (10.78)	4,743	0	
NSP (Store 2)	Candy, Chick-O-Stick, .7 oz	493	527	(34)	$ 0.12	$ (4.08)	493	0	
NSP (Store 2)	Cookie, Oreo Sand, 1.8 oz	405	416	(11)	$ 0.30	$ (3.30)	405	0	
NSP (Store 2)	Pickles, Reg, Single, Keefe	168	170	(2)	$ 0.40	$ (0.80)	107	61	
NSP (Store 2)	Soup, Ramen, Cajun Shrimp	659	596	63	$ 0.19	$ 11.97	740	(81)	
NSP (Store 2)	Pop Tart, Toastem Strawberry	85	121	(36)	$ 1.02	$ (36.72)	131	(46)	
NSP (Store 2)	Pastry, Honey Bun Iced Monster	343	429	(86)	$ 0.38	$ (32.68)	343	0	
NSP (Store 2)	Earbud, Audio Koss CL-3	36	42	(6)	$ 2.28	$ (13.68)	38	(2)	
NSP (Store 2)	Battery, AAA 4 Pack Generic	468	468	0	$ 0.68	$ -	466	2	
NSP (Store 2)	Drink Mix, Cherry 19 oz	73	73	0	$ 1.44	$ -	106	(33)	
LCC	Candy, Milky Way 1.84 oz	63	65	(2)	$ 0.65	$ (1.30)	63	0	
LCC	Cereal Bar, Strawberry, Zippy	127	140	(13)	$ 0.16	$ (2.08)	127	0	
LCC	Cheese, Cactus Annie's Jalapeno	143	147	(4)	$ 1.57	$ (6.28)	143	0	
LCC	Chips, Frito Lay Flaming Hot	88	86	2	$ 1.12	$ 2.24	88	0	Note 8
LCC	Crackers, Cheese, 1.35 oz	96	103	(7)	$ 0.22	$ (1.54)	96	0	Note 9
LCC	Meat, Hot Beef Summer Sausage	261	288	(27)	$ 1.25	$ (33.75)	261	0	
LCC	Tortillas, Cactus Annie	549	548	1	$ 0.48	$ 0.48	549	0	
LCC	Clipper, Nail	1,011	1,019	(8)	$ 0.24	$ (1.92)	1,013	(2)	
LCC	Cake, Donut Strawberry	119	123	(4)	$ 0.38	$ (1.52)	119	0	
LCC	Candy, Jumbo Mint Stick	581	563	18	$ 0.12	$ 2.16	582	(1)	
LCC	Candy, Chick-O-Stick, .7 oz	628	570	58	$ 0.12	$ 6.96	628	0	
LCC	Salad Dress, Mir Whip Thompson	911	885	26	$ 0.08	$ 2.08	911	0	

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES **EXHIBIT L**

Canteen Inventory Counts

Related to Comment #26, Canteen Inventory Procedures and Support

Facility	Item Description	APA Physical Count	CIT Quanity on Hand	Variance	Unit Cost Note 1	Cost Variance	Corrections Physical Count Note 2	Variance Between APA and Corrections Physical Count
LCC	Coffee, Folgers Instant, 8 oz	170	172	(2)	$ 4.96	$ (9.92)	170	0
LCC	Envelope, 10X13, No Clasp	647	629	18	$ 0.05	$ 0.90	647	0
LCC	Battery, AA Ion 3	128	133	(5)	$ 0.68	$ (3.40)	128	0
LCC	Hanger, Plastic	138	139	(1)	$ 0.17	$ (0.17)	138	0
LCC	Deodorant, Mennen Speed Stick	102	105	(3)	$ 2.28	$ (6.84)	102	0
LCC	Soap, Bar Dial Deodorant 4.0 oz	379	377	2	$ 0.52	$ 1.04	379	0
WEC	Razor, Twin Bic Sensitive 10 pk	65	68	(3)	$ 1.18	$ (3.54)	N/A	N/A
WEC	Beans, Refried, Sevilla, Reg	31	32	(1)	$ 0.76	$ (0.76)	N/A	N/A
WEC	Pastry, Mega Buneez, Zippy	249	287	(38)	$ 0.38	$ (14.44)	N/A	N/A
TSCI	Candy Bar, Hershey Almond	89	62	27	$ 0.65	$ 17.55	N/A	N/A
TSCI	Crackers, Cheese, 1.35 oz	340	327	13	$ 0.22	$ 2.86	N/A	N/A
TSCI	Meat, Sardines in Oil	159	160	(1)	$ 0.55	$ (0.55)	N/A	N/A
TSCI	Meat, Turkey Sticks, Cured	295	219	76	$ 0.46	$ 34.96	N/A	N/A
TSCI	Nuts, Kar Sw & Salty, 2 oz	284	277	7	$ 0.48	$ 3.36	N/A	N/A
TSCI	Coffee, Folgers Instant, 8 oz	239	236	3	$ 4.96	$ 14.88	N/A	N/A
TSCI	Gatorade, Fruit Punch, 2.12	282	262	20	$ 0.41	$ 8.20	N/A	N/A
TSCI	Battery, AAA 4 Pack Generic	164	119	45	$ 0.68	$ 30.60	N/A	N/A
TSCI	Chips, Cheetos Crunchy	145	143	2	$ 1.19	$ 2.38	N/A	N/A
TSCI	Candy Bar, Snickers 1.86 oz	304	314	(10)	$ 0.65	$ (6.50)	N/A	N/A
TSCI	Cheese, Cactus Annie's Jalapeno	156	158	(2)	$ 1.57	$ (3.14)	N/A	N/A
TSCI	Cookie, Peanut Butter Creme	158	161	(3)	$ 1.10	$ (3.30)	N/A	N/A
TSCI	Soup, Ramen, Chicken	967	684	283	$ 0.19	$ 53.77	N/A	N/A
TSCI	Drink Mix, Crystal Light Rasp	335	338	(3)	$ 0.27	$ (0.81)	N/A	N/A
TSCI	Shampoo, VO-5 Coconut	108	94	14	$ 1.19	$ 16.66	N/A	N/A
TSCI	Lip Balm, Carmex	122	113	9	$ 1.13	$ 10.17	N/A	N/A
OCC	Candy Bar, Snickers 1.86 oz	120	121	(1)	$ 0.65	$ (0.65)	N/A	N/A
OCC	Cereal Bar, Strawberry, Zippy	359	361	(2)	$ 0.16	$ (0.32)	N/A	N/A
OCC	Certs, Peppermint, 24 Ct	29	30	(1)	$ 0.56	$ (0.56)	N/A	N/A
OCC	Cheese Stick, Provolone	194	193	1	$ 0.92	$ 0.92	N/A	N/A
OCC	Danish, Cherry Cheese	51	50	1	$ 0.40	$ 0.40	N/A	N/A
OCC	Meat, Hot Beef Summer Sausage	532	533	(1)	$ 1.25	$ (1.25)	N/A	N/A
OCC	Rice, White	309	306	3	$ 0.59	$ 1.77	N/A	N/A
OCC	Pint, Cookies Overload	139	141	(2)	$ 0.88	$ (1.76)	N/A	N/A
OCC	Soup, Ramen, Texas Beef	734	736	(2)	$ 0.19	$ (0.38)	N/A	N/A
OCC	Battery, AAA 4 Pack Generic	314	315	(1)	$ 0.68	$ (0.68)	N/A	N/A
NCYF	Chips, Hot N Spicy Corn Chips	32	33	(1)	$ 1.10	$ (1.10)	N/A	N/A
CCCL	Cake, Donut Chocolate	38	37	1	$ 0.38	$ 0.38	N/A	N/A
CCCL	Candy Bar, Nutrageous	21	20	1	$ 0.65	$ 0.65	N/A	N/A
CCCL	Crackers, Ritz Peanut Butter	95	97	(2)	$ 0.22	$ (0.44)	N/A	N/A
CCCL	Nuts, Peanut Moonlodge	27	30	(3)	$ 0.28	$ (0.84)	N/A	N/A
CCCL	Drink Mix, Crystal Light Lemon	198	197	1	$ 0.27	$ 0.27	N/A	N/A
CCCL	Hi Liter, Blue	204	192	12	$ 0.22	$ 2.64	N/A	N/A

Note 1 Unit price is as of December 31, 2014.

Note 2 Only those facilities that performed their phyiscal inventory counts on the same day the APA performed counts will have quantities here (NSP Store 1, NSP Store 2, and LCC). These are the Canteen's counts during their inventory.

Note 3 The Canteen and APA counts agreed that there were 83 Cocoa Butter Sticks, however per review of the CIT adjustment made there was not an adjustment made to correct the physcial variance of (2).

Note 4 For these four items, the APA's count did not agree to the Canteen's original count. This was brought to the Canteen's attention and the Canteen agreed with the APA's counts. However, for the Swiss Cakes and Snickers, the Canteen adjustment was based upon the original incorrect Canteen counts resulting in an incorrect adjustment being made in CIT. Swiss Cakes were adjusted (38) instead of the correct (18) and the Snickers were reduced (171) instead of the correct (170).

(Continued)

Note 5 On CIT there was an item Pint, Vanilla with quantity on hand of 10, however there was no plain vanilla in the freezer and per CIT there were 37 Pint, Homemade Vanilla. APA counted 47 of the Homemade Vanilla. Per NSP counts it was noted that there were 10 Pint, Vanilla and 37 Pint, Homemade Vanilla, so staff made no adjustment in CIT. However, an adjustment should have been made to move the 10 Pint, Vanilla to Pint, Homemade Vanilla.

Note 6 On CIT there was an item Crackers, Ritz Sandw w/ cheese with quantity on hand of 4 and there was 406 of the Crackers, Cheese 1.35 oz. APA counted 456 of the crackers and did not see that there were two different kinds of cheese crackers. APA reviewed adjustment made in CIT and noted that the Crackers, Ritz Sandw w/ cheese was adjusted to zero. The Crackers, Cheese 1.35 oz was adjusted by (50) when it should have been adjusted by +50.

Note 7 NSP (Store 2) noted a physcial count of 516 and a CIT inventory on hand of 442, with a variance of +74. However, the adjustment made in CIT was only +14.

Note 8 For this item, the APA's count did not agree to the Canteen's original count. This was brought to the Canteen's attention and the Canteen agreed with the APA's counts. The APA counted 88 where as the Canteen had counted 82.

Note 9 LCC noted a physcial count of 96 and a CIT inventory on hand of 103, with a variance of (7). However, the adjustment made in CIT was only (1).

(Concluded)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

EXHIBIT M

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE PERIOD JULY 1, 2013, THROUGH JUNE 30, 2014

	Fund 10000 General Fund 10000	Parole Program Fund 24610	Reentry Cash Fund 24680	Correctional Facility Cash Fund 24690, 24691	State Capital Construction Fund 38000	Community Base Service Funds 48130, 48132, 48133	Community Base Service Fund 48138
REVENUES:							
Appropriations	$ 175,100,154	$ -	$ -	$ -	$ 211,001	$ -	$ -
Intergovernmental	-	-	-	130,359	-	1,111,217	-
Sales & Charges	63	252,523	57,931	1,060,446	-	-	-
Miscellaneous	78,425	16,833	2,631	892,854	-	187,102	22,292
TOTAL REVENUES	175,178,642	269,356	60,562	2,083,659	211,001	1,298,319	22,292
EXPENDITURES:							
Personal Services	121,789,426	-	-	-	-	733,568	-
Operating	52,009,333	267,682	24,552	1,992,956	211,001	737,934	-
Travel	738,834	-	-	-	-	3,865	-
Capital Outlay	562,561	-	-	-	-	-	-
TOTAL EXPENDITURES	175,100,154	267,682	24,552	1,992,956	211,001	1,475,367	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	78,488	1,674	36,010	90,703	-	(177,048)	22,292
OTHER FINANCING SOURCES (USES):							
Sales of Assets	42,153	-	-	-	-	-	-
Deposit to General Fund	(120,641)	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(78,488)	-	-	-	-	-	-
Net Change in Fund Balances	-	1,674	36,010	90,703	-	(177,048)	22,292
FUND BALANCES, JULY 1, 2013	19,658	828,125	117,411	241,693	-	766,895	276,451
FUND BALANCES, JUNE 30, 2014	$ 19,658	$ 829,799	$ 153,421	$ 332,396	$ -	$ 589,847	$ 298,743
FUND BALANCES CONSIST OF:							
General Cash	$ -	$ 829,799	$ 153,421	$ 203,129	$ -	$ 583,500	$ 298,743
Petty Cash	11,100	-	-	-	-	-	-
Deposits with Vendors	8,558	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	135,157	-	6,347	-
Due From Other Government	-	-	-	997	-	-	-
Raw Materials	-	-	-	-	-	-	-
Work-In-Process	-	-	-	-	-	-	-
Finished Goods	-	-	-	-	-	-	-
Due to Vendors	-	-	-	(6,363)	-	-	-
Tax Refunds Payable	-	-	-	(19)	-	-	-
Due to Fund	-	-	-	(505)	-	-	-
TOTAL FUND BALANCES	$ 19,658	$ 829,799	$ 153,421	$ 332,396	$ -	$ 589,847	$ 298,743

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

EXHIBIT M

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE PERIOD JULY 1, 2013, THROUGH JUNE 30, 2014

	Correctional Industries Fund 52510	Federal Surplus Other Operations Funds 52700 & 52701	DCS Central Warehouse Fund 54610	Inmate Trust Fund 64612	Confiscated Inmate Trust Fund 64613	Canteen Accounts Funds 64640 & 64641	Inmate Welfare & Club Accounts Funds 64650 to 64660	**Totals (Memorandum Only)**
REVENUES:								
Appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 175,311,155
Intergovernmental	119,949	58,408	-	-	-	-	-	$ 1,419,933
Sales & Charges	10,708,379	732,939	2,107,153	-	-	4,655,694	534,940	$ 20,110,068
Miscellaneous	256,791	14,910	7,550	11,844,113	28,991	16,668	64,245	$ 13,433,405
TOTAL REVENUES	11,085,119	806,257	2,114,703	11,844,113	28,991	4,672,362	599,185	210,274,561
EXPENDITURES:								
Personal Services	4,678,075	264,565	-	-	-	822,158	58,862	$ 128,346,654
Operating	5,952,865	517,328	2,123,765	11,398,084	17,007	3,562,634	637,692	$ 79,452,833
Travel	117,929	9,016	-	-	-	-	-	$ 869,644
Capital Outlay	517,045	-	-	-	-	4,725	32,728	$ 1,117,059
TOTAL EXPENDITURES	11,265,914	790,909	2,123,765	11,398,084	17,007	4,389,517	729,282	209,786,190
Excess (Deficiency) of Revenues Over (Under) Expenditures	(180,795)	15,348	(9,062)	446,029	11,984	282,845	(130,097)	488,371
OTHER FINANCING SOURCES (USES):								
Sales of Assets	2,136	-	-	-	-	-	-	44,289
Deposit to General Fund	-	-	-	-	-	-	-	(120,641)
Operating Transfers In		-	-	142	-	60,232	220,013	280,387
Operating Transfers Out	-	-	-	(251,472)	(25)	(205,113)	(7,071)	(463,681)
TOTAL OTHER FINANCING SOURCES (USES)	2,136	-	-	(251,330)	(25)	(144,881)	212,942	(259,646)
Net Change in Fund Balances	(178,659)	15,348	(9,062)	194,699	11,959	137,964	82,845	228,725
FUND BALANCES, JULY 1, 2013	13,447,527	767,343	561,118	2,689,617	81,923	348,491	2,494,573	22,640,825
FUND BALANCES, JUNE 30, 2014	$ 13,268,868	$ 782,691	$ 552,056	$ 2,884,316	$ 93,882	$ 486,455	$ 2,577,418	$ 22,869,550
FUND BALANCES CONSIST OF:								
General Cash	$ 9,498,230	$ 889,861	$ 356,109	$ 2,874,120	$ 93,882	$ 868,989	$ 2,618,898	$ 19,268,681
Petty Cash	-	-	-	40,000	-	1,300	-	$ 52,400
Deposits with Vendors	275	375	-	-	-	-	-	$ 9,208
Accounts Receivable Invoiced	884,046	14,161	-	-	-	-	408	$ 1,040,119
Due From Other Government	-	-	-	-	-	-	-	$ 997
Raw Materials	1,889,770	-	325,207	-	-	-	-	$ 2,214,977
Work-In-Process	79,947	-	-	-	-	-	-	$ 79,947
Finished Goods	1,208,374	-	-	-	-	-	-	$ 1,208,374
Due to Vendors	(291,178)	(121,706)	(129,260)	(29,804)	-	(375,715)	(43,527)	$ (997,553)
Tax Refunds Payable	-	-	-	-	-	-	-	$ (19)
Due to Fund	(596)	-	-	-	-	(8,119)	1,639	$ (7,581)
TOTAL FUND BALANCES	$ 13,268,868	$ 782,691	$ 552,056	$ 2,884,316	$ 93,882	$ 486,455	$ 2,577,418	$ 22,869,550

(Concluded)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

EXHIBIT N

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE PERIOD JULY 1, 2014, THROUGH DECEMBER 31, 2014

	General Fund 10000	Parole Program Fund 24610	Reentry Cash Fund 24680	Correctional Facility Cash Fund 24690, 24691	State Capital Construction Fund 38000	Community Base Service Funds 48130, 48132, 48133	Community Base Service Fund 48138
REVENUES:							
Appropriations	$ 97,587,511	$ -	$ -	$ -	$ 374,048	$ -	$ -
Intergovernmental	-	-	-	59,641	-	440,798	-
Sales & Charges	-	82,092	33,439	615,934	-	-	-
Miscellaneous	39,958	8,003	1,622	877,446	-	2,805	8,928
TOTAL REVENUES	97,627,469	90,095	35,061	1,553,021	374,048	443,603	8,928
EXPENDITURES:							
Personal Services	64,251,436	-	-	-	-	129,960	-
Operating	32,529,031	133,736	8,800	87,417	374,048	70,827	-
Travel	369,458	-	-	-	-	4,872	-
Capital Outlay	437,586	-	-	-	-	5,723	-
TOTAL EXPENDITURES	97,587,511	133,736	8,800	87,417	374,048	211,382	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	39,958	(43,641)	26,261	1,465,604	-	232,221	8,928
OTHER FINANCING SOURCES (USES):							
Sales of Assets	13,909	-	-	-	-	-	-
Deposit to General Fund	(53,867)	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(39,958)	-	-	-	-	-	-
Net Change in Fund Balances	-	(43,641)	26,261	1,465,604	-	232,221	8,928
FUND BALANCES, JULY 1, 2014	19,658	829,799	153,421	332,396	-	589,847	298,743
FUND BALANCES, DECEMBER 31, 2014	$ 19,658	$ 786,158	$ 179,682	$ 1,798,000	$ -	$ 822,068	$ 307,671
FUND BALANCES CONSIST OF:							
General Cash	$ -	$ 786,158	$ 188,106	$ 1,703,813	$ -	$ 790,394	$ 307,671
Petty Cash	11,100	-	-	-	-	-	-
NSF Items	-	-	-	622	-	-	-
Deposits with Vendors	8,558	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	-	97,421	-	36,166	-
Due From Other Government	-	-	-	1,097	-	-	-
Raw Materials	-	-	-	-	-	-	-
Work-In-Process	-	-	-	-	-	-	-
Finished Goods	-	-	-	-	-	-	-
Due to Vendors	-	-	(8,424)	(4,400)	-	(4,492)	-
Tax Refunds Payable	-	-	-	(19)	-	-	-
Due to Fund	-	-	-	(534)	-	-	-
TOTAL FUND BALANCES	$ 19,658	$ 786,158	$ 179,682	$ 1,798,000	$ -	$ 822,068	$ 307,671

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

EXHIBIT N

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE PERIOD JULY 1, 2014, THROUGH DECEMBER 31, 2014

	Correctional Industries Fund 52510	Federal Surplus Other Operations Funds 52700 & 52701	DCS Central Warehouse Fund 54610	Inmate Trust Fund 64612	Confiscated Inmate Trust Fund 64613	Canteen Accounts Funds 64640 & 64641	Inmate Welfare & Club Accounts Funds 64650 to 64660	**Totals (Memorandum Only)**
REVENUES:								
Appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 97,961,559
Intergovernmental	66,156	68,639	-	-	-	-	-	$ 635,234
Sales & Charges	6,071,031	571,289	1,091,298	-	-	2,432,416	276,171	$ 11,173,670
Miscellaneous	134,867	9,029	8,558	6,762,306	16,489	8,192	30,361	$ 7,908,564
TOTAL REVENUES	6,272,054	648,957	1,099,856	6,762,306	16,489	2,440,608	306,532	117,679,027
EXPENDITURES:								
Personal Services	2,428,180	138,448	-	-	-	432,321	30,753	$ 67,411,098
Operating	3,417,500	433,467	1,099,677	6,168,192	8,848	1,949,671	334,799	$ 46,616,013
Travel	55,976	4,809	-	-	-	-	-	$ 435,115
Capital Outlay	773,282	-	-	-	-	3,839	4,330	$ 1,224,760
TOTAL EXPENDITURES	6,674,938	576,724	1,099,677	6,168,192	8,848	2,385,831	369,882	115,686,986
Excess (Deficiency) of Revenues Over (Under) Expenditures	(402,884)	72,233	179	594,114	7,641	54,777	(63,350)	1,992,041
OTHER FINANCING SOURCES (USES):								
Sales of Assets	6,601	-	-	-	-	-	-	20,510
Deposit to General Fund	-	-	-	-	-	-	-	(53,867)
Operating Transfers In	-	-	-	31	-	94,310	215,064	309,405
Operating Transfers Out	-	-	-	(132,208)	-	(282,954)	(5,295)	(420,457)
TOTAL OTHER FINANCING SOURCES (USES)	6,601	-	-	(132,177)	-	(188,644)	209,769	(144,409)
Net Change in Fund Balances	(396,283)	72,233	179	461,937	7,641	(133,867)	146,419	1,847,632
FUND BALANCES, JULY 1, 2014	13,268,868	782,691	552,056	2,884,316	93,882	486,455	2,577,418	22,869,550
FUND BALANCES, DECEMBER 31, 2014	$ 12,872,585	$ 854,924	$ 552,235	$ 3,346,253	$ 101,523	$ 352,588	$ 2,723,837	$ 24,717,182
FUND BALANCES CONSIST OF:								
General Cash	$ 8,502,689	$ 783,050	$ 421,049	$ 3,317,153	$ 101,670	$ 707,314	$ 2,767,960	$ 20,377,027
Petty Cash	-	-	-	40,000	-	1,300	-	$ 52,400
NSF Items	-	-	-	-	-	-	-	$ 622
Deposits with Vendors	275	375	-	-	-	-	-	$ 9,208
Accounts Receivable Invoiced	1,567,408	115,760	-	-	-	-	408	$ 1,817,163
Due From Other Government	-	-	-	-	-	-	-	$ 1,097
Raw Materials	1,830,817	-	413,602	-	-	-	-	$ 2,244,419
Work-In-Process	47,153	-	-	-	-	-	-	$ 47,153
Finished Goods	1,159,136	-	-	-	-	-	-	$ 1,159,136
Due to Vendors	(215,251)	(44,261)	(282,416)	(10,900)	(147)	(345,166)	(44,878)	$ (960,335)
Tax Refunds Payable	-	-	-	-	-	-	-	$ (19)
Due to Fund	(19,642)	-	-	-	-	(10,860)	347	$ (30,689)
TOTAL FUND BALANCES	$ 12,872,585	$ 854,924	$ 552,235	$ 3,346,253	$ 101,523	$ 352,588	$ 2,723,837	$ 24,717,182

(Concluded)