

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF
ADMINISTRATIVE SERVICES
MATERIEL DIVISION**

JULY 1, 2009 THROUGH DECEMBER 31, 2011

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on August 20, 2012

*The **Nebraska Auditor of Public Accounts Office** was created by the first territorial Legislature in 1855. The Auditor was the general accountant and revenue officer of the territory. The duties have expanded and evolved over the decades as modern accounting theory has been implemented. The office of the Auditor of Public Accounts is one of six offices making up the executive branch of Nebraska State Government. Mike Foley was elected November 2006 and re-elected November 2010 as the Nebraska Auditor of Public Accounts. He was sworn into office on January 4, 2007, as Nebraska's 24th State Auditor.*

The mission of the Nebraska Auditor of Public Accounts' office is to provide independent, accurate, and timely audits, reviews, or investigations of the financial operations of Nebraska State and local governments.

We will provide this information, as required by statute, to all policymakers and taxpayers through written reports and our Internet based Budget and Audit databases.

We will maintain a professionally prepared staff, utilizing up to date technology, and following current Government Auditing Standards.

Audit Staff Working On This Examination

Krista Davis, Manager
Tom Bliemeister, Auditor-In-Charge
Kris Kucera, CPA, CFE, Senior Auditor-In-Charge
Sara Leber, CPA, Auditor II
Diane Holtorf, CPA, Auditor II
Rachel Heeney, Auditor
Daniel Baldwin, Auditor
Pat Reding, CPA, CFE, Assistant Deputy Auditor

Copies of the Auditor of Public Accounts' reports are free. You may request them by contacting us at:

Nebraska Auditor of Public Accounts
State Capitol, Suite 2303
P.O. Box 98917
Lincoln, Nebraska, 68509
Phone: 402-471-2111

Additionally, our reports can be found in electronic format at:
<http://www.auditors.nebraska.gov>

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

TABLE OF CONTENTS

	<u>Page</u>
<u>Background Information Section</u>	
Background	1 - 5
Organizational Charts	6 - 7
<u>Comments Section</u>	
Exit Conference	8
Summary of Comments	9 - 10
Comments and Recommendations	11 - 40
<u>Financial Section</u>	
Independent Accountant's Report	41 - 42
Financial Schedule:	
Schedule of Revenues and Expenditures	43
Notes to Financial Schedule	44 - 46
<u>Supplementary Information</u>	47
Exhibit 1 – Contracts Tested	48 - 51
Exhibit 2 – Top 25 Contracts Used During Calendar Year 2011	52
Exhibit 3 – Purchasing Assessments	53 - 54
Exhibit 4 – Revenues and Expenditures by Fiscal Year	55

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

BACKGROUND

The Department of Administrative Services (DAS) was created by the 1965 Legislature. Neb. Rev. Stat. § 81-101 established DAS to aid the Governor in the execution and administration of the civil administration of the laws of the State. DAS fills the role of providing managerial services for State government. The functions are coordinated by the DAS Director through various divisions: Accounting, Budget, Building, Employee Relations, Materiel, Personnel, Risk Management, 309 Task Force for Building Renewal, and Transportation Services Bureau. The Director's cabinet is made up of the division administrators.

DAS Materiel Division (Materiel) was established by the 1969 Legislature. Materiel consists of six subdivisions that provide support services to State agencies as follows:

Mail Center. The Mail Center provides interoffice and outgoing mail services to State agencies. Delivery and pick up is provided in the Lincoln area offices, and coordination of mail and mail services throughout the State are under Materiel's direction.

Office Supply Bureau. The Office Supply Bureau provides office supplies to State agencies through volume contracting. Supplies are delivered and orders can be placed through the Office Supply Bureau, if the agency is not set up to do online ordering.

State Printing Services. The State Printing Services is responsible for providing services for State agencies' printing needs. Copy Services, a subsection of State Printing Services, provides agencies with the necessary equipment and services to meet their copying and duplicating needs. Laminating, small binding jobs, and CD duplication are also services offered by this program.

State Recycling. The State Recycling program promotes purchasing recycled or remanufactured products and monitors the recycling efforts of all State agencies. The program is also responsible for researching new markets of recycled products. The disposition of recycled material is also under their direction.

State Surplus Property. The State Surplus Property operation is responsible for managing sales and/or disposal of property no longer required or used by State agencies. Surplus Property is also responsible for the monitoring and maintenance of the accounting system's fixed asset module. The operations ensure such property is accounted for, recycled, disposed, and/or sold in accordance with the statutory provisions governing such activity and promote the recording and utilization of State property.

State Purchasing Bureau. The State Purchasing Bureau is responsible for purchasing and/or contracting for all materials, supplies, and equipment as requested by State agencies in a manner that ensures maximum competition, equity to the vendor, and value to the taxpayer.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

BACKGROUND

(Continued)

Per Neb. Rev. Stat. § 81-1118.06, “The purposes of the state purchasing bureau created by section 81-1118 are:

- (1) To increase public confidence in the procedures followed in public procurement;
- (2) To insure the fair and equitable treatment of all persons who deal with the procurement system of this state;
- (3) To provide increased economy in state procurement activities and maximize to the fullest extent practicable the purchasing value of the public funds of the state;
- (4) To foster effective broad-based competition within the free enterprise system; and
- (5) To provide safeguards for the maintenance of a procurement system of quality and integrity.”

The following processes are used for the procurement of service contracts:

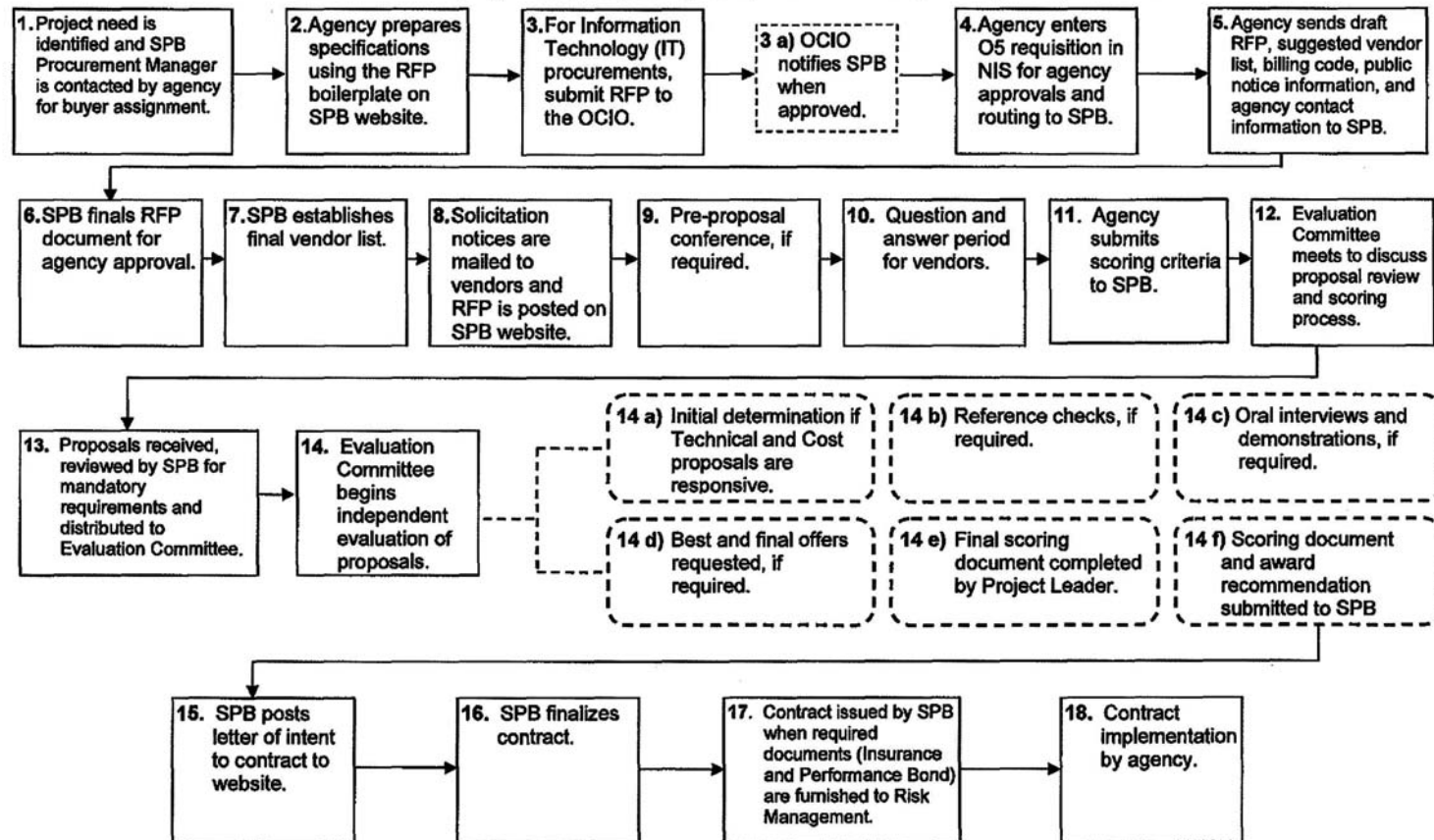
Amount of Contract	Procurement Manual processes and State Statutes
All	Neb. Rev. Stat. § 73-501 to § 73-509 requires agencies to use a standardized, open and fair process for the selection of contractual services. There shall also be an accountable, efficient reporting method of expenditures for these services. Per § 73-503 all state agencies other than the University of Nebraska, are required to process and document all service contracts, regardless of the dollar amount, through the procurement of services function in the accounting system (EnterpriseOne). Per §73-506 State agencies may not enter into contracts for services with an unspecified or unlimited duration.
\$25,000 and over	For services procurement(s) \$25,000 and over, purchase orders must be processed against the service contract. The purchase orders should be completed at the time the order is placed, to document the specific requirements and track the vendor’s performance.
\$50,000 and over	Per §73-504 Service procurements in excess of \$50,000 shall be bid in the manner prescribed in the Materiel Division “Agency Procurement Manual for Services.” Agencies may complete the bid process at the agency level in accordance with the Procurement Manual or request assistance from the Materiel Division State Purchasing Bureau to include performing the bid process for the agency. Per §73-508 all proposals for sole source contracts for services in excess of fifty thousand dollars shall be preapproved by the Materiel Division.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

BACKGROUND
(Continued)

AS Materiel Division

State Purchasing Bureau (SPB) Request for Proposal (RFP) Process



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

BACKGROUND

(Continued)

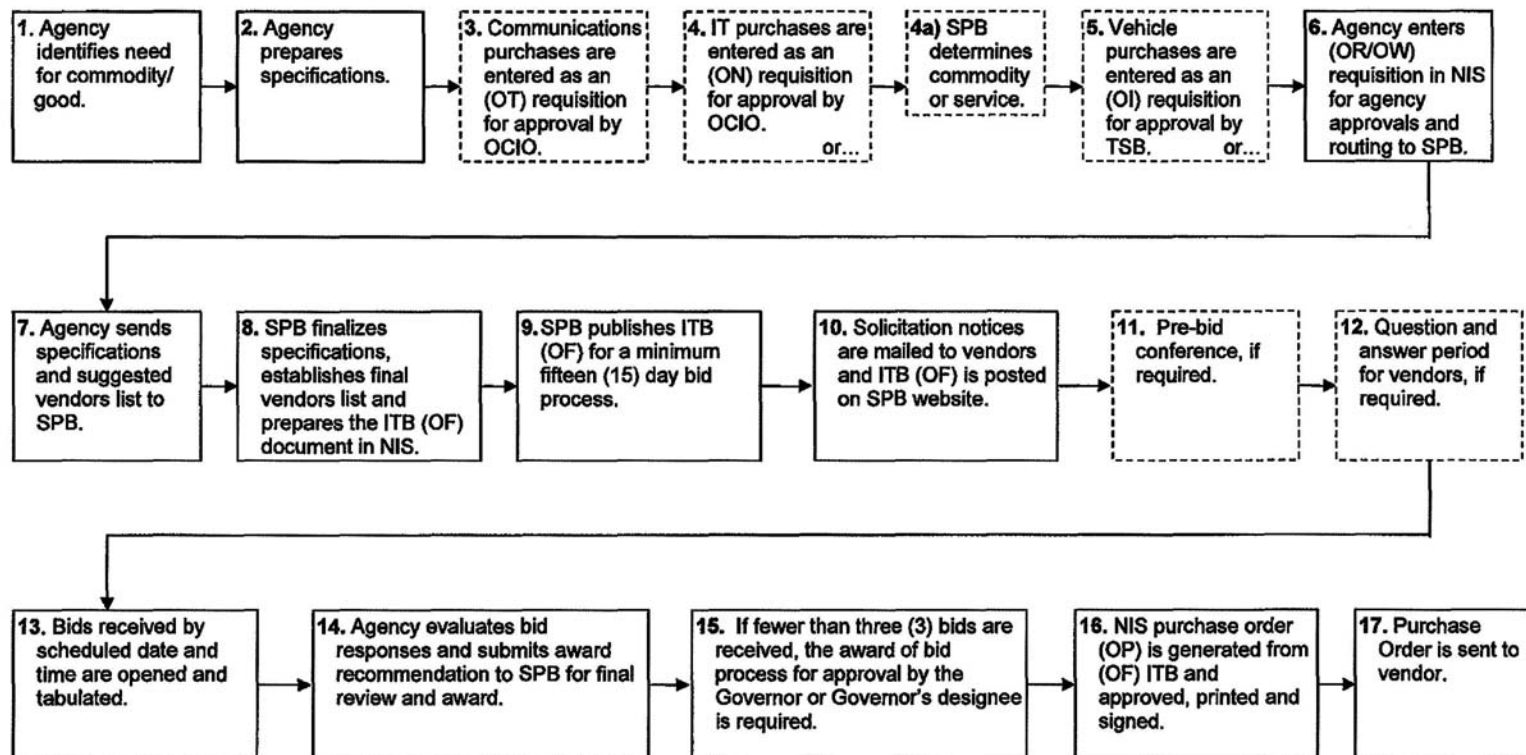
The following processes are used for the procurement of commodities/goods:

Amount of Purchase	Procurement Manual processes and State Statutes
Less than \$10,000	Neb. Rev. Stat. §81-161.03 allows State Agencies, Boards or Commissions to purchase directly from a vendor or supplier without processing through the State Purchasing Bureau for commodities/goods less than \$10,000. Agencies are encouraged to secure a minimum of three bids on purchases in excess of \$2,000.
\$10,000 to \$24,999.99	Neb. Rev. Stat. §81-1118(5)(b) requires purchases \$10,000.00 - \$24,999.99 and not on contract to be solicited through the State Purchasing Bureau. An informal process is used on procurement of commodities/goods or materials valued at \$10,000.00 to \$24,999.99. All informal purchases are processed through the State Purchasing Bureau. Direct purchase may be given for agency processing. Whenever possible a minimum of three (3) competitive bids should be solicited, received and documented with the lowest responsible bidder meeting specifications receiving the award (Neb. Rev. Stat. §81-161). Informal bids may be secured by mail, fax, e-mail or phone. Submission of bids secured by requesting agencies does not relieve the State Purchasing Bureau from the responsibility of bidding the requirement if deemed in the best interest of the State.
\$25,000 and up	A formal process is used for procurement of commodities/goods and materials in excess of \$24,999.99 (Neb. Rev. Stat. §81-161.01). All formal purchases and term contracts are processed through the State Purchasing Bureau. A competitive sealed bid process is used to provide the vendors an opportunity to bid. Three bids should be obtained (§81-154). Formal bids are advertised for a minimum of fifteen days. Formal bids are placed on the State Purchasing Bureau webpage for ease of access to potential bidders. All bids received are kept secure and unopened until the scheduled bid opening date and time, at which time the bids are opened publicly. The Invitation to Bid (ITB) is awarded to the lowest responsible bidder meeting the requirements of the bid (§81-161).

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

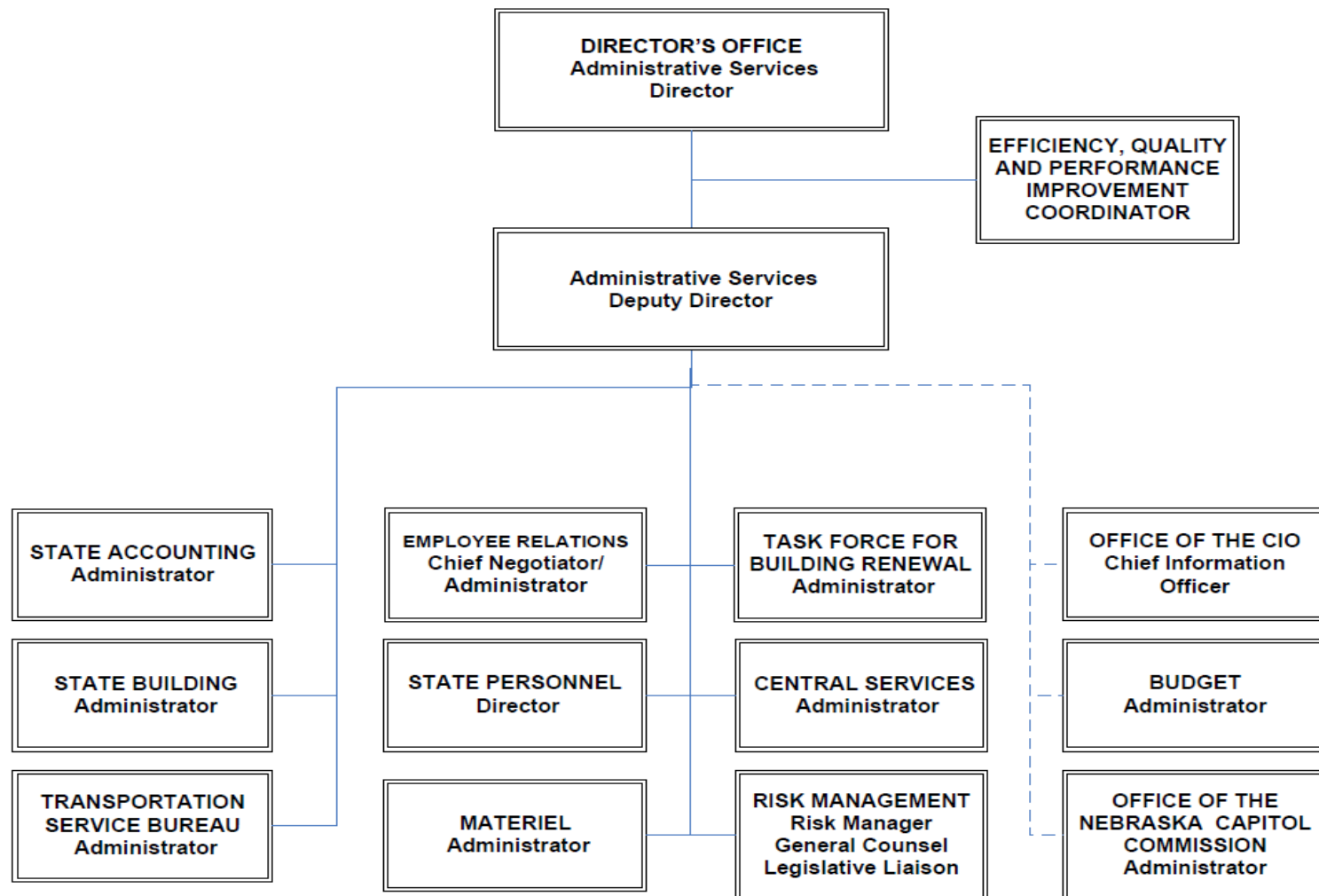
BACKGROUND
(Continued)

**AS Materiel Division
State Purchasing Bureau (SPB) In Excess of \$24,999.99 Non Contract Purchases
Formal Purchase Process**



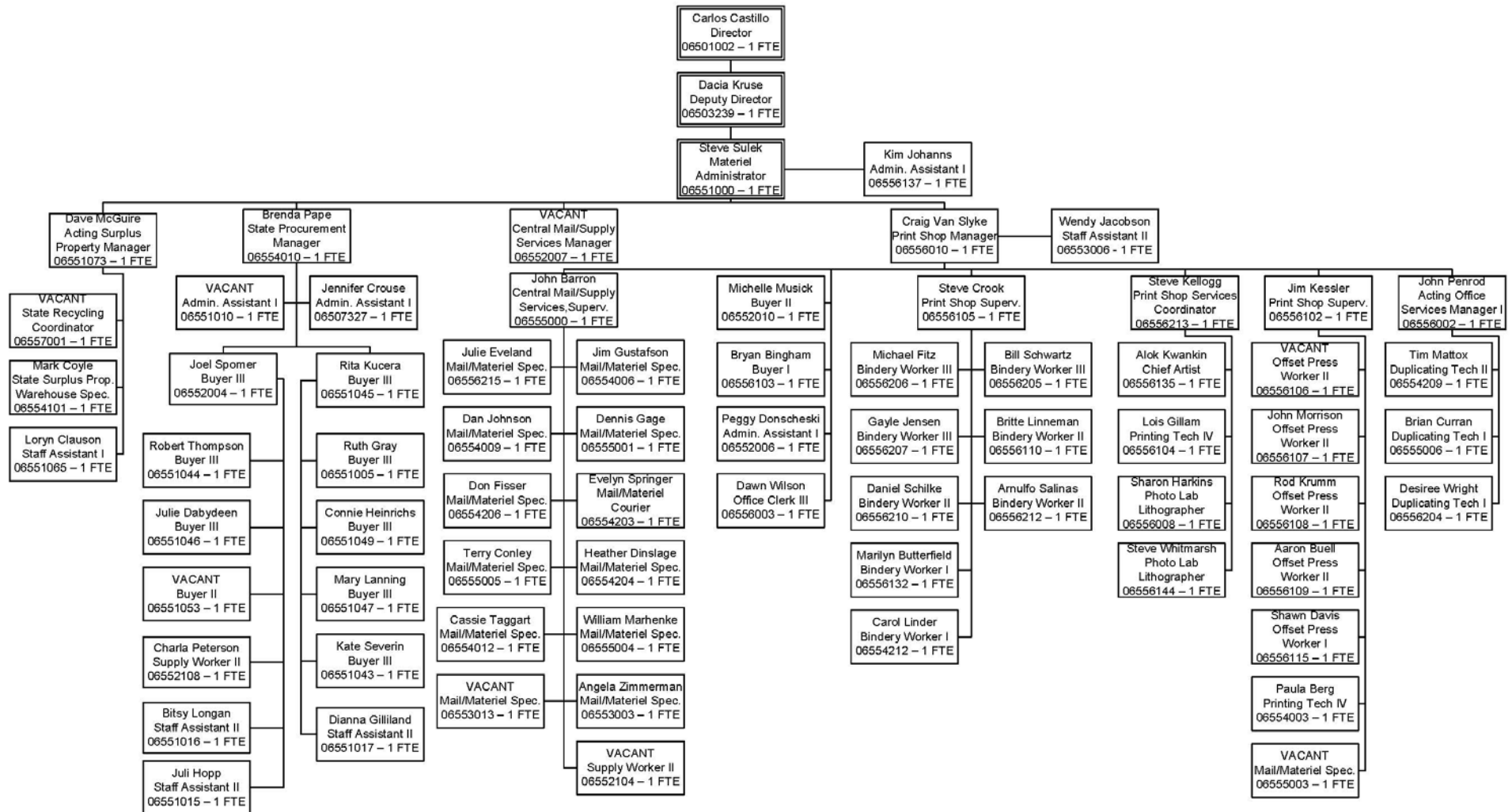
NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

ORGANIZATIONAL CHART
DEPARTMENT OF ADMINISTRATIVE SERVICES - DIVISION ADMINISTRATION



NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

**ORGANIZATIONAL CHART
MATERIEL DIVISION**



Updated 3/21/2012

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

EXIT CONFERENCE

An exit conference was held June 28, 2012, with the Nebraska Department of Administrative Services - Materiel Division (Materiel) to discuss the results of our examination. Those in attendance for Materiel were:

NAME	TITLE
Steve Sulek	Administrator
Roger Wilson	Administrator
Brenda Pape	State Procurement Manager

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Administrative Services - Materiel Division, we noted certain deficiencies in internal control 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 areas as follows:

1. ***Contract Testing:*** During testing of the State's Purchasing Bureau, we noted Materiel withheld information requested by the Auditor of Public Accounts (APA) and said it was not on file. It was later determined the information initially requested was on file and was subsequently provided by Materiel. We also noted several contracts had renewals, extensions, amendments, and/or quantity adjustments that increased the contract awards by over \$135 million, including one contract that had been extended four years beyond the contract termination requirements. Contracts did not have adequate documentation for the bidder selected. Contracts were not properly recorded in the State accounting system; the estimated amount recorded exceeded the contract award amount by over \$1 billion for contracts tested. Agencies were not required to record purchases against contracts in the State accounting system, and there was no monitoring to ensure purchases were recorded against contracts. Numerous errors were noted in the awarding process. There were no written procedures for secondary reviews of contracts and contractor selection. **A similar finding was noted during the fiscal year 2004 attestation report.**
2. ***Assessments and Fees Charged:*** Materiel charges several fees and assessments for services provided to State agencies. We noted excess fund balances for several funds which indicate Materiel is over charging State agencies for services. We further noted inequitable application of the purchasing assessment; Print Shop fees and Copy Service rates were not adequately supported and appeared too high; the Mail Center rate for letter pre-sorting was not adequately supported and rates appeared too low; receipts were not charged the proper rate and billings were not adequately reviewed. **A similar finding was also noted during the fiscal year 2004 attestation report.**
3. ***Lack of Segregation of Duties:*** One individual was in a position to both perpetrate and conceal errors or irregularities regarding the assets and receipts of surplus property, supply inventories, and fixed assets of Materiel. **A similar finding was also noted for Surplus Property during the fiscal year 2004 attestation report.**
4. ***Accounting Errors:*** There were errors totaling over \$2 million recorded in the financial information from the State accounting system.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

SUMMARY OF COMMENTS

(Continued)

5. ***Office Depot Testing:*** We tested 110 items from the Office Depot contract and noted eleven items were priced higher on the State's Office Depot website compared to the Office Depot retail site, one item was priced higher on the State's Office Depot website than was contracted for, and prices agreed upon in the State's contract with Office Depot were not the best possible price available. **A similar finding was noted in the Nebraska Department of Administrative Services – Office Supply Bureau, Office Depot Business Services Contract Evaluation, issued on April 28, 2008.**
6. ***Improper Termination Payments:*** Four of sixteen employees who terminated employment were overpaid in error by \$1,288, \$197, \$104, and \$10. Materiel did not have adequate procedures to identify the improper payments were made. **A similar finding was noted during the fiscal year 2004 attestation report.**
7. ***Timesheets and Payroll Allocations:*** Exempt employees were not required to maintain detailed records of time worked; only leave used was recorded. Furthermore, two employees tested did not have support for the payroll allocation recorded to multiple funds. **A similar finding was noted during the fiscal year 2000 and 2004 reports.**

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

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

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

1. Contract Testing

Neb. Rev. Stat. § 73-501 (Reissue 2009) states, “The purpose of sections 73-501 to 73-509 are to establish a standardized, open, and fair process for selection of contractual services and to create an accurate reporting of expended funds for contractual services. This process shall promote a standardized method of selection for state contracts for services, assuring a fair assessment of qualifications and capabilities for project completion. There shall also be an accountable, efficient reporting method of expenditures for these services.” The Administrative Services Procurement Manual for Services states, “for services procurement(s) \$25,000 and over, purchase orders must be processed against the service contract.” Neb. Rev. Stat. § 81-154 (Reissue 2008) states, “The materiel division shall establish and maintain standard specifications for personal property purchased in the name of the state.” Section 81-154 further requires three or more competitive bids be obtained for requisitions exceeding \$25,000.

A good internal control plan requires policies and procedures to ensure awarded contracts are properly supported, secondary reviews are documented and performed prior to contracts being awarded; contracts are competitively bid when terms end; and contracts are accurately recorded in the accounting system.

The State Purchasing Bureau, a subdivision of Materiel, is responsible for contracting and assisting agencies with contracts related to services, materials, supplies, and equipment. We performed testing procedures on 24 contracts and noted the following:

- Contracts had numerous renewals, extensions, and amendments increasing contract costs.
- Materiel did not provide all information requested.
- Contracts did not have adequate documentation for the bidder selected.
- Contracts were not properly recorded in the State accounting system as required by Neb. Rev. Stat. § 73-503(1) (Reissue 2009).
- Agencies were not required to record purchases against contracts in the State accounting system, and there was no monitoring to ensure purchases were recorded against contracts.
- Numerous errors or lack of documentation in the awarding process such as: variances between dollar amounts on contracts versus bids; summary sheets not in agreement with detailed summary sheets; detailed summary sheets not in agreement with score cards; line items not included or not in agreement; and clerical errors in calculations. There were no written procedures for secondary reviews of contracts and contractor selection.

A similar finding was noted during the fiscal year 2004 attestation report.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

Contract Renewals, Extensions and Amendments

Fifteen of 24 contracts tested had renewals, extensions, or amendments increasing the costs of the original contract. These contracts also had increases in the quantities estimated in the RFP. Contracts for goods are often bid based on estimated quantities for fixed prices for various items. Materiel includes estimated quantities in the RFP to evaluate the costs. The RFP indicates the quantities listed are an estimated usage and not to be construed as minimum or maximum quantities, the contract shall be for actual quantities. However if quantities are significantly increased from the estimated usage listed in the RFP, the prices bid could be affected. The fifteen contracts had increases to the amount awarded for renewals, amendments, extensions and/or quantity increases as follows:

Contract Vendor	Date Originally Awarded	Amount Originally Awarded	# of Renewals, Amendments and Extensions	Increase in Contract Award and Quantities (Note)	Total Award
Covendis Technologies	1/26/2009	\$ 39,649,986	2	\$ 38,750,170	\$ 78,400,156
Qwest Corporation	2/1/2006	5,346,000	5	5,346,000	10,692,000
Modern Methods **	9/1/2006	7,876,721	11	69,951,250	77,827,971
Oracle USA, Inc	5/15/2008	1,300,000	3	2,700,000	4,000,000
Thompson Company	9/1/2008	1,031,000	13	2,062,000	3,093,000
Alltel/Verizon	10/1/2007	5,040,000	3	9,040,000	14,080,000
Osburn Associates, Inc	4/23/2009	714,916	3	1,868,096	2,583,012
Fisher Healthcare	6/9/2008	974,233	2	1,409,550	2,383,783
Omaha Paper Company	9/1/2007	2,320,307	18	1,302,173	3,622,480
Servicemaster PBM	7/1/2005	879,660	6	1,204,084	2,083,744
Cornhusker International	5/20/2008	5,964,060	5	887,370	6,851,430
Angela Larson PC*	11/13/2007	170,330	1	255,495	425,825
Meyercord Revenue, Inc	8/5/2009	17,534	4	203,252	220,786
Leigh Petersen Varner	12/4/2007	34,340	7	188,160	222,500
Anderson Ford	12/28/2010	523,845	1	104,769	628,614
		<u>\$ 71,842,932</u>		<u>\$135,272,369</u>	<u>\$ 207,115,301</u>

* The increase was due to a renewal for 3 additional years, the yearly rate did not increase from the first award.

** Includes increase due to clerical error.

Note: Includes increases for amendments, renewals, extensions, and/or Materiel quantity increases.

For instance, the Modern Methods contract noted above had seven amendments that added new items to the contract and increased the contract award by \$585,341. There were two renewals and two extensions that extended this contract until December 31, 2011. According to the

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

Request For Proposals (RFP), “equipment and service will be purchased on an as needed basis throughout the duration of the contract.... Any amounts shown in this request for proposal are estimates only and impose no obligation on the State....” We noted there were multiple quantity changes, corrections, and clerical errors made by Materiel totaling \$69,365,909. One error noted was a significant change to the quantity for one line item. According to DAS-Materiel this was a data entry error and the quantity of 6,010 copiers was to be only 10. This resulted in error of \$71,160,000. It appears the contract review process is not adequate because this error went undetected on the two extensions. We noted the increase in the contract for amendments and quantity increases (excluding DAS corrections and clerical errors) would be \$5,930,597 for a total award of \$13,807,318.

Modern Methods Contract Summary					
Date	Description	Materiel Clerical Errors	Materiel Change	Amendment/Renewal	Contract Total
8/25/2006	Materiel awards contract 9/1/2006 thru 8/31/2009 (Original Award)				\$ 7,876,721
8/25/2006	Materiel adds items originally bid but not included in contract		\$ 748,985		\$ 8,625,706
10/12/2006	Add maintenance for items originally bid		\$ 336,926		\$ 8,962,632
11/22/2006	Materiel adds items originally bid but not included in contract		\$ 114,387		\$ 9,077,019
11/22/2006	Add items to contract			\$ 85,710	\$ 9,162,729
1/5/2007	Add items to contract			\$ 6,561	\$ 9,169,290
1/10/2007	Add items to contract			\$ 27,654	\$ 9,196,944
5/30/2007	Add items to contract			\$ 332,440	\$ 9,529,384
11/26/2007	Add items to contract			\$ 15,056	\$ 9,544,440
11/26/2007	Materiel increase in quantities		\$ 1,690,910		\$ 11,235,350
12/23/2008	Add items to contract	\$ 25,956		\$ 23,696	\$ 11,285,002
12/23/2008	Materiel increase in quantities		\$ 160,348		\$ 11,445,350
2/3/2009	Materiel correction	\$ (25,956)			\$ 11,419,394
7/22/2009	Renew contract for one year 9/1/2009 thru 8/31/2010				\$ 11,419,394
7/28/2009	Materiel increase in quantities		\$ 505,440		\$ 11,924,834
3/5/2010	Add item to contract			\$ 94,224	\$ 12,019,058
6/14/2010	Materiel increase in quantities		\$ 618,291		\$ 12,637,349
6/21/2010	Renew contract for one year 9/1/2010 thru 8/31/2011				\$ 12,637,349
7/26/2010	Materiel change to business unit number	\$ (7,139,347)			\$ 5,498,002
8/18/2011	Extension from 9/1/2011 thru 11/30/2011				\$ 5,498,002
8/22/2011	Materiel increase in quantities	\$ 71,160,000	\$ 874,683		\$ 77,532,685
11/28/2011	Extension from 12/1/2011 thru 12/31/2011				\$ 77,532,685
11/28/2011	Materiel increase in quantities		\$ 295,286		\$ 77,827,971
	Totals	\$ 64,020,653	\$ 5,345,256	\$ 585,341	\$ 77,827,971
		\$69,365,909			
	Contract Total excluding Materiel Clerical Errors				\$ 13,807,318
	Increase in Contract for amendments and quantity increases only.				\$ 5,930,597

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

For three additional contracts, we were unable to determine if the renewals, extensions, and amendments increased the costs, as there were no amounts in the contracts.

Contract Vendor	Date Originally Awarded	Amount Originally Awarded	# of Renewals, Amendments, and/or Extensions	Contract Usage through December 31, 2011
ASAP/Dell Marketing	6/1/2001	NA (1)	18	\$ 8,804,723
Knoll, Inc	2/1/1992	NA (2)	24	\$ 5,548,679
Dell Marketing	1/19/2005	NA (3)	1	\$ 14,063,751

(1) To provide software at discounted prices, the pricing component was evaluated based on usage of \$1,381,612.

(2) To supply Knoll Systems Furniture at discounted prices, award does not include total amount or items.

(3) To supply computer equipment and products per master price agreement, contract award and renewal state 1,000,000 estimated quantity and \$1 unit price, not detailed by actual items and amounts.

The service contract noted above with ASAP/Dell Marketing only allowed for four one-year renewals; however, after the fourth renewal Materiel approved twelve more extensions through December 31, 2011. The contract should have ended May 31, 2007, according to the original contract terms. According to the accounting system, over \$7 million had been expended against the contract from June 1, 2007, through December 31, 2011, after the contract should have ended.

The specific contract language regarding the option to renew varies from contract to contract. The following chart shows the contract language for each contract tested with a renewal and/or extension.

Contract Vendor	Option to renew language in original contract	Original Contract Start Date	Original Contract End Date	Renewals/Extensions thru 12/31/11	Renewal/Extensions End Date
Covendis Technologies	2 additional 2 year periods	1/26/2009	1/31/2012	1	1/31/2014
Modern Methods	2 additional 1 year periods	9/1/2006	8/31/2009	4	12/31/2011
Qwest Corporation	No limit*	2/1/2006	1/31/2011	2	6/30/2012
Thompson Co. LLC	2 additional 1 year periods	9/1/2008	8/31/2009	2	8/31/2011
Alltel/Verizon	2 additional 1 year periods	10/1/2007	9/30/2010	2	9/30/2012
Osburn Assoc., Inc.	2 additional 1 year periods	4/23/2009	4/30/2010	2	4/30/2012
Fisher Healthcare	2 additional 1 year periods	6/9/2008	5/31/2011	1	5/31/2012
Omaha Paper Company	2 additional 1 year periods	9/1/2007	8/31/2008	4	11/30/2010
ServiceMaster PBM	No limit*	7/1/2005	6/30/2008	4	6/30/2012
Cornhusker Intl Trucks	2 additional 1 year periods	5/20/2008	5/19/2009	2	5/19/2011
Angela Larson PC	1 additional 3 year period	11/13/2007	11/12/2009	1	11/12/2012
Meyercord Revenue Inc	2 additional 1 year periods	8/5/2009	8/31/2010	2	8/31/2012
Leigh Petersen Varner	1 additional 2 year period and 1 additional 3 year period	12/4/2007	12/3/2008	4	6/29/2012
Anderson Ford	4 additional 1 year periods	12/28/2010	12/27/2011	1	12/27/2012
ASAP/Dell Marketing	4 additional 1 year periods	6/1/2001	5/31/2003	16	12/31/2011
Knoll, Inc.	No limit*	2/1/1992	2/1/1993	20	9/30/2012
Dell Marketing	No limit*	1/19/2005	8/31/2007	1	8/31/2009

* All contracts contain language "The State reserves the right to extend the period of this contract beyond the termination date when mutually agreeable to the vendor/contractor and the State of Nebraska."

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

We also noted a Request for Proposal was not sent out to rebid the Department of Health and Human Services (DHHS) central region when the current contractor decided not to renew their contract. In May 2009, the contract holder for the central region since July 2007, decided not to renew his contract and gave notice two months before the beginning of the new award date. DHHS requested that award be given to an existing contractor. Out of the original 12 bidders, 6 had bid on the central region. The next lowest bidder was not awarded the region since they were not originally awarded a region, and therefore, were not an existing contractor.

When contracts have extensive amendments or renewals there is an increased risk the State will not receive the best possible price for goods and services. There is also an increased risk for State statutes to be circumvented and unfair contracting practices.

Information Not Provided

In March 2011, the Auditor of Public Accounts (APA) selected a sample of contracts for testing. We requested contract files that contained the request for proposals (RFP), vendor selection information, addendums or renewals since the initial contract, information related to the bidding information, such as other vendors that also bid, the evaluators' scorecards, and any other information that would pertain to the vendor selection.

When the APA received files and the evaluators' composite summaries for each contract, it was the APA's understanding all files and information relating to each contract had been provided as requested. However, on June 9, 2011, the APA met with Materiel staff to review contract scoring documentation for the Modern Methods contract and observed the evaluators' scorecards and additional files that had not been originally provided when requested. The APA questioned the State Procurement Manager and the Materiel Administrator as to why these were not provided upon request; no explanation was provided.

After further review of the documentation in the Modern Methods files, we noted the cost proposal scores posted on the Materiel website did not agree to the support in the contract file. The support indicated the wrong vendor had been selected. After discussions with Materiel, they re-performed the scoring calculations and Materiel determined Modern Methods was appropriately awarded the contract.

Inadequate Documentation for Bidder Selection

We noted a contract with Jebro Inc. to supply liquid asphaltic road oil did not have at least three bids obtained and approval to use less than three bids was not documented. Only two bids were obtained. Neb. Rev. Stat. § 81-154 (Reissue 2008) states, "...All such standard specifications shall be so drawn that it will be possible for three or more manufacturers, vendors, or suppliers to submit competitive bids...bids may be accepted from a fewer number of bidders than three with the approval of the Governor or his or her designated representative." Expenditures under the Jebro Inc. contract through December 31, 2011, totaled \$6,790,363 and the total contract amount is \$8,872,765.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Contract Testing (Continued)

We noted six of nine service contracts tested did not have adequate documentation for the bidder selected. After an RFP is issued and bids have been obtained, a technical evaluation committee and a cost evaluation committee is established. The evaluation committee uses the forms and scoring sheets provided in the Procurement Manual to assign points. All committee evaluations are combined and divided by the total number of evaluators. The final award is based on the highest point total. Materiel only required a composite summary of evaluators' scores; therefore, there was no way to determine the scores on the composite were the actual scores of the individual evaluators. The evaluator's scoring cards were not on file for the following contracts: Qwest Corporation, Servicemaster PBM of Lincoln, Alltel/Verizon, Angela Larson PC, and Modern Methods. The scoring cards on file were not complete for Burger Carroll and Associates as only totals were recorded for each category. We also noted during our expenditure testing that the detailed score sheets for one evaluator was not on file for a contract with Cornerstone.

Per Materiel, they did not require the original scoring documents to be submitted because they did not want their staff to know the individuals that scored the vendors. We also noted in our 2004 attestation examination that scorecards were not retained.

Neb. Rev. Stat. § 73-505 (Reissue 2009) states, "State agency directors shall be responsible for maintaining accurate documentation of the process used for selection of all contracts for services and for ensuring and documenting that services required under the contract are being performed in compliance with the terms of the contract for services. Such documentation shall be kept with each contract for services."

When evaluator scorecards are not maintained, there is an increased risk for errors to occur and not be detected. In addition, the lack of documentation could increase the perception that the bidding process was not fair and open. Noncompliance with State statute increases the risk the State will not receive the best possible price for goods and services.

Contracts Not Properly Recorded in Accounting System

Neb. Rev. Stat. § 73-503(1) (Reissue 2009) states, "All state agencies shall process and document all contracts for services through the state accounting system...All state agencies shall enter the information on new contracts for services and amendments to existing contracts for services." Furthermore, a good internal control plan requires information entered into the accounting system to be accurate and complete.

Per review of the EnterpriseOne "Contracts in Dollar Range" and "Contract Usage" reports, we noted 22 of 24 contracts tested had information incorrectly recorded in the State accounting system, such as number of renewals, extensions, and/or amendments, contract start and end dates, and estimated amounts. Estimated amounts on the accounting system exceeded contract award amounts by over one billion dollars. There was no rational basis for the estimated amount entered in the State accounting system.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

	Contract Award Amount	Estimated Amount Entered on System	Variance
Dell Marketing (Note 1)	\$ 2,000,000	\$ 821,750,000	\$ 819,750,000
ASAP/Dell Marketing (Note 2)	8,804,723	114,771,308	105,966,585
Modern Methods (Note 3)	77,827,971	90,586,434	12,758,463
Knoll, Inc (Note 2)	5,548,679	27,631,945	22,083,266
Cornhusker International Trucks	6,851,430	23,467,268	16,615,838
Omaha Paper Company	3,622,480	10,878,762	7,256,282
Jebro Inc (contract 12431)	5,169,977	8,980,083	3,810,106
Fisher Healthcare	2,383,783	5,741,798	3,358,015
Jebro Inc (contract 12465)	8,872,765	12,132,979	3,260,214
Anderson Ford	628,614	3,666,915	3,038,301
Covendis Technologies	78,400,156	79,965,282	1,565,126
Osburn Associates	2,583,012	3,620,189	1,037,177
Qwest Corporation	10,692,000	11,420,000	728,000
Servicemaster PBM of Lincoln	2,083,744	2,458,428	374,684
Meyercord Revenue	220,786	328,786	108,000
Burger Carroll and Associates	792,569	745,126	(47,443)
	<u>\$ 216,482,689</u>	<u>\$ 1,218,145,303</u>	<u>\$ 1,001,662,614</u>

Note 1: Contract and renewal each listed per award as 1 million items at \$1 each.

Note 2: Contract did not have an award amount; amount is usage through December 31, 2011.

Note 3: Contract award amount includes DAS clerical errors. The award amount without clerical errors would be \$13,807,318.

One contract noted above with Dell Marketing was awarded for \$1 million and renewed for \$1 million; however, the actual usage for the contract had exceeded \$14 million as of December 31, 2011. Materiel explained the contract amount was an estimate and not an amount not to be exceeded, however, good business practice requires contracts awarded to reflect an accurate estimation of costs.

Materiel did not have written procedures regarding what the estimated amount of a contract should be. For services, staff assistants were instructed, "when renewing use original quantity plus any additional that were added to alleviate need for so many quantity increases." For commodities, staff was instructed, "Quantities on Contracts – Agency specific contracts, double quantities of OC contracts after signature unless otherwise noted by buyer."

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

Per review of the EnterpriseOne “Contracts in Dollar Range” report, the following information was also incorrect on the State accounting system:

Contract	Incorrect Start dates, End dates, Renewals, Amendments, Extensions
Postage by Phone	Contract start date incorrect
ASAP/Dell Marketing	Amendments not recorded in system
Modern Methods	Contract start date incorrect, end date incorrect, amendments, and extensions not recorded
Angela Larson PC	Contract start date incorrect
Leigh Petersen Varner	Contract start date incorrect, amendments not recorded
Knoll Inc	Contract start date incorrect, amendments and extension not recorded in system
Jebro Inc (12431)	Contract end date incorrect
Jebro Inc (12465)	Contract end date incorrect
Dell Marketing	Contract end date incorrect, number of renewals incorrect
Cornhusker International	Contract end date incorrect, amendments not recorded
Omaha Paper Company	Contract end date incorrect, amendments and extensions not recorded
Qwest Corporation	Contract start date incorrect, amendments, renewal, and extension not recorded
Osburn Associates	Contract start date incorrect, amendment not recorded
Alltel/Verizon	Amendment not recorded
Thompson Company	Contract end date is incorrect for original contract and for first and second renewals, amendments not recorded
Fisher Healthcare	Amendment not recorded
Servicemaster PBM of Lincoln	Contract start date incorrect, amendments not recorded
Meyercord Revenue	Amendments not recorded
Oracle USA, Inc.	Amendments not recorded

See **Exhibit 1** - Contracts Tested for further details on each contract tested.

Purchases Not Properly Recorded in Accounting System

Materiel did not require or monitor State agencies to ensure expenditures were correctly recorded against the contracts in the accounting system. Materiel stated this was a responsibility of each State agency. However, Materiel is responsible for training and providing guidance to State agencies to ensure compliance with State statutes. Neb. Rev. Stat. § 73-503(1) (Reissue 2009) states, “All state agencies shall process and document all contracts for services through the state accounting system...” Neb. Rev. Stat. § 73-501 (Reissue 2009) states, “There shall also be an accountable, efficient reporting method of expenditures for these services.” In addition, the Administrative Services Procurement Manual for Services states, “For services procurement(s) \$25,000 and over, purchase orders must be processed against the service contract.” Yet expenditures for statewide contracts initiated and maintained by Materiel were also not properly recorded in some instances. A good internal control plan requires procedures to ensure an accurate reporting of these expenditures.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

The State accounting system has a Contract Usage Report that shows a total of all purchase orders associated with a contract. We noted the Contract Usage Report does not accurately reflect contract expenditures and Materiel has not developed adequate training or monitoring procedures to ensure State agencies properly record the purchase orders associated with State contracts.

When purchases are made from a contract, a purchase order is entered in the State accounting system. The purchase order should reflect the contract number. Materiel staff explained there are often reasons why a purchase order may be changed, such as when additional lines are added to an existing purchase order. But, there are no procedures in place to ensure all additional lines reference the contract number. As a result, these amounts are not included on the Contract Usage Report and contract expenditures are understated.

Three of four contracts tested had lines added to purchase orders that were not reflected on the Contract Usage Report. The total of the additional lines for the following contracts were noted:

Agency	Contract	Contract Usage Report Understated
Dept of Health & Human Services	Angela Larsen, PC	\$48,796
DAS-Statewide contract	Qwest Corporation	\$75,059
DAS-Statewide contract	ServiceMaster PBM of Lincoln	\$12,519

We also noted the Office of the Capitol Commission added lines to the ServiceMaster contract, which was a statewide contract initiated and maintained by Materiel, however Materiel did not have documentation on file for these increases. At APA's request, the Capitol Commission provided documentation for increases totaling \$26,249, but no documentation was received for an increase of \$13,542.

Furthermore, we noted State agencies were not required to enter purchase orders in the system for payments made to a contractual vendor. Direct payments could be made in the State accounting system and not recorded against the contract and therefore not reported in the Contract Usage Report. We reviewed four contracts from our testing and determined payments recorded in the State accounting system were greater than payments made against the contract as follows:

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

Contract	Contract Usage Report	Payments Made to Vendor Since Start of Contract Tested	Variance - Payments Greater than Contract Usage
Modern Methods (20257)	\$ 9,057,837		
All Other Modern Method Contracts Not Tested	\$ 8,656		
Total Modern Methods	\$ 9,066,493	\$ 9,519,402	\$ 452,909
Omaha Paper Company (12008)	\$ 2,935,140		
All Other Omaha Paper Company Contracts Not Tested	\$ 2,663,161		
Total Omaha Paper Company	\$ 5,598,301	\$ 6,826,328	\$ 1,228,027
Service Master PBM of Lincoln (11572)	\$ 1,981,745		
All Other Service Master Contracts Not Tested	\$ 812,450		
Total Service Master PBM of Lincoln	\$ 2,794,195	\$ 4,511,578	\$ 1,717,383
The Thompson Co, LLC (12250)	\$ 828,413		
All Other Thompson Co, LLC Contracts Not Tested	\$ 2,735,457		
Total The Thompson Co, LLC	\$ 3,563,870	\$ 15,599,698	\$ 12,035,828

When contract purchases are not properly recorded against the contract, there is an increased risk for the contract to be overpaid. In addition, there is an increased risk for competitive bidding requirements to be circumvented and noncompliance with § 73-501 and 73-503(1).

See **Exhibit 2** for a listing of the Top 25 Contracts Used During Calendar Year 2011.

Errors and Lack of Documentation

We noted several other clerical errors and lack of documentation during our review of contracts. Although the items noted below did not affect which bidder was selected, there is an increased risk that a contract could be improperly awarded without adequate procedures. Materiel did not have written procedures for a documented secondary review of contracts. According to Materiel, secondary reviews were performed to ensure the posted scores properly agreed to support; however, it did not appear the reviews were adequate to identify the errors noted.

(Continued on Next Page)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

Contract	Description
Modern Methods	Evaluation summary scores did not agree to posted scores. Evaluator scorecards did not agree to the summary for two items. Two cost proposal scores on the posted summary did not agree to the support file. Data entry errors were noted when summarizing 2 items on cost proposals. One amount on the contract did not agree to the cost proposal.
Osburn Associates	2 items from Invitation to Bid were not included in contract.
Thompson Company	2 items from Invitation to Bid did not agree to the Bid Tabulation spreadsheet.
Meyercord Revenue	1 item quantity was 150,000 on the Invitation to Bid, but was incorrectly entered as 15,000 on the contract for a difference of 135,000. The unit price of the item was \$.80 for a total variance of \$108,000.
Qwest Corporation	2 items did not agree from detailed spreadsheet to summary spreadsheet.
Covendis Technologies	The detailed summary spreadsheet did not agree to evaluator scorecards; two scores were incorrect. 12 items did not agree from Cost Proposal in the RFP to the Cost summary spreadsheet. Another bidder had errors noted in their scoring but it did not affect their ranking. A standardized score factor was used to determine points, and APA was unable to recalculate points.
ASAP/Dell Marketing	1 of 3 cost proposal net price calculations was not completed. 9 items on the summary sheet did not agree to evaluator scorecards.
Angela Larson PC	14 items did not agree from cost summary spreadsheet to summary spreadsheet and detailed summary spreadsheet. 3 items did not agree from RFP cost proposal to cost summary spreadsheets.
Cornhusker International Trucks	2 quantities and a dollar amount did not agree from the Invitation to Bid to the Bid Tabulation spreadsheet.
Omaha Paper Company	2 quantities and a dollar amount did not agree from the Invitation to Bid to the contract.
Alltel/Verizon	Documentation was inadequate to support the amount of the contract. Contract for the period 10/1/07 to 9/30/10 was \$5,040,000. First one-year renewal from 10/1/10 to 9/30/11 was \$2,000,000. Second one-year renewal from 10/1/11 to 9/30/12 was \$7,040,000. There was no documentation to support the original contract amount or either renewal.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Continued)

Without procedures to adequately monitor and value contracts, the risk increases for the accounting system to have inaccurate contract information and for goods and services to go beyond the scope of the original contract. Furthermore, without original documentation and secondary reviews to support vendor selections there is an increased risk awarded contracts will not be competitively awarded in compliance with State statutes, which could lead to the actual or perception of impropriety in the selection of vendors.

We recommend Materiel:

- Ensure all information requested by the APA be provided in a timely manner.
- Implement policies and procedures to properly monitor the use of renewals, amendments, and extensions to contracts and ensure contracts are properly rebid when required.
- Retain original scoring cards to ensure cumulative spreadsheets are accurate.
- Ensure compliance with State statutes and obtain at least three bids.
- Implement monitoring procedures to ensure information in contracts and the accounting system reflects the most accurate and complete information.
- Implement written procedures for a secondary review of contracts awarded and ensure adequate and accurate supporting documentation is maintained on file.

Materiel's Response: Materiel strongly disagrees with the APA's allegation of information being withheld as we have complied with all requests and provided additional and repeated access to our personnel in efforts to familiarize APA staff with the State's contracting process and use of the procurement module in the State accounting system.

The contract noted was extended so the State would be able to utilize a replacement Western States Contracting Alliance (WSCA) multistate contract to obtain improved pricing through combined purchasing power, which has been endorsed previously by the APA.

Materiel disagrees and believes information has been entered properly in the State accounting system and the reference to the contract award amounts in this report is inaccurate and grossly misleading, as these financially irrelevant placeholder amounts differ in the system not because they were recorded improperly, but because they were required, as part of routine operations, to be changed after being recorded, so the State accounting system could be used as intended to complete the purchase order approval and budget checking processes.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Contract Testing (Concluded)

Materiel's Response, Concluded:

Materiel would like to note the following: Some documentation of evaluation of bids was kept on file by the requesting agencies and the process has been changed requiring this additional documentation to be provided to the State Purchasing Bureau. State policy does not require purchase orders for all transactions. Monitoring of performance compliance is performed by entities in State government other than Materiel. While efforts will be made to reduce errors referenced, most were related to documentation and were inconsequential to the results of the contracting process as all contracts were awarded properly.

APA Response: As noted above, at a meeting with Materiel, APA staff discovered information which had been requested but had not been provided by Materiel per their assertion that they did not maintain scorecards. The State Procurement Manager and the Materiel Administrator gave no explanation as to why the information was purportedly not maintained, but was then subsequently discovered by APA staff.

Statute requires agencies to document contract information on the State accounting system. We found numerous instances of inaccurate information. There is no system report that provides a complete and accurate record of all State contracts. By entering contract estimates into the system that are millions of dollars over the contract award amount, there is an increased risk that contracts could be overpaid without detection.

2. Assessments and Fees Charged

Materiel charges several fees and assessments for services provided to State agencies. We noted the following:

- Excessive fund balances. Excess fund balances indicate Materiel is over charging State agencies for services. Assessments should only be high enough to cover actual and necessary expenses to provide the service.
- Inequitable application of purchasing assessment. The purchasing assessment should be calculated on a reasonable basis such that each Agency is charged in accordance with the benefit received.
- Print Shop fees and Copy Service rates were not adequately supported and appeared too high.
- Mail Center rate for letter pre-sorting was not adequately supported and rates appeared too low.
- Receipts tested were not charged the proper rate and billings were not adequately reviewed.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Assessments and Fees Charged (Continued)

A similar finding was noted during the fiscal year 2004 attestation report.

A good internal control plan and good accounting practice require policies and procedures to ensure assessments charged are accurately calculated, reasonably assessed, and adequately supported.

Neb. Rev. Stat. § 81-1120(1) (Reissue 2008) states, “There is hereby created the Materiel Division Revolving Fund. The fund shall be administered by the materiel division of the Department of Administrative Services. The fund shall consist of (a) fees paid for printing, copying, central supply, and mailing services provided to state agencies and local subdivisions by the division and (b) assessments charged by the materiel administrator to state agencies, boards, and commissions for purchasing services provided by the division. Such assessments shall be adequate to cover actual and necessary expenses associated with providing the service. The fund shall be used to pay for expenses incurred by the division to provide such services.”

Office of Management and Budget (OMB) Circular A-87, Attachment C – State/Local-wide Central Service Cost Allocation Plans, Section B.2. states, allocated central service costs should be on a reasonable basis. OMB A-87 Section C.3.a states, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

Excessive Fund Balances

OMB Circular A-87 Attachment C, section G2 states, “Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.”

Revolving funds are used to account for the goods and services provided to other departments or agencies within State government. Six of seven revolving fund balances were excessive at fiscal year end June 30, 2010. Five revolving fund balances were excessive at fiscal year end June 30, 2011. The funds had in excess of 60 days of expenditures available. Materiel did not document their consideration of excess fund balances when determining fees and assessments charged to State agencies.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Assessments and Fees Charged** (Continued)

Fiscal Year Ended June 30, 2010			
Fund	Average Monthly Expenditures	June 30, 2010 Fund Balance	Number of Months of Expenses in the Fund Balance
Surplus Property	\$ 20,365	\$ 187,922	9.2
Copy Services*	226,058	2,051,358	9.0
Purchasing	68,422	421,015	6.2
Contractual Advertising	43,884	235,754	5.4
Print Shop	263,248	824,610	3.1
Central Stores/Office Supply	275,976	902,136	3.3

Fiscal Year Ended June 30, 2011			
Fund	Average Monthly Expenditures	June 30, 2011 Fund Balance	Number of Months of Expenses in the Fund Balance
Surplus Property	\$ 20,797	\$ 103,330	5.0
Copy Services & Print Shop*	444,192	2,935,593	6.6
Purchasing	85,973	336,466	3.9
Contractual Advertising	21,855	233,223	10.7
Central Stores/Office Supply	262,450	1,032,895	3.9

* Copy Services Fund merged with the Print Shop Fund during Fiscal Year 2011.

Furthermore, Materiel received credits and contractual rebates from vendors totaling \$92,869 during the fiscal year ended June 30, 2010, that were not considered during Materiel's analysis of fees needed to cover expenses. If these revenues or excessive fund balances had been considered it could have reduced fees charged to State agencies.

Purchasing Assessment

Materiel charges each agency a purchasing assessment to cover the costs of services provided by Materiel for procuring and establishing contracts for goods and services. The purchasing assessment totaled \$799,224 for each fiscal year 2010, 2011, and 2012. The total was allocated to each agency based upon three criteria: total goods and supplies purchased, total services purchased, and total expenditures. Materiel calculated each agency's expenditures for the three categories and determined the percentage of expenditures for each. An average percentage was then calculated for each agency and multiplied by the total amount of \$799,224 determined necessary to cover the yearly administrative expenses. Using Materiel's criteria, we noted the following:

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Assessments and Fees Charged (Continued)

- Materiel had a listing of specific agencies with accounts that were not to be included in the assessment calculation. One account grouping was aid payments made by three agencies, the Department of Administrative Services, the State Treasurer, and the Department of Education. However, there were 34 additional State agencies that also had aid payments that were not excluded from the calculation, totaling \$2.5 billion. In fiscal year 2011, there were 33 State agencies that also had aid payments that were not excluded from the calculation. If all aid payments had been excluded the assessments would have changed for all State agencies. Materiel could not explain or provide justification for why aid was excluded for some agencies but not for others.
- We noted numerous clerical errors as noted below:

Fiscal Year	Agency	Description
2010	Attorney General	Excluded contractual services of \$766,797
2010	State Treasurer	Materiel's procedures were to exclude aid payments for the State Treasurer, totaling \$32 million; however, the payments were not excluded
2010	Dairy Board	Excluded purchased services of \$1,101,672
2011	Supreme Court	Understated contractual services by \$2,208,597
2011	Education	Understated contractual services by \$28,187
2011	Roads	Overstated goods and supplies by \$289,656
2011	Barber Examiners	Overstated goods and supplies by \$2,801
2011	Dairy Board	Understated contractual services by \$1,139,192
2011	Administrative Services	Overstated contractual services by \$966,000
2011	Arts Council	Understated goods and supplies expenses by \$4,250
2011	Environmental Quality	Understated goods and supplies expenses by \$4,456

As each Agency is charged a percentage of the total assessment, each of the errors noted above would also affect all other agencies. See **Exhibit 3** - Purchasing Assessments for a comparison of 2011 actual assessments charged to State agencies and the Auditor of Public Accounts' (APA) recalculation of the assessments. Based on excluding all aid payments and correcting errors above, the largest under-assessment and over-assessment for each fiscal year is noted below:

Fiscal Year	Agency	Largest (Under)/Over Assessment
2010	Department of Roads	\$ (34,322)
2010	Health and Human Services	\$ 80,660
2011	Department of Roads	\$ (40,214)
2011	Health and Human Services	\$ 84,235

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Assessments and Fees Charged (Continued)

DAS was the third largest under-assessment for fiscal year 2011 totaling \$11,421.

Print Shop Fees

The Print Shop uses cost centers to set its rates. A cost center consists of a machine or group of machines that perform a specific task. Historical costs and anticipated production units are used to arrive at a per unit rate. We tested rates for 3 of 33 costs centers; Computer to Plate Metal, Variable Printing and Paper Costs/Specialty Supplies. We noted charges did not agree to supporting documentation, calculation errors were made, and assumptions were not supported, as follows:

- In both 2010 and 2011, Materiel established a 35% surcharge for special purchases, paper costs, plate material, special order supplies, and colored ink. Materiel did not have support for the surcharge, Materiel said it was the industry standard.
- One of the cost components used to determine rates is equipment depreciation and maintenance. In fiscal year 2010, one of three cost centers tested had incorrect depreciation amounts for three pieces of equipment used in the fee calculation. In fiscal year 2011, two of three cost centers tested had incorrect depreciation amounts for three pieces of equipment used in the fee calculation. Materiel included depreciation expense on equipment that was already fully depreciated. Furthermore, in both 2010 and 2011 the detailed depreciation schedule for equipment and the maintenance cost worksheet totals did not agree to the summary sheet by cost center used to calculate the rates.
- In both fiscal years 2010 and 2011, there were several calculations that did not have support for the estimates used, such as rent per square foot, paper costs, payroll cost allocations, and administrative overhead.
- In fiscal year 2011, one employee's estimated salary was calculated incorrectly. That salary was used as part of the estimated administrative overhead. In fiscal year 2010, the total used for labor costs for one cost center tested was \$90,938 and should have been \$62,365.
- In fiscal year 2011, one cost center's depreciation and salaries were allocated based on estimated maintenance costs instead of equipment usage and employee time. Materiel could not explain why the salaries and depreciation were allocated this way.
- In fiscal year 2011, actual operating overhead expenditures were \$488,085; the budgeted operating overhead used in the calculation of fees for 2012 of \$1,233,787 appeared high.

Taken with the Print Shop's excessive fund balance mentioned above, it appears that the rates charged to other agencies are too high.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Assessments and Fees Charged (Continued)

Copy Service Rates

Copy Services is responsible for the leasing of copiers to State agencies. The rate charged per individual copier is made up of three components related to the cost of the machine, the cost to operate the machine and administrative overhead. Per Materiel there were 852 copiers leased to State agencies. We tested the rates for 3 machines for 2010 and 3 machines for 2011. We noted the following:

- The calculation of one of four employees estimated labor costs used in administrative overhead was incorrect. The estimated salary and benefits was \$68,153 and should have been \$77,643.
- Materiel did not have support for the number of copiers used to determine the overhead to be allocated to each copier.
- When one copier was changed from a cost-per-copy billing to a flat rate billing, an incorrect maintenance rate was used to calculate the total amount of maintenance performed on the copier. Materiel calculated the rate as \$293.70 per month and the rate should have been \$281.20 per month.

Without adequate controls and supporting documentation there is an increased risk agencies will not be charged properly.

Mail Center

Neb. Rev. Stat. § 81-166 (Reissue 2008) states, “The materiel division shall keep an accurate record of the postage used by each state officer, department, commission, board, bureau, court, or other agency and charge such state officer, department, commission, board, bureau, court, or other agency with the exact amount of postage so used plus administrative and operational costs. Administrative and operational costs shall be charged as a percentage of the amount charged for postage. Such charge shall, as nearly as may be practical, reflect the actual administrative and operational costs of the central mailing room and its related activities.”

The Mail Center charged a flat fee of \$0.433 for letter pre-sorting costs. The supporting documentation on file did not agree to APA’s recalculation of the amount necessary to cover costs. The rate charged should have been \$0.478. Materiel did not have support for the fee charged during the fiscal year. Furthermore, the Mail Center’s fund balance was negative at fiscal year end, indicating that fees were too low to cover Mail Center costs.

The Mail Center received detailed billing statements from the United States Postal Service (USPS) for bulk mailings; however, no one reviewed the billing to ensure the amounts were proper in comparison to the documentation Materiel had on file. Materiel indicated they

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Assessments and Fees Charged (Continued)

reviewed for reasonableness but not in detail; however, no review was documented. Materiel used the USPS statements to prepare and bill the State agencies. The total amount paid during the period July 1, 2009 to December 31, 2011 was \$1,155,881.

Unsupported or Improper Fees Charged

We tested 29 receipt transactions and noted the following:

- Two receipts tested did not have the proper fee charged for mail services. The fee was set at 13.75%; however, Materiel charged 13.90% on one receipt and 13.63% on the second receipt. The agencies were over-billed \$20 and under-billed \$8, respectively. Materiel corrected after we brought to their attention.
- Two receipts did not have the proper recycling surcharge assessed. Materiel only charged 13% on the sale of surplus property; however, according to Neb. Rev. Stat. § 81-1186 (Reissue 2008), 15% should have been assessed. This caused an under-receipt of \$1,948.
- Five receipts did not have adequate procedures to ensure billings were proper. Materiel created spreadsheets from the invoices received by vendors in order to create each agency's billing. For example, Materiel receives an invoice from Pitney Bowes for postage. An individual from Materiel prepares the billings to the agencies based on the meter numbers. Another example is copier readings. A spreadsheet is maintained for all copiers. The agencies submit the quantities and Materiel enters on the spreadsheet. If nothing is received Materiel estimates the quantities. The spreadsheets were either not reviewed by a second individual or not documented as reviewed to ensure the billing spreadsheets were properly accumulated. The 5 receipts totaled \$780,145 and included billings for printing, mailing, and copy services.

Without adequate policies and procedures to ensure assessments and fees are reasonable, properly calculated, and properly billed, there is an increased risk fees charged to State agencies will be over or under assessed. Furthermore, excessive revenues could lead to required refunds to the Federal government. A similar finding was noted during the fiscal year 2004 attestation report.

We recommend Materiel review procedures for determining assessments and fees charged to ensure amounts are reasonable and properly calculated. Furthermore, we recommend Materiel ensure rates established are properly billed and receipted and adequate documentation is on file to support assessments and fees.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Assessments and Fees Charged (Concluded)

Materiel's Response: Materiel disagrees with this comment regarding fund balance and objects to the reference "Materiel is over charging", as according to the A-87 calculations performed by the State Accounting Division as of June 30, 2011 the General Service fund under Materiel was below the allowable reserve.

This report's comparison of current expenditures by agencies to the assessments developed years prior to this date is without merit as current year expenditures are used when developing assessments for the next biennium.

The methodology used in allocating current assessments was included in the review and analysis of the assessments required for their approval and implementation as part of the State's budget process. Independent of and prior to this audit Administrative Services initiated an internal review and as a result, the allocation method used now includes a revised approach to the consideration of government aid in the assessment allocation process.

Central Services - Finance and Materiel will continue to review current processes and implement improvements as part of ongoing efforts to eliminate errors and improve supporting documentation.

APA Response: The reserve for Federal purposes is based on a combination of internal service funds; however, State agencies are charged for services based on individual funds. The reserve in total could be allowable for Federal submission, but still be excessive for individual funds and services. State statute 81-1120 requires assessments to be adequate to cover actual expenses. Fund balances with more than 60 days of operating expenses on hand demonstrate that assessments were more than the amount necessary to cover expenses. Therefore, we maintain that State agencies were over-charged for services.

3. Lack of Segregation of Duties

A good internal control plan requires procedures to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities. A good internal control plan also requires procedures to ensure records are accurate.

We noted there was a lack of controls over surplus property, supply inventories, and fixed assets.

Surplus Property Receipts

The Surplus Property (Surplus) subdivision manages the sales and disposal of property no longer required or used by State agencies. Revenues from furniture, equipment, and vehicle auctions totaled \$2,266,778 during the fiscal year ended June 30, 2010, and \$4,833,852 during the period July 1, 2010, through December 31, 2011.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Lack of Segregation of Duties (Continued)

We noted a lack of segregation of duties. One individual was able to access the database that tracked surplus items in Materiel's possession, prepare invoices, record payments received in the check register, and update the report of sales used to track agency proceeds. The Surplus database tracked items pending sale or destruction, items sold, the amount sold for, receipts received, and the proceeds of sales by agency. All staff could change information contained in the database and there were no controls to identify unauthorized changes. This means an employee could delete or change information in error, or by design, without detection; thereby increasing the risk for loss or theft.

Materiel sells surplus items to State agencies and outside buyers. Materiel prepared manual invoices for outside buyers; but from July 2009 to November 2011 the invoices were not recorded in the State accounting system. Invoices and Reports of Sales were not prenumbered and there was no documentation of approval. All staff could record payments received in the check register. There was no documentation of who recorded the payments and who reviewed the check register.

Surplus also held auctions through sealed bids. Each bidder sent their bid with a 10% deposit. Surplus then reviewed each bid and awarded the sale to the highest bidder. Those not awarded had their checks returned. From July 2009 through February 2011, Surplus did not retain documentation of who bid and the bid amounts, to support that the sale did go to the highest bidder.

Surplus did not have written policies and procedures to determine what items would be destroyed instead of sold. The Surplus Manager had sole discretion as to what property would be destroyed.

Lack of segregation of duties increases the risk for misuse or theft of State assets. A similar finding was noted during the fiscal year 2004 attestation report.

Supplies Inventories

Materiel placed orders and delivered office supplies to State agencies if the agency was not set up for on-line ordering. One individual maintained the supply records, distributed supplies, and performed the physical inventory. The inventory spreadsheets used to bill the agencies for supplies purchased were not reviewed for accuracy. A second individual reviewed the physical inventory counts; however, this procedure was not adequate to safeguard supplies as the supply records could be altered.

According to Materiel's records, the supply inventory totaled \$16,029 at December 31, 2011. Inventory purchases from July 1, 2011, through December 31, 2011, totaled \$13,756. However, due to the lack of controls it was unknown if the records were accurate as there were no procedures to detect errors or theft.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Lack of Segregation of Duties (Continued)

Fixed Assets

Materiel had approximately \$11 million in recorded fixed assets at December 31, 2011. We noted the following:

- One individual was able to add assets, change asset information, and dispose of an asset in the accounting system. The individual also retained the approvals for the disposal of assets. A second individual was needed to complete the deletion process in the system; however, during the period from July 2009 to June 2011, the second individual did not review documentation to ensure the deletion was properly authorized. The second individual merely received an email from the first employee, stating the deletion was ready to be posted to the system. In June 2011, the second individual began reviewing the Surplus Property Notification forms and Mass Fixed Asset Disposal report when posting disposals to the accounting system to ensure the deletion was properly authorized. The lack of controls increased the risk an individual could steal and then delete an asset from the system without detection.
- Materiel did not review the Additions and Retirements report to ensure assets added and deleted from the system were proper.
- From June 2011 through December 2011, Materiel did not review all fixed asset integrity reports. Materiel did not review the Fixed Asset Category Code Integrity report, Fixed Asset with No Attachment report, Business Unit Fund Integrity report, and the Item Code Object Account Integrity report.
- Neb. Rev. Stat. § 81-1118 (Reissue 2008) establishes that Materiel copy services shall be responsible for the purchase and placement of all copier equipment. Copiers totaled \$6.6 million of Materiel's assets as of December 31, 2011. Neb. Rev. Stat. § 81-1118.02 (Reissue 2008) requires an annual inventory of all property belonging to the State. Neither Materiel nor the agencies performed an annual physical inventory of the copiers.

Without proper procedures and segregation of duties, there is an increased risk for misuse or theft of State funds and assets.

We recommend Materiel implement procedures to ensure individuals are not in a position to both perpetrate and conceal errors or fraud. We further recommend Materiel ensure reports are reviewed and annual inventories are completed. We also recommend Materiel continue to review all documentation when posting disposals to the accounting system.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Lack of Segregation of Duties (Concluded)

Materiel's Response: Surplus Property operates with a staff of three fulltime employees and believes established processes requiring exchanges of documentation with agencies and the use of the Fixed Assets Module in the State accounting system provide additional sources of process monitoring and control.

As a result of an internal initiative to improve procedures, the State accounting system is being used to generate invoices for Surplus Property direct sales to political subdivisions in addition the previous policy of retaining documentation of unsuccessful bids received will be reinstated.

Materiel believes the oversight, review and control processes applied to the supplies inventory process have been appropriate and consistent. However, the entire process will be reviewed and potential revisions corresponding to the information provided will be considered.

Materiel believes the internal processes for fixed assets to be complete and appropriate, including the confirmation of copiers located statewide which for years has been performed utilizing the quarterly copier readings submitted by leasing agencies for each copier.

APA Response: To comply with State statute 81-1118.02, Materiel should ensure an annual physical inventory is performed for the over \$6 million of copier equipment for which they are responsible. Material's assertion that they can rely on billing information as a surrogate for physical inventories does not, in fact, mitigate DAS' responsibilities with respect to the requirements of statute 81-1118.02.

4. Accounting Errors

A good internal control plan requires procedures to ensure financial information is accurately recorded in the accounting system.

We noted several errors recorded in the accounting system. Most errors were due to conversion issues dating back to 2003, when the State changed accounting systems.

- Print Shop raw materials and expenses were overstated by \$227,621, due to inventory balances improperly recorded as expenses during fiscal year 2010. The error was subsequently adjusted on the financial schedule.
- Payables were overstated by \$88,829. One expenditure tested was incorrectly identified as a payable. Another expenditure tested should have been recorded as a payable and was not.
- Postage deposits of \$671,591 were recorded in the wrong fund.
- A \$655,000 due from fund balance was recorded in the wrong fund.
- A \$400,000 due to fund balance was recorded in the wrong fund.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Accounting Errors (Concluded)

- Transfers in and transfers out were recorded in error in two funds. The transfers should have been recorded as due to and due from funds. The transactions totaled \$250,000.
- An improper balance for deposits existed in the Surplus Property fund at June 30, 2010. Materiel improperly remitted duplicate surplus property revenues to one agency. When Materiel attempted to correct the duplicate transaction, it was inadvertently paid to the agency again. This caused an excess payment totaling \$76,868 to the agency.

The errors were corrected after we brought them to the attention of Materiel.

Without strong internal control procedures, there is a risk for incorrect financial information.

We recommend Materiel develop procedures to ensure financial information is accurate, complete, and in accordance with accounting standards.

Materiel's Response: All funds utilized for postings noted as incorrect are Materiel funds and have a relationship to each other as allowed which results in these transactions not impacting the total fund balance for Materiel. Central Services - Finance is continuing to improve its internal processes and reviews of balance sheet accounts for each individual fund.

An issue with a State accounting report used to record the purchase of Print Shop raw materials for appropriation purposes only, has been resolved and the correctly functioning report is reviewed for reasonableness before the monthly JE is created. There was no impact on rate calculations or charges to customers and as noted in the report, correcting adjustments have been made on the financial schedule.

Materiel believes the two transfers identified as being recorded in error were actually recorded accurately following the normal Agency wide procedure used whenever a transfer in or transfer out is recorded, which uses revenue accounts operating transfer in and operating transfer out and not the balance sheet accounts (due to or due from accounts).

We believe good internal procedures are in place for the thousands of transactions processed for Materiel annually and Central Services - Finance and Materiel will continue to strive to produce appropriate transactions.

APA Response: The use of revenue accounts to record monies loaned to other funds is not in accordance with generally accepted accounting principles.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Office Depot Testing

A good internal control plan requires policies and procedures to ensure items purchased are in agreement with contractual terms. Furthermore, sound business practice requires policies and procedures to ensure the State receives the best possible price for items purchased.

Materiel has a contract with Office Depot to provide office supplies for use by all State agencies. Office Depot has a retail website with prices for all customers and a website for State customers (State website) with prices for the State contract. We performed testing on 100 items purchased by agencies throughout fiscal year 2010 and ten items purchased during the period July 1, 2010, through December 31, 2011, to verify:

- 1) The contracted rates and discounts were properly billed and agreed to invoices paid,
- 2) The State website price agreed to the contract rates and discounts (We used March 2011 for items tested during fiscal year 2010 and February 2012 for items tested during the period July 1, 2010, through December 31, 2011, as the website only contained current pricing), and
- 3) The State website prices were less than or equal to the Office Depot retail website prices during March 2011 or February 2012.

Per EnterpriseOne, the State's accounting system, the Office Depot contract usage from July 1, 2009, through December 31, 2011, was \$6,347,537. Although price variances noted on individual items were minor, considering the volume and dollar amount of activity for this contract, there is the potential risk for significant loss of State funds if contract prices charged are not appropriately monitored. For the 110 items tested, we noted the following:

- For one item, the price on the invoice was higher than the contracted price during April 2011. The item was also higher priced on the State's Office Depot website when compared to the contracted price during February 2012.

Item	Invoice Price (amount paid)	State Website Price	Contract Price	Difference
HP Laserjet Cartridge	\$ 152.11	\$ 152.11	\$ 143.50	\$ 8.61

This was a specific item listed in the contract for a set price for 90 days; however, the contract did not specify whether the lower of the Office Depot pricing or the S.P. Richards catalog pricing should be used when the price of the item changed.

- We noted nine items tested during fiscal year 2010 that were priced higher on the State website when compared to the Office Depot retail website during March 2011. We noted two items tested during the period July 1, 2010, through December 31, 2011, that were priced higher on the State website when compared to the Office Depot retail website during February 2012. These eleven items were higher in total by \$30.77 on the State website.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Office Depot Testing (Continued)

Item Description	State Contract Price with Markup*	State Contract Price without Markup*	Office Depot Retail Price	Difference with Markup	Difference without Markup
USB 4 GB Flash drive	\$ 19.99	\$ 18.68	\$ 11.99	\$ 8.00	\$ 6.69
5x8 Note Pad, 50 Sheets	13.38	12.50	6.09	7.29	6.41
Memorex DVD-R, 100 Pack	43.65	40.79	39.99	3.66	0.80
Manila Folders, Box of 100	11.90	11.12	9.99	1.91	1.13
White Envelopes, 500 Count	15.60	14.58	13.79	1.81	0.79
28 Quart Wastebasket	8.15	7.62	6.79	1.36	0.83
Energizer AA Batteries, 10 Pack	9.33	8.72	7.99	1.34	0.73
Energizer AAA Batteries, 10 Pack	9.33	8.72	7.99	1.34	0.73
TDK CD-R, 50 Pack	14.54	13.59	13.99	0.55	-0.40
Lysol Neutra Air Freshener	4.54	4.24	4.29	0.25	-0.05
12" Round Wall Clock	19.25	17.99	15.99	3.26	2.00
			<i>Total</i>	\$ 30.77	\$ 19.66

* Administrative Services adds a 7% markup for administrative expenses and contract discounts.

- The State's RFP required the bidder to include pricing based upon either the S.P. Richards Catalog or the United Stationers catalog for items not specifically identified in the contract. The prices in these catalogs were considered the national index prices and were to be used throughout the life of the contract for establishing pricing. The State's Office Depot contract used the S.P. Richards Catalog index pricing, the contract only required pricing to agree to the lowest S.P. Richards Catalog pricing index. If the Office Depot retail pricing was lower than the S.P. Richards Catalog, the contract did not require Office Depot to use their lower price. We noted 7 of 110 items tested were priced higher on the S.P. Richards Catalog pricing index than the Office Depot retail pricing, for a total of \$6.60.

Item Description	S.P. Richards Price**	Office Depot Price**	Difference
Purell Sanitizer, 8 Ounce	\$ 5.79	\$ 4.41	\$ 1.38
IBM Ribbon	9.74	8.77	0.97
Rubber bands, 1 lb. Box	5.13	4.58	0.55
Crayola Colored Pencils, Box of 12	1.27	1.24	0.03
Black-On-White Tapes, Pack of 2	12.84	12.82	0.02
Energizer AAA Batteries, 10 Pack	9.61	9.59	0.02
M110 Corded Mouse	14.54	10.91	3.63
		<i>Total</i>	\$ 6.60

** Includes the Department of Administrative Services' 7% markup for administrative expenses and contract discounts.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Office Depot Testing (Concluded)

Materiel performed limited testing procedures to ensure contract requirements were being met. We reviewed the testing procedures and noted there was a lack of documentation to support the procedures were performed. Materiel indicated they compared the current State price, which comes from spreadsheets provided by Office Depot, to the price paid on the invoice. However, there was no documentation that Materiel recalculated the State prices paid were based upon the requirements of the contract, including the lowest list price and appropriate discounts, to ensure the prices were correct.

Without adequate procedures to ensure contract requirements are being adhered to, there is an increased risk the State will not receive the pricing agreed upon and be charged in excess of the proper amount. Furthermore, when contracts are entered into, the services and pricing contracted for should ensure the lowest possible cost for the State. A similar finding was noted in the Nebraska Department of Administrative Services – Office Supply Bureau, Office Depot Business Services Contract Evaluation, issued on April 28, 2008.

We recommend Materiel implement procedures to ensure prices are in compliance with the contract and procedures performed are adequately documented. Furthermore, we recommend Materiel ensure contracts are written to obtain the best possible pricing available to the State.

Materiel's Response: Due the Office Depot retail website and prices found on that web site having no ties or relevance to the State's contractual agreement with this vendor, the comparisons made in this report are immaterial and without merit. In addition, Materiel believes the suggestion of comparing short lived retail sale prices to the deeply discounted contract pricing provided through the life of the contract would not realize savings to the State due to requiring additional staff time to document frequently changing prices and other collateral issues.

Materiel disagrees with the report identifying a single item as having an invoice price higher than the contract price as according to our calculations, when the index price is used and discount applied in a manner consistent with the terms and conditions of the contract the resulting contract price matches the invoice price.

APA Response: The contract did not specify the price terms to be used after 90 days for the item noted. Also as stated above, Materiel only performed limited procedures to ensure contract requirements were met. We disagree that retail website prices have no ties or relevance to the State's contractual agreement with the vendor. The State does millions of dollars of business with the vendor and if Materiel does not appropriately monitor the contract or is not aware of how retail prices compare to contract prices, Materiel will not be able to ensure the State is getting the best possible price for purchases made.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Improper Termination Payments

A good internal control plan requires policies and procedures to ensure terminated employees are removed timely from the payroll system. Good internal control also requires procedures to ensure improper payments are identified prior to disbursement.

We noted sixteen employees terminated between July 1, 2009 and December 31, 2011. We tested all sixteen terminations and noted four were incorrectly paid as follows:

- Two employees tested received a paycheck after their termination date. One individual terminated employment July 20, 2009; however, the system was not updated until August 10, 2009. The individual received an improper payment because the bi-weekly payroll processed prior to August 10, 2009, and automatically paid the individual a gross payment of \$1,288. The individual also received State benefits for health insurance totaling \$176 and a \$96 retirement plan contribution. Another individual terminated employment November 15, 2010; however, the system was not updated until December 22, 2010. The individual received an improper gross payment of holiday pay of \$225. This same individual also was underpaid \$28 for sick leave upon retirement for a net overpayment of \$197. Materiel did not have procedures in place to identify the improper payments.
- An employee who terminated March 24, 2011, was paid for one additional day than was actually worked for an overpayment of gross pay of \$104.
- An employee who retired December 31, 2009, had vacation and sick leave payout incorrectly calculated for an overpayment of gross pay of \$10.

The overpayments in gross pay to the four individuals totaled \$1,599.

Without adequate termination procedures, there is an increased risk improper disbursements will be made with State funds. A similar finding was noted during the fiscal year 2004 attestation report.

We recommend Materiel implement procedures to ensure terminated employees are removed timely from the payroll system. Procedures should also be established to ensure employee payments are proper. We further recommend Materiel work to recover the overpayments.

Materiel's Response: The agency will implement additional procedures to review pre-payroll to verify accruals are calculated correctly, last day of work is properly recorded, and terminated employees are paid out accurately. Post payroll reconciliation procedures will also be implemented as an additional measure.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Timesheets and Payroll Allocations

Neb. Rev. Stat. § 84-1001(1) (Reissue 2008) states, “All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur.”

In addition, a good internal control plan requires hours worked be adequately documented, for example, via timesheets or time logs. Such documentation should be kept on file to provide evidence of compliance with § 84-1001 and to substantiate accrued vacation and sick leave earned. Furthermore, a good internal control plan requires adequate documentation to support labor allocations for employee payroll expenses.

We performed payroll testing for seven employee payments and noted the following:

- Four employees tested did not have a timesheet or other documentation to show at least forty hours were worked each week. There were 20 exempt employees that worked for Materiel who were not required to maintain a timesheet or other documentation to show at least forty hours were worked each week. Materiel used EnterpriseOne for time entry and leave exceptions; exempt employees were only required to record leave used in the system.
- Two employees tested had payroll expenses allocated between funds; however, there was no documentation to support the allocations used.

Employee 1 Allocation	Employee 2 Allocation	Fund
50%		Purchasing
25%	80%	Print Shop/Material
25%		Central Stores/Office Supply Bureau
	20%	Transportation Services Bureau

A similar finding was also reported in two prior DAS reports, for the fiscal years ended June 30, 2000, and 2004.

Without adequate records to support hours worked and allocations used, there is an increased risk for fraudulent or inaccurate payment of hours worked or accumulation of leave. As agencies are charged for services based on expenditures, if expenditures are incorrectly allocated, Materiel’s charges for services could be inaccurate.

We recommend Materiel establish a policy requiring all employees maintain supporting documentation for hours worked, such as timesheets or certifications. Furthermore, we recommend Materiel ensure documentation is on file to support payroll allocations.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Timesheets and Payroll Allocations (Concluded)

Materiel's Response: Exempt employees are required to only enter their leave exceptions into the State accounting system time entry program and if there are no leave exceptions, the approving supervisor does not approve a time record and the system pays them standard hours.

According to 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. These allowable exceptions include certain deductions of one or more full days, but only if there is a bona fide plan, policy, or practice of providing compensation for a loss of salary.

Additionally, exempt employees do not track, earn or receive overtime compensation for extra hours worked. These employees are paid a salary for performing the whole job and not for actual hours worked. However, they are required to record and seek approval for any leave exceptions or if they are in a leave without pay status.

Materiel will implement procedures to document payroll allocations between multiple funds.

APA Response: State statute requires employees to work not less than 40 hours each week. The Agency has no documentation to show they are complying with State statute requirements.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES MATERIEL DIVISION

INDEPENDENT ACCOUNTANT'S REPORT

We have examined the accompanying Schedule of Revenues and Expenditures of the Nebraska Department of Administrative Services - Materiel Division (Materiel) as of and for the period July 1, 2009, through December 31, 2011. Materiel's management is responsible for the Schedule. 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 amounts and disclosures in the Schedule 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 and expenditures of the Nebraska Department of Administrative Services - Materiel Division for the period July 1, 2009, through December 31, 2011, based on the accounting system and procedures prescribed by the State of Nebraska Director 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 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 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 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 the findings, along with the views of management, are described in the Comments Section of this report.

This report is intended solely for the information and use of management, others within the Nebraska Department of Administrative Services - Materiel Division, and the appropriate Federal and regulatory agencies, and 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.

Signed Original on File

July 31, 2012

Mike Foley
Auditor of Public Accounts

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION
SCHEDULE OF REVENUES AND EXPENDITURES
For the Period July 1, 2009 through December 31, 2011

	Cash Funds	Revolving Funds	Totals (Memorandum Only)
REVENUES:			
Sales & Charges	\$ 75,087	\$ 44,142,111	\$ 44,217,198
Miscellaneous	148,371	724,151	872,522
TOTAL REVENUES	<u>\$ 223,458</u>	<u>\$ 44,866,262</u>	<u>\$ 45,089,720</u>
EXPENDITURES:			
Personal Services	\$ -	\$ 7,873,145	\$ 7,873,145
Operating	132,197	33,001,350	33,133,547
Travel	-	33,922	33,922
Capital Outlay	6,500	3,317,992	3,324,492
TOTAL EXPENDITURES	<u>\$ 138,697</u>	<u>\$ 44,226,409</u>	<u>\$ 44,365,106</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

NOTES TO FINANCIAL SCHEDULE

For July 1, 2009 through December 31, 2011

1. Criteria

A. Reporting Entity

The accounting policies of the Nebraska Department of Administrative Services - Materiel Division (Materiel) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the State of Nebraska Director of Administrative Services duties 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 2008), 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 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 and expenditures was obtained directly from the general ledger maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures recorded in the general ledger as of December 31, 2011, include only those payables posted in the general ledger before December 31, 2011, and not yet paid as of that date. The amount recorded as expenditures as of December 31, 2011, **does not** include amounts for goods and services received before December 31, 2011, which had not been posted to the general ledger as of December 31, 2011.

The fund types established by the State that are used by Materiel are:

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. Cash funds are established by State statutes and must be used in accordance with those statutes.

50000 – Revolving Funds – account for the operation of State agencies which provide goods and services to other departments or agencies within State government.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

NOTES TO FINANCIAL SCHEDULE
(Continued)

1. Criteria (Concluded)

The major revenue account classifications established by State Accounting used by Materiel are:

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income and reimbursements from non-government sources.

The major expenditure account classifications established by State Accounting used by Materiel are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by Materiel.

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 which 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.

B. Reporting Entity

The Department of Administrative Services is a State agency established under and governed by the laws of the State of Nebraska. As such, Materiel is exempt from State and Federal income taxes. The schedule includes all funds of Materiel included in the general ledger.

Materiel is part of the primary government for the State of Nebraska.

2. 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.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

NOTES TO FINANCIAL SCHEDULE
(Continued)

3. Subsequent Event

On February 15, 2012, the DAS Director announced that through a Request for Proposal (RFP) issued in November 2011, United HealthCare (UHC), as the lowest, most responsible bidder, would be the new healthcare provider and pharmacy benefit manager, effective July 1, 2012.

On February 24, 2012, DAS received a protest/grievance letter on behalf of Blue Cross Blue Shield of Nebraska (BCBSNE) regarding the State's Intent to Award the contract to UHC. BCBSNE contended that UHC did not submit a proposal in response to the RFP that conformed in all requisites with the State's requirements, as follows:

- 1) The RFP indicated that bidder shall not "subvert the procurement process" by employing "lobbyists, attorneys, political activists and consultants to secure the contract." BCBSNE contends that UHC, in fact, did this.
- 2) The RFP required bidders to certify that there was no "appearance of a conflict of interest" in its bid, that its representatives would take no action creating a conflict of interest, and that it would employ no person having a conflict of interest. BCBSNE contends that UHC did this.
- 3) The scoring of the bids was flawed, specifically; it gave UHC credit for purported discounts that are not guaranteed, not verified, and probably illusory, among other flaws. Moreover, the State's scoring failed to take into account that 5 percent of UHC claims will be "out-of-network," compared to virtually zero percent of BCBSNE claims. BCBSNE contends these factors resulted in the State failing to award the contract to the lowest qualified bidder.

On March 5, 2012, DAS replied to the BCBSNE protest letter, indicating the "protest is hereby denied and the Intent to Award will stand."

On April 4, 2012, BCBSNE brought an action in the Lancaster County District Court, alleging the scoring evaluation upon which the contract award to UHC was based to have been "erroneous, unfair, legally flawed, believed to be conducted in a manner contrary to industry standards, and in violation of the State's own relevant and applicable requirements relating to the handling and consideration of the RFP." For relief, BCBSNE petitioned the court, among other things, to order the award of the contract to UHC rescinded and DAS enjoined from implementing further that contract pending a determination of the proper party to be entitled to an award of said contract.

On June 14, 2012, a Lancaster County District Court Judge dismissed the case as the plaintiff did not have standing as a taxpayer to seek the remedy requested.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues and Expenditures. 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 and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION
CONTRACTS TESTED
For the Period July 1, 2009 to December 31, 2011

Exhibit 1

Vendor/Description of Contract Services or Goods Purchased	Number of Amendments, Renewals, or Extensions (Note 3)		Contract Start Date		Contract End Date		Cumulative Amount of Award After All Amendments, Renewals, & Extensions	(Note 1) Estimated Total Amount of Contract Per EnterpriseOne	(Note 2) *Cumulative Usage as of 12/31/11, Per EnterpriseOne	**Overall Cumulative Increase in the Award Per Review of Contract Files
	Per Review of Contract Files	(Note 1) Per EnterpriseOne	Per Review of Contract Files	(Note 1) Per Enterprise One	Per Review of Contract Files	(Note 1) Per Enterprise One				
Service Contracts:										
1) Alltel/Verizon Wireless (28524) To provide commercial wireless voice, data services, and equipment.	1 - Amendment 2 - Renewals	No Amendments 2 - Renewals	10/1/2007	10/1/2007	9/30/2012	9/30/2012	\$ 14,080,000	\$ 14,080,000	\$ 8,302,140	\$ 9,040,000
2) Postage by Phone (9615) To allow the State to prepay for postage, there were no additional costs to the State.	2 - Renewals	2 - Renewals	6/20/2000	1/1/2010	12/31/2012	12/31/2012	\$ 4,210,000	\$ 5,210,000	\$ 4,742,764	\$ 3,792,910
3) Modern Methods (20257) To supply and deliver copiers and maintenance of equipment.	7 - Amendments 2 - Renewals 2 - Extensions	No Amendments 2 - Renewals No Extensions	9/1/2006	9/1/2009	12/31/2011	7/19/2010	\$ 77,827,971 \$ 90,586,434 \$ 9,057,837 \$ 69,951,250 The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne. The cumulative amount of the award includes data entry errors. The award amount without clerical errors would be \$13,807,318.			
4) ASAP/ Dell Marketing (7466) To provide software and services for the State's Master licensing agreements for Microsoft, Corel, and IBM/Lotus.	2 - Amendments 4 - Renewals 12 - Extensions Note: The contract only allowed for four renewals, the Division subsequently allowed 12 extensions. The contract should have ended May 31, 2007.	No Amendments 4 - Renewals 12 - Extensions	6/1/2001	6/1/2001	12/31/2011	10/1/2011	Unknown \$ 114,771,308 \$ 8,804,723 Unknown There was no amount detailed in the contract to determine the cumulative amount of the award. The estimated amount of the contract did not appear reasonable compared to the actual usage recorded in EnterpriseOne.			
5) Angela Larson PC (29797) To provide comprehensive case management services for clients in the Every Woman Matters program.	No Amendments 1 - Renewal	No Amendments 1 - Renewal	11/13/2007	11/13/2009	11/12/2012	11/12/2012	\$ 425,825	\$ 425,825	\$ 295,412	\$ 255,495
6) Leigh Petersen Varner (30271) To supply and deliver healthy lifestyle intervention management services.	3 - Amendments 4 - Renewals	No Amendments 4 - Renewals	12/4/2007	6/30/2009	6/29/2012	6/29/2012	\$ 222,500	\$ 202,508	\$ 163,185	\$ 188,160

* The accounting system (EnterpriseOne) was not used by the State until March 2003, therefore, usage in the system reflects the period March 2003 through December 31, 2011.

** This amount includes all increases to the contract from the amendments, renewals, extensions, and Materiel changes.

(Continued)

EnterpriseOne does not agree to Contract File

Estimated Amount does not appear reasonable

Note 1: Information is from EnterpriseOne report "Contracts in Dollar Range"

Note 2: Information is from EnterpriseOne report "Contract Usage"

Note 3: Amendments include changes to contract terms such as price increases which were agreed to by both parties. Changes made unilaterally by Materiel such as quantity increases are not shown as amendments.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION
CONTRACTS TESTED
For the Period July 1, 2009 to December 31, 2011

Exhibit 1

Vendor/Description of Contract Services or Goods Purchased	Number of Amendments, Renewals, or Extensions (Note 3)		Contract Start Date		Contract End Date		Cumulative Amount of Award After All Amendments, Renewals, & Extensions	(Note 1) Estimated Total Amount of Contract Per EnterpriseOne	(Note 2) *Cumulative Usage as of 12/31/11, Per EnterpriseOne	**Overall Cumulative Increase in the Award Per Review of Contract Files
	Per Review of Contract Files	(Note 1) Per EnterpriseOne	Per Review of Contract Files	(Note 1) Per Enterprise One	Per Review of Contract Files	(Note 1) Per Enterprise One				
7) Covendis Technologies (37558) To provide Staffing Vendor Management Services (VMS) and a VMS web application	1 - Renewal & Amendment	1 - Renewal & Amendment	1/26/2009	1/26/2009	1/31/2014	1/31/2014	\$ 78,400,156	\$ 79,965,282	\$ 5,592,582	\$ 38,750,170
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
8) Qwest Corporation (16260) To provide Centrex Business Communications Service	3 - Amendments 1 - Extension 1 - Renewal	No Amendments No Extensions No Renewals	2/1/2006	10/26/2009	6/30/2012	6/30/2012	\$ 10,692,000	\$ 11,420,000	\$ 6,326,632	\$ 5,346,000
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
9) Service Master PBM of Lincoln (11572) To supply custodial services at NE State Capitol	2 - Amendments 3 - Renewals 1 - Extension	No Amendments 4 - Renewals	7/1/2005	7/1/2009	6/30/2012	6/30/2012	\$ 2,083,744	\$ 2,458,428	\$ 1,981,745	\$ 1,204,084
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
10) Burger, Carroll, and Associates, Inc. (46145) To provide Project Management and Planning Services for acquiring a WIC Program Management Information System	-	-	12/6/2010	12/6/2010	10/15/2013	10/15/2013	\$ 792,569	\$ 745,126	\$ 163,981	\$ -
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
Goods Contracts:										
11) Cornhusker International Trucks (12219) To supply and deliver chassis, foot dump bodies, hydraulics, plow hitch and wing.	3 - Amendments 2 - Renewals	No Amendments 2 - Renewals	5/20/2008	5/20/2008	5/19/2011	5/20/2010	\$ 6,851,430	\$ 23,467,268	\$ 10,645,221	\$ 887,370
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			

* The accounting system (EnterpriseOne) was not used by the State until March 2003, therefore, usage in the system reflects the period March 2003 through December 31, 2011.

** This amount includes all increases to the contract from the amendments, renewals, extensions, and Materiel changes.

(Continued)

EnterpriseOne does not agree to Contract File

Estimated Amount does not appear reasonable

Note 1: Information is from EnterpriseOne report "Contracts in Dollar Range"

Note 2: Information is from EnterpriseOne report "Contract Usage"

Note 3: Amendments include changes to contract terms such as price increases which were agreed to by both parties. Changes made unilaterally by Materiel such as quantity increases are not shown as amendments.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION
CONTRACTS TESTED
For the Period July 1, 2009 to December 31, 2011

Exhibit 1

Vendor/Description of Contract Services or Goods Purchased	Number of Amendments, Renewals, or Extensions (Note 3)		Contract Start Date		Contract End Date		Cumulative Amount of Award After All Amendments, Renewals, & Extensions	(Note 1) Estimated Total Amount of Contract Per EnterpriseOne	(Note 2) *Cumulative Usage as of 12/31/11, Per EnterpriseOne	**Overall Cumulative Increase in the Award Per Review of Contract Files
	Per Review of Contract Files	(Note 1) Per EnterpriseOne	Per Review of Contract Files	(Note 1) Per EnterpriseOne	Per Review of Contract Files	(Note 1) Per EnterpriseOne				
12) Knoll North America, Inc (10628) To supply and deliver Westing-house systems furnishings. The contract was established in accordance with Neb. Rev. Stat. §81-153(7), as the prices contained were based upon the Federal GSA.	4 - Amendments 1 - Extension 19 - Renewals	No Amendments No Extensions 19 - Renewals	2/1/1992	10/1/2007	9/30/2012	9/30/2012	Unknown	\$ 27,631,945	\$ 5,548,679	Unknown
							There was no amount detailed in the contract to determine the cumulative amount of the award, as the prices were based on the Federal General Services Administration. However, based upon average usage, over the life of the contract, the estimated amount does not appear reasonable.			
13) Jebro Inc (12431) To supply and deliver liquid asphaltic road oil.	-	-	3/13/2009	3/13/2009	12/31/2009	3/13/2009	\$ 5,169,977	\$ 8,980,083	\$ 2,477,064	\$ -
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
14) Jebro Inc (12465) To supply and deliver liquid asphaltic road oil.	-	-	4/29/2009	4/29/2009	12/31/2009	5/29/2009	\$ 8,872,765	\$ 12,132,979	\$ 6,790,363	\$ -
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
15) Dell Marketing (11204) To supply and deliver computer equipment, software, and services.	1 - Renewal	No Renewals	1/19/2005	1/19/2005	8/31/2009	9/1/2007	Unknown	\$ 821,750,000	\$ 14,063,751	Unknown
							There was no amount detailed in the contract to determine the cumulative amount of the award. The contract was for one million items at \$1 each which is not consistent with prices by items bid. The estimated amount of the contract did not appear reasonable compared to the actual usage recorded in EnterpriseOne.			
16) Omaha Paper Company (12008) To supply and deliver paper products.	14 - Amendments 2 - Renewals 2 - Extensions	No Amendments 2 - Renewals No Extensions	9/1/2007	9/1/2007	11/30/2010	11/1/2010	\$ 3,622,480	\$ 10,878,762	\$ 2,935,140	\$ 1,302,173
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			

* The accounting system (EnterpriseOne) was not used by the State until March 2003, therefore, usage in the system reflects the period March 2003 through December 31, 2011.

** This amount includes all increases to the contract from the amendments, renewals, extensions, and Materiel changes.

(Continued)

EnterpriseOne does not agree to Contract File

Estimated Amount does not appear reasonable

Note 1: Information is from EnterpriseOne report "Contracts in Dollar Range"

Note 2: Information is from EnterpriseOne report "Contract Usage"

Note 3: Amendments include changes to contract terms such as price increases which were agreed to by both parties. Changes made unilaterally by Materiel such as quantity increases are not shown as amendments.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION
CONTRACTS TESTED
For the Period July 1, 2009 to December 31, 2011

Exhibit 1

Vendor/Description of Contract Services or Goods Purchased	Number of Amendments, Renewals, or Extensions (Note 3)		Contract Start Date		Contract End Date		Cumulative Amount of Award After All Amendments, Renewals, & Extensions	(Note 1) Estimated Total Amount of Contract Per EnterpriseOne	(Note 2) *Cumulative Usage as of 12/31/11, Per EnterpriseOne	**Overall Cumulative Increase in the Award Per Review of Contract Files
	Per Review of Contract Files	(Note 1) Per EnterpriseOne	Per Review of Contract Files	(Note 1) Per EnterpriseOne	Per Review of Contract Files	(Note 1) Per EnterpriseOne				
17) Murphy Oil USA, Inc. (12970) To supply & deliver Liquid Asphaltic Material	-	-	4/19/2011	4/19/2011	4/18/2012	4/18/2012	\$ 4,187,344	\$ 4,187,344	\$ 2,831,098	\$ -
18) Osburn Associates, Inc. (12454) To supply & deliver Manufactured Signs	1 - Amendment 2 - Renewals	No Amendments 2 - Renewals	4/23/2009	5/1/2010	4/30/2012	4/30/2012	\$ 2,583,012	\$ 3,620,189	\$ 1,201,209	\$ 1,868,096
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
19) Anderson Ford Lincoln Mercury (12929) To supply & deliver 2 Wheel Drive Crew Cab Chassis, Diesel Engine, Dual Rear Wheels and Dump Body, Minimum 16,000 #GVMR	1 - Renewal	1 - Renewal	12/28/2010	12/28/2010	12/27/2012	12/27/2012	\$ 628,614	\$ 3,666,915	\$ 500,407	\$ 104,769
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
20) WW Grainger, Inc. (13001) To supply industrial supplies	-	-	7/11/2011	7/11/2011	2/28/2014	2/28/2014	\$ 1,550,000	\$ 1,550,000	\$ 292,379	\$ -
21) The Thompson Co, LLC (12250) To supply & deliver frozen food items	11 - Amendments 2 - Renewals	No Amendments 2 - Renewals	9/1/2008	9/1/2008	8/31/2011	9/1/2010	\$ 3,093,000	\$ 3,093,000	\$ 828,413	\$ 2,062,000
22) Oracle USA, Inc. (12216) To supply & deliver Software Licenses and Related Services	3 - Amendments	No Amendments	5/15/2008	5/15/2008	5/1/2013	5/1/2013	\$ 4,000,000	\$ 4,000,000	\$ 2,702,234	\$ 2,700,000
23) Fisher Healthcare (12231) To supply & deliver Drug Testing Materials	1 - Amendment 1 - Renewal	No Amendments 1 - Renewal	6/9/2008	6/9/2008	5/31/2012	5/31/2012	\$ 2,383,783	\$ 5,741,798	\$ 476,347	\$ 1,409,550
							The estimated total amount of the contract did not appear reasonable compared to the awarded amount and the actual usage in EnterpriseOne.			
24) Meyercord Revenue Inc. (12548) To supply & deliver Cigarette Tax Stamps	2 - Amendments 2 - Renewals	No Amendments 2 - Renewals	8/5/2009	8/5/2009	8/31/2012	8/31/2012	\$ 220,786	\$ 328,786	\$ 187,882	\$ 203,252
							Estimated amount did not appear reasonable compared to awarded amount and actual usage in EnterpriseOne.			

* The accounting system (EnterpriseOne) was not used by the State until March 2003, therefore, usage in the system reflects the period March 2003 through December 31, 2011.

** This amount includes all increases to the contract from the amendments, renewals, extensions, and Materiel changes.

(Concluded)

EnterpriseOne does not agree to Contract File

Estimated Amount does not appear reasonable

Note 1: Information is from EnterpriseOne report "Contracts in Dollar Range"

Note 2: Information is from EnterpriseOne report "Contract Usage"

Note 3: Amendments include changes to contract terms such as price increases which were agreed to by both parties. Changes made unilaterally by Materiel such as quantity increases are not shown as amendments.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

Exhibit 2

TOP 25 CONTRACTS USED DURING CALENDAR YEAR 2011 LOCATED AT MATERIEL DIVISION

Contract Vendor Name	Contract Number	Contract Start Date	Contract End Date	Number of Renewals	Contract Description	Estimated Contract Amount	Cumulative Contract Usage as of December 31, 2011	Contract Usage During Year Ended December 31, 2011
Blue Cross Blue Shield of Nebraska	O400035078	1/1/2009	6/30/2012	1	Admin Support/Health Insurance	\$ 25,422,926	\$ 16,394,970	\$ 5,343,303
Ennis Paint Inc.	OC00012718	5/19/2010	6/20/2010		Traffic Paint	8,291,357	4,011,448	3,796,028
Nebraska Salt and Grain Co.	OC00012235	6/1/2011	5/31/2012	1	Road Salt	34,103,404	11,399,894	3,705,282
Calumet Superior LLC	OC00012970	4/19/2011	4/18/2012		Liquid Asphaltic Road Materials	4,187,344	2,831,098	2,831,098
Magellan Health QIO LLC	O400033525	7/1/2010	6/30/2012	1	Medicaid Operations and Support	15,386,797	7,775,497	2,649,377
Office Depot Business Services	O400035474	9/1/2011	8/31/2012	1	Office Supplies	14,550,000	8,145,752	2,535,815
Cardinal Health Pharmaceuticals Distribution	OC00012651	12/31/2009	10/31/2013	1	Pharmaceutical Services and Nutritionals	40,000,000	2,700,615	2,504,768
Cornhuskers International Trucks Inc.	OC00012704	6/7/2011	6/6/2012	1	Tandem Axle Chassis	5,600,185	5,713,851	2,466,503
Blue Cross Blue Shield of Nebraska	O400037743	1/1/2009	6/30/2012	1	Stop Loss Premiums	8,546,278	6,427,053	2,283,283
Health Fitness Corporation	O400038349	4/1/2009	6/30/2014		Employee Wellness Options	16,802,853	5,309,121	2,230,701
Dell Marketing	OC00012551	9/3/2009	8/31/2012		Dell PCs	110,220,721	5,044,839	2,210,656
Covendis Technologies	O400037558	1/26/2009	1/31/2014	1	Staffing Vendor Management Services	79,965,282	5,592,582	2,087,521
Sid Dillon Ford Lincoln Mercury	OC00012850	11/19/2010	11/19/2010		Rear Wheel Drive Police Sedan	6,436,990	2,063,512	2,063,512
Modern Methods	O400020257	9/1/2009	9/1/2010	2	Copiers and Maintenance	90,586,434	9,057,837	1,802,081
Boys Town	O400041334	11/20/2009	6/30/2013	1	Child Behavioral Health Services	6,664,199	3,537,232	1,683,798
Verizon Wireless	O400028524	10/1/2007	9/30/2012	2	Wireless Voice and Data Service	14,080,000	8,302,140	1,676,525
Mountain States Materials	OC00012971	4/19/2011	4/18/2012		Liquid Asphaltic Road Materials	2,823,435	1,640,335	1,640,335
F. A. Richard & Associates, Inc.	O400036387	10/1/2008	6/30/2013		Workers Comp TPA	10,524,774	3,789,110	1,582,076
Memex Inc.	O400042186	5/1/2010	4/30/2012		Security Software	3,953,912	2,791,412	1,450,000
Magellan Medicaid Administration	O400029807	1/23/2008	12/31/2016	1	Point of Sale System	27,394,662	4,526,736	1,388,523
Cornerstone OnDemand	O400041038	10/6/2009	10/5/2014		Talent Management Solutions	5,367,820	1,993,125	1,287,625
Blackstrap Inc.	OC00012236	6/1/2011	5/31/2012	1	Road Salt	23,525,408	4,316,626	1,269,210
Qualis Health	O400027625	11/1/2007	10/31/2013	1	Utilrev/QC-HH/PrivDuty Nurses	8,502,704	3,053,413	1,176,271
League of Human Dignity, Inc.	O400041829	4/1/2010	3/31/2013		Per Client/Per Month Cost	8,721,445	1,915,087	1,146,271
United Healthcare of the Midlands	O400042418	4/2/2010	6/30/2013		Managed Care Organization	<u>338,143,000</u>	<u>1,165,503</u>	<u>1,141,262</u>
						\$ 909,801,930	\$ 129,498,788	\$ 53,951,824

Source: EnterpriseOne, the State's accounting system. Only includes contracts with the Document Location listed on EnterpriseOne as Materiel, State Purchasing.

Note: Per State Statute 73-507 certain contracts are exempted from statutes 73-504 competitive bidding requirements, 73-508 preapproval, and 73-509 pre-process, such as Department of Roads contracts for road and bridge projects, Nebraska Investment Council contracts, contracts with direct providers of medical services and sole source contracts.

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

Exhibit 3

MATERIEL DIVISION

PURCHASING ASSESSMENTS

Fiscal Year Ended June 30, 2011

Agency Name	Materiel Division Assessments	APA Recalculated Assessments	Over/(Under) Assessments
Department of Roads	\$ 203,768	\$ 243,982	\$ (40,214)
Department of Correctional Services	73,495	85,477	(11,982)
Department of Administrative Services	65,780	77,201	(11,421)
Supreme Court	11,657	19,015	(7,358)
Nebraska State Patrol	13,154	17,674	(4,520)
Department of Education	17,517	21,241	(3,724)
Game and Parks Commission	25,437	28,220	(2,783)
Department of Labor	4,752	6,423	(1,671)
Nebraska Educational Telecommunications	4,040	5,411	(1,371)
Legislative Council	1,399	2,629	(1,230)
State Treasurer	1,946	3,079	(1,133)
Nebraska Dairy Industry Development Board	68	1,129	(1,061)
Nebraska Public Employees Retirement Board	3,531	4,414	(883)
Department of Agriculture	4,057	4,907	(850)
Department of Motor Vehicles	4,653	5,471	(818)
Department of Insurance	2,867	3,652	(785)
Board of Educational Lands and Funds	1,348	2,079	(731)
Attorney General	1,884	2,529	(645)
Secretary of State	2,727	3,219	(492)
State Historical Society	1,232	1,701	(469)
Department of Banking	630	1,025	(395)
State Fire Marshal	628	995	(367)
Nebraska Commission on Law Enforcement	8,637	8,989	(352)
Nebraska Brand Committee	291	565	(274)
Workers Compensation Court	608	852	(244)
Auditor of Public Accounts	299	540	(241)
Corn Development Marketing Board	2,929	3,167	(238)
Commission for the Blind and Visually Impaired	573	782	(209)
Equal Opportunity Commission	182	318	(136)
Nebraska Investment Council	1,034	1,148	(114)
Governor	160	271	(111)
Foster Care Review Board	146	250	(104)
Nebraska Electrical Board	100	197	(97)
Nebraska Library Commission	442	527	(85)
Nebraska Wheat Board	850	919	(69)
Real Estate Commission	221	288	(67)
Liquor Control Commission	93	156	(63)
Department of Veterans Affairs	279	341	(62)
Commission for the Deaf and Hard of Hearing	118	172	(54)
Tax Equalization and Review	71	125	(54)

(Continued)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES

Exhibit 3

MATERIEL DIVISION

PURCHASING ASSESSMENTS

Fiscal Year Ended June 30, 2011

Agency Name	Materiel Division Assessments	APA Recalculated Assessments	Over/(Under) Assessments
Board of Pardons	50	99	(49)
Nebraska Oil and Gas Conservation Commission	87	130	(43)
Engineers & Architects, Board of	134	177	(43)
Motor Vehicle Industry Licensing Board	65	107	(42)
State Racing Commission	174	212	(38)
Nebraska Accountability and Disclosure Commission	50	82	(32)
Nebraska Ethanol Board	46	76	(30)
Department of Natural Resources	4,682	4,710	(28)
Board of Public Accountancy	75	102	(27)
Commission of Industrial Relations	35	56	(21)
Power Review Board	41	60	(19)
Real Estate Appraiser Board	98	115	(17)
Dry Bean Commission	180	197	(17)
Mexican/American Commission	26	39	(13)
Commission on Indian Affairs	20	33	(13)
Lieutenant Governor	9	18	(9)
Grain Sorghum Board	50	59	(9)
Board of Barber Examiners	18	21	(3)
Board of Examiners-Abstractors	5	8	(3)
Board of Geologists	20	22	(2)
Board of Land Surveyors	8	10	(2)
Landscape Architects	11	12	(1)
Nebraska Arts Council	159	138	21
Commission on Public Advocacy	261	198	63
Department of Environmental Quality	13,652	13,559	93
Military Department	9,881	9,630	251
Nebraska Energy Office	709	272	437
Department of Aeronautics	1,472	982	490
Post Secondary Education Commission	869	265	604
Department of Economic Development	3,403	2,245	1,158
Public Service Commission	4,508	1,894	2,614
Department of Revenue	13,908	5,938	7,970
Department of Health and Human Services	280,911	196,676	84,235
	\$ 799,220 *	\$ 799,222 *	\$ (2) *

Note: APA Recalculated Assessment did not include aid in total payments and corrected errors by Materiel.

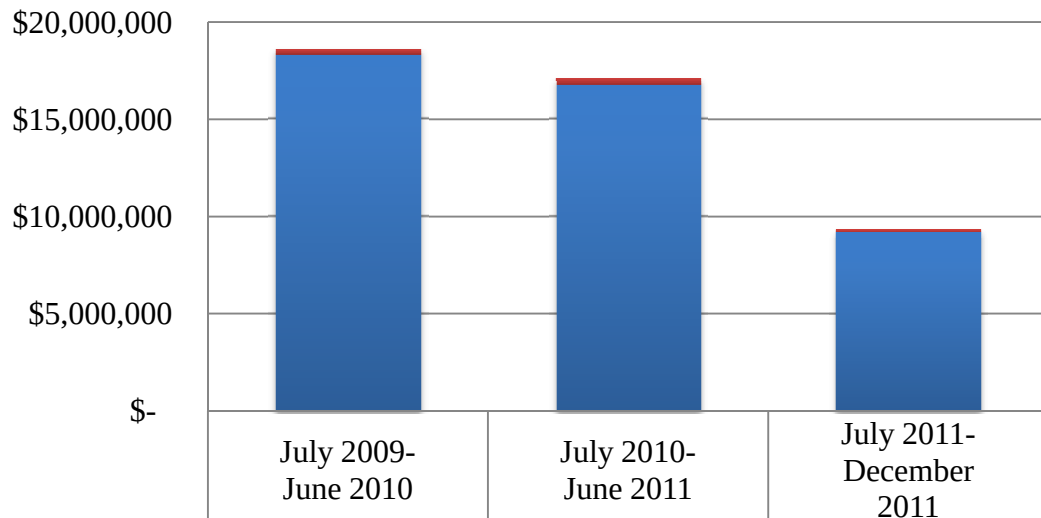
*The assessment was determined to be \$799,224, divided amongst all agencies. The differences in the totals are due to rounding. The assessment is the same for fiscal year 2011 and fiscal year 2012.

(Concluded)

NEBRASKA DEPARTMENT OF ADMINISTRATIVE SERVICES
MATERIEL DIVISION

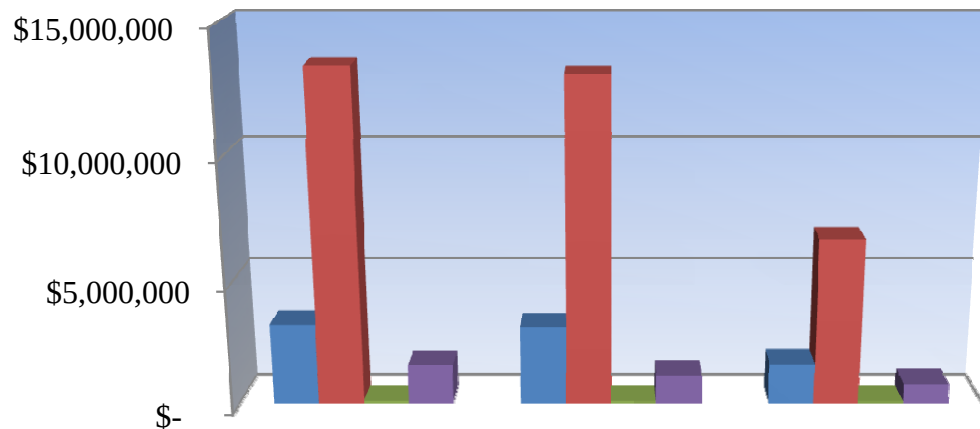
Exhibit 4

Revenues Fiscal Year 2010, 2011, and 1st Half 2012



Miscellaneous	\$310,963	\$369,976	\$191,583
Sales & Charges	\$18,303,730	\$16,755,567	\$9,157,901

Expenditures Fiscal Year 2010, 2011, and 1st Half 2012



	July 2009-June 2010	July 2010-June 2011	July 2011-December 2011
Personal Services	\$3,221,665	\$3,089,671	\$1,561,809
Operating Expenses	\$13,400,238	\$13,066,466	\$6,666,843
Travel	\$15,162	\$11,778	\$6,982
Capital Outlay	\$1,509,899	\$1,085,291	\$729,302