

**DOUGLAS COUNTY INTERNAL AUDIT DIVISION**

**DOT.Comm  
Contracts and Proposals**

**Audit of  
2006/2007 – 03A**

DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

Victor Stannish, CIO  
DOT.Comm  
408 S 18<sup>th</sup> Street  
Omaha, NE 68102  
May 8, 2007

Mr. Victor Stannish  
DOT.Comm CIO

We have audited the DOT.Comm contracts and proposals processes, the internal policies and procedures governing contract implementation, and contract compliance with Douglas County departments and offices. The period of the audit was July 2005 through April 2007. The audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing (IIA); except Standards 1310-1 through 1312-2.

The audit included examining, on a test basis, evidence supporting the contract and proposal processes and other procedures we considered necessary to support findings and recommendations.

The purpose of this report is to describe the results of our testing, including internal controls and compliance, and not to provide an opinion on the internal controls or compliance.

This report is intended solely for the information and use of the Department. However, this report is a matter of public record and its distribution is not limited.

Ms. Carmen Harmon  
Internal Audit Supervisor

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### **Audit Scope and Objective**

The audit will be coordinated with Vic Stannish, CIO DOT.Comm, and selected management personnel. The scope of the audit includes testing the design and operating effectiveness of internal controls relating to contract transactions and overall contract compliance with Douglas County departments and offices. The scope of the audit will include the following policies and procedures from the DOT.Comm policy and procedure manual:

- Office policies and procedures regarding system security
- Office policies and procedures regarding physical security
- Office policy regarding code of conduct
- List of all contracts between July 2005 – present

### **Audit Objectives**

- 1) Gain an understanding of the contract process flow by reviewing current contracts, policies, procedures, and flowcharts.
- 2) Obtain a sufficient understanding of the internal control environment and overall accounting controls (including both manual and computerized activities) at DOT.Comm.
- 3) Determine if DOT.Comm is in compliance with contracts with Douglas County Departments and Offices.
- 4) Determine if Douglas County funds are safeguarded against fraud and theft by establishing and maintaining an adequate internal control structure.
- 5) Summarize findings and recommendations

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### Executive Summary:

As it was stated in the audit scope and objective, DCIAD performed this audit to test the design and operating effectiveness of internal controls relating to contract transactions and overall contract compliance with Douglas County departments and offices. DCIAD found several internal control weaknesses during our audit and deficiencies in the contract (proposal) processes. Some of the deficiencies management was aware of and discussed with DCIAD during the interviews. There are other internal control weaknesses that are pointed out in this report that should be addressed by management and the Board of Directors.

### Significant Findings:

**Finding #1:** All contracts are not kept in one central location. The database to keep track of all contract proposals is not completely updated.

**Finding #2:** The policies and procedures manuals are not in a centralized location.

**Finding #3:** The Audit and Finance Committee is made up of a majority City of Omaha and Douglas County members. Three (3) of the five (5) DOT.Comm members are in senior management positions within DOT.Comm.

**Finding #4:** The financial condition of DOT.Comm is precarious. With the current financial condition, DOT.Comm's ability to financially comply with contract requirements is questionable.

**Finding #5:** DOT.Comm does not utilize benchmarks for financial or performance measures.

- Customer survey
- Performance standards (deliverables) not always stated in proposals
- Change orders for extensions
- Track number of projects performed for each agency (City/County)
- Track resource hours for each agency

**Finding #6:** Contract proposals for professional services have omitted pertinent information.

**Finding #7:** DOT.Comm is inconsistent regarding contract compliance for base services; perform offsite backup and recovery procedures, and administer authorized users (add/remove/modify).

**Finding #8:** DOT.Comm's insurance coverage is not adequate to cover all the computer equipment in all the Douglas County departments.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### **History:**

On January 15, 2002, the Douglas County Board adopted a resolution number R2002-049 entering into an Interlocal Agreement (in conjunction with the City of Omaha) to jointly develop an information technology service commission, to be known as “DOT.Comm”, for the purpose of providing information services for local government offices, officials and the public. These services include but are not limited to, voice, video, image, and data communications services. DOT.Comm may enter into contracts of any amount, including, without limitation, contracts related to equipment and facility upkeep and maintenance; equipment and software procurement and maintenance; contracts for services determined appropriate for outsourcing to private consultants and/or other entities; and any, and all, other costs directly related to the provision of information technology services required by the clients of DOT.Comm. DOT.Comm may provide information technology services to local government entities other than the City of Omaha and Douglas County which request and contract for the services of DOT.Comm.<sup>1</sup>

On June 18, 2002, the Douglas County Board adopted resolution number R2002-523, guaranteeing a Letter of Credit Agreement (LOC) of \$550,000.00 between DOT.Comm and First National Bank (an additional \$550,000.00 was guaranteed by the City of Omaha) for services provided to the City of Omaha and Douglas County, for working capital, and start-up costs source of financing.

On January 2, 2003, DOT.Comm officially commenced its operations through employees coming from various departments of the City and County governments who are subject to rules and provisions as set out in the Interlocal Agreement and further promulgated by DOT.Comm during the interim phase and as thereafter amended. According to the Interlocal Agreement, DOT.Comm has the authority to hire employees it deems necessary to provide essential information technology services to the City and County. The employees, who were absorbed into DOT.Comm at the start of operations, were labeled as “loaned employees”. During the first five years of this “loaned employee” arrangement, these City and County employees shall not have their jobs eliminated except pursuant to the layoff provisions and rules of the City or the County and they may opt to leave City or County employment and become a DOT.Comm employee. After the expiration of five years, it is understood that DOT.Comm will hire all its employees directly, and the above-referenced “loaned employees” shall, if not offered and accepted employment by DOT.Comm, be subject to the layoff provisions of their respective employers.<sup>2</sup> As of year-ending 2006, DOT.Comm had ten (10) Douglas County “loaned employees”.

According to the DOT.Comm By-Laws, five (5) committees were established to provide oversight and guidance to the management team of DOT.Comm. The Client Advisory Committee, a.k.a. User Committee<sup>3</sup>, provides quarterly input and feedback on client services to the CIO, semiannually to the Nominating & Corporate Governance Committee, and annually to the Board of Directors, related to enterprise-wide related technology issues and priorities.

---

<sup>1</sup> By-Laws Board of Directors of Douglas-Omaha Technology (DOT.Comm)

<sup>2</sup> DOT.Comm Inter-Local Agreement, 12/11/01

<sup>3</sup> The Client Advisory Committee is labeled as such in the DOT.Comm by-laws. The User Committee is labeled as such in the Interlocal Agreement.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

Furthermore, DOT.Comm management shall annually share technology and financial plans with the Committee.

The Finance & Audit Committee provides oversight to management and ensures that DOT.Comm senior management reports monthly to the Board of Directors on the status of financial affairs of DOT.Comm. The Finance & Audit Committee shall also ensure that the annual financial report, audit activities, and other factors that can impact financial statements, internal controls, and business ethics occur as required.

The Human Resources & Compensation Committee provides oversight and guidance in establishment of human resource policy, employment practices and arbitration issues, review of survey data to establish equitable pay practices, salary levels, benefits that will attract, retain, and motivate personnel as is reasonable in view of corporate economics and the related practices of comparable organizations.

The Nominating & Corporate Governance Committee provides oversight and guidance to DOT.Comm senior management and the Board of Directors for recommendations to exceed client service expectations as identified by the User Committee. The Nominating & Corporate Governance Committee oversees CIO succession and succession planning for other senior management positions of DOT.Comm, and overseeing board member orientation and training.

The Technology & Planning Committee will review and monitor dynamically changing three-year and annual technology plans. The Technology & Planning Committee will provide guidance and technology direction that will achieve strategic performance goals of the corporation in accordance with three-year financial plans and the annual budget. It is the responsibility of the CIO to develop a three-year and annual technology plans to support the client's business needs for information technology services, and to ensure the appropriate information technology infrastructure is positioned to deliver these services.<sup>4</sup>

### **Background:**

DOT.Comm receives their primary revenue source from the City of Omaha and Douglas County general funds for base services. Revenue is also received from individual city and county departments for the purchase of computer equipment (hardware and software), professional programming services, and pass through funds for Oracle hosting and maintenance contracts. Base services includes service desk support, normal technology equipment maintenance and repairs, normal software maintenance and repair, network and communications maintenance and repairs, and all other Information Technology services which can be provided without DOT.Comm incurring additional expenses.<sup>5</sup> DOT.Comm's revenue stream is directly tied to the budget funding from the City of Omaha and Douglas County. Each individual County department requesting additional professional services or purchasing necessary maintenance contracts outside of the definition of base services will need to request funding dollars in their annual departmental budgets. The following graph on page 7 depicts DOT.Comm's revenue

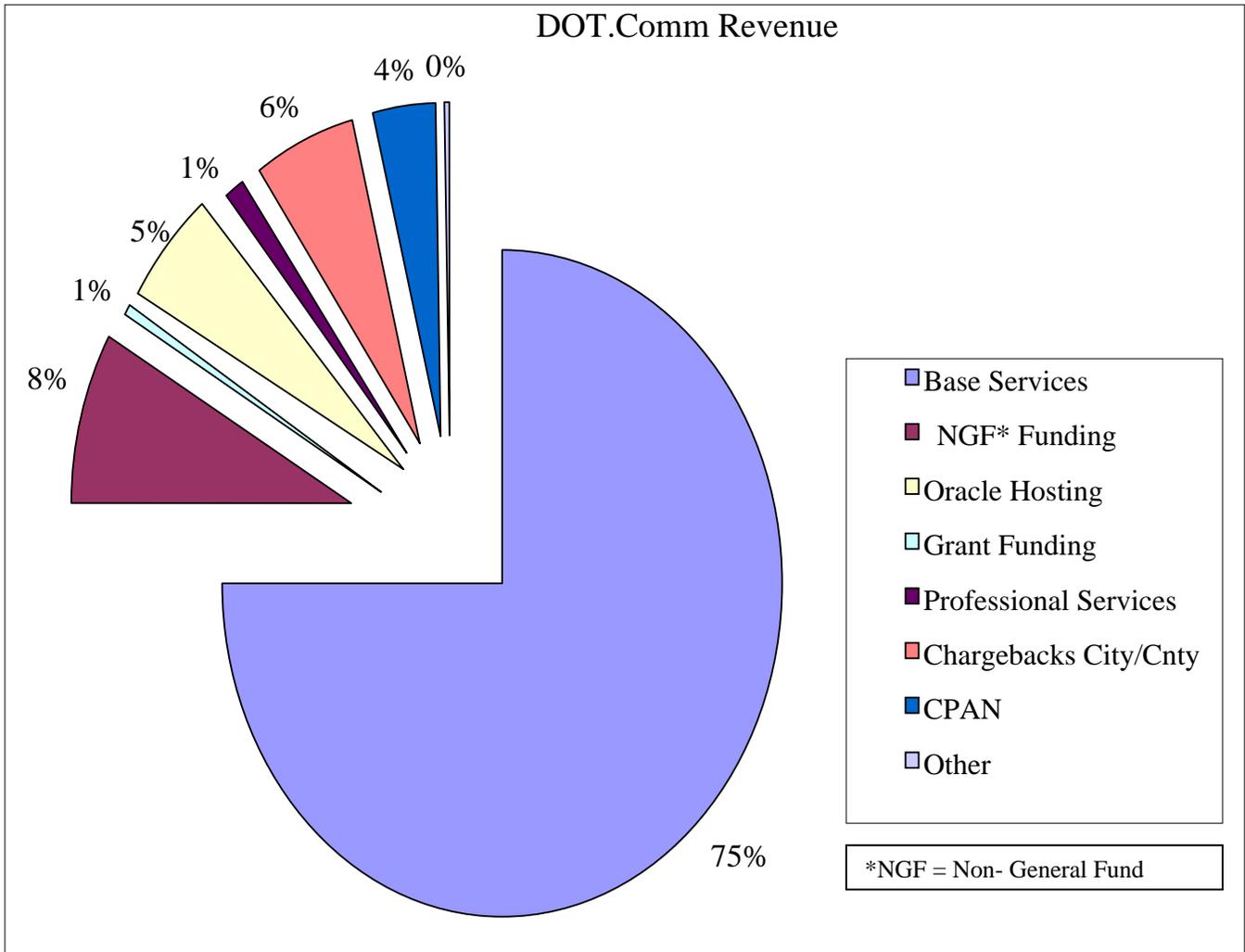
---

<sup>4</sup> Ibid

<sup>5</sup> Letter from Vic Stannish, CIO, and dated April 3, 2007: Budget Preparation/What should you budget for and what is covered in Base Services.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

stream from each account. Total revenue DOT.Comm reported on the 2006 unaudited financial statements was \$11,861,597. Douglas County funds contributed approximately fifty-six percent (56%) of DOT.Comm's annual revenue. Based upon the BY2006 Base Services proposals for the City of Omaha and Douglas County, Douglas County utilizes between forty (40) and fifty-two percent (51.6%) of the DOT.Comm inventory resources. Lack of adequate funding directly related to the revenue stream of base services, in addition to the lack of funding for individual department requests, would have a severe negative financial impact on DOT.Comm.



### Contracts, Proposals, and Chargeback

In addition to base services, (service and maintenance contracts), DOT.Comm provides professional services, (project proposals and chargeback services) to the City of Omaha and Douglas County Departments. Service and maintenance contracts are for computer software licenses, software and hardware maintenance agreements, and data transmission circuits. Each

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

City and County department reimburses DOT.Comm for the dollar amount of the chargeback services and project proposals. Project (contract) proposals encompass services to City and County departments for developing and designing new computer platforms, and operations related services which support existing technology platforms. Project proposals are performed based upon DOT.Comm's available resources (personnel and time). Proposal bids are calculated based upon estimated labor hours to complete, materials costs, and any needed outside contractor costs. DOT.Comm is currently not using any benchmarks or costing matrixes to perform consistent bid proposals. Chargeback contracts are quotations or services required to purchase and install hardware, software, and peripherals. Chargebacks are only performed when the request is very specific and require minimal resource hours.

**Finding #1: All contracts (proposals) are not kept in one central location. The database to keep track of all contract proposals is not completely updated.**

Dot.Comm does not keep all their contracts centrally located. Maintenance and vendor contracts are kept with the Accounting Manager, project (contract) proposals with City and County departments are kept with the client manager assigned to the proposal. An excel spreadsheet was being used and has been converted over to an access database to keep track of all the contract proposals. Each client manager is required to input the necessary data and updated information on each contract proposal into the database. At the time of this audit, DOT.Comm was in the early stages of converting the excel data over to the access database. A portion of the contract proposals have been completely added to the database. The Director of Client Services stated that their goal was to have all the active projects entered into the database, followed up with updating the files. Not all contract proposals are adequately listed, documented, and tracked for progress or status reports.

To have an accurate account of all active and prospective proposals, DOT.Comm should completely enter all required information at inception in their access database that tracks contract proposals. The inability to accurately account for all active and prospective proposals, results in difficulty for DOT.Comm to efficiently and effectively allocate resources for time sensitive projects. Once a contract is approved and signed by the City or County department, the original contract should be placed in a central location. Any documents that need to be supplied to the client managers should be copies of the original contract proposals. The original contract document should always be accessible to the Director of Client Services and the CIO. These individuals report to the respective committees regarding client advisory and finance. If the contracts are kept with the client managers and not in a central location, like the Accounting Manager's office, there would be a likelihood of unaccountable projects and resources, lost and/or misplaced contracts.

**Recommendation:** All signed contracts and proposals should be kept in a central location preferably in the Accounting Manager's office. The Access database tracking of the contract proposals for City and County departments should be completely updated as soon as possible.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### **Management Response Finding #1:**

DOT.Comm concurs. Over the past several years, DOT.Comm has made significant efforts to create and obtain signed proposals for customer requested project work to be completed (this includes base services and professional services). DOT.Comm is in the process of organizing all signed contracts (vendor) and proposals (customer) in a central location. The database as it is further developed will be completely updated with all pertinent information. All signed contracts and proposals will be physically stored in a central location within the Accounting Department of DOT.Comm.

#### **Action:**

DOT.Comm will complete the database and have all vendor contract information available for reporting.

#### **Timeframe:**

August 2007

#### **Action:**

DOT.Comm will complete the database and have all customer proposal information available for reporting.

#### **Timeframe:**

October 2007

#### **Action:**

DOT.Comm will complete the collection of signed paper contracts and proposals and file them in the Accounting Department.

#### **Timeframe:**

August 2007

### **Finding #2: The policies and procedures manuals are not in a centralized location.**

DOT.Comm does not keep their policies and procedures manual in a centralized location. When DCIAD requested copies of the policies and procedures for the accounting systems and security systems, these documents were retrieved from different locations. A comprehensive manual of all signed and Board approved DOT.Comm policies and procedures in their entirety that are issued should be placed in specified locations throughout the facility. The Human Resource department should definitely have a comprehensive manual of all the policies and procedures on file in paper and electronic form.

**Recommendation:** DOT.Comm should establish a comprehensive manual of all policies and procedures in their entirety. This manual should be distributed to every department and accessible by all employees. An electronic comprehensive manual should also be available to all employees by placing the file on an employee access drive.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### **Management Response Finding #2:**

DOT.Comm concurs that a centralized location for policies and procedures is necessary. A centralized location will enable consistent communication to our employees and they will have a common location for reference. As DOT.Comm grows and matures, policies and procedures need to be created and/or updated. DOT.Comm is currently utilizing its intranet website as a centralized electronic location for policies and procedures. DOT.Comm has policies and procedures organized by the internal department (Client Services, Finance, Human Resources and Operations) that is responsible for the policy and procedure. As policies are created, updated and approved, they will be published on the website.

#### **Action:**

DOT.Comm will continue to create and update policies and procedures in all areas. As the policies and procedures are approved, they will be posted and all employees will be notified.

#### **Timeframe:**

On-going process.

### **Finding #3: The Audit and Finance Committee consists of a majority City of Omaha and Douglas County members. Three (3) of the five (5) DOT.Comm members are in senior management positions within DOT.Comm.**

The DOT.Comm bylaws in section 7.2.1 establish the Audit and Finance Committee to provide oversight and to ensure that DOT.Comm senior management reports monthly to the Board on the status of financial affairs of DOT.Comm.<sup>6</sup> Currently there are ten (10) active members on the Audit and Finance Committee.

There is only one (1) member on the committee that is not affiliated with the City of Omaha and Douglas County; however this member is affiliated with the DOT.Comm Board of Directors. If the purpose of the committee is to provide oversight to the senior management of DOT.Comm, it negates the fact that sixty percent (60%) of the management positions of DOT.Comm, and a total of ninety percent (90%) of the Audit and Finance Committee members, are affiliated with either the City of Omaha, or Douglas County. This committee structure allows management to provide oversight to themselves.

In the DOT.Comm organization the Audit and Finance Committee serves a dual function. In private and public sector organizations, the role of management is primarily responsible for financial reporting, including the adequacy of internal control over the financial reporting processes. Similarly, it is a core responsibility of any audit committee to exercise oversight over management. Therefore, the governing body is ultimately responsible for ensuring that management is, in fact, meeting its internal control and financial reporting responsibilities.<sup>7</sup>

---

<sup>6</sup> By-Laws Board of Directors of Douglas-Omaha Technology (DOT.Comm)

<sup>7</sup> A New Vision for Public Sector Audit Committees, Stephen J. Gauthier, April 2007

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

The Government Financial Officers Association (GFOA) recommends state and local governments draw all their members of the audit committee from the governing body. If a member of the governing body also happens to exercise managerial responsibilities that fall within the scope of the financial statement audit, that individual should not serve on the audit committee.<sup>8</sup>

The audit committee should not be too large that members could attend without participating. The audit committee can be established with as few as three (3) members. The responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls, and independent auditors.<sup>9</sup>

The current structure of the Audit and Finance Committee as established by the by-laws is adequate for reviewing the internal finances of DOT.Comm. The Finance Committee should be comprised of individuals independent of the DOT.Comm organization. However, dividing the Audit and Finance Committees into two separate committees will ensure an independent external review of all DOT.Comm functions. An independent audit committee allows an avenue for auditors to have a direct communication apart from management.

**Recommendation:** The DOT.Comm by-laws should to be amended to divide the Audit and Finance Committee into two (2) separate committees. The by-laws should be documented and formally approved, to clearly state the total number of members; who should be members, and what affiliation they will have to DOT.Comm for the Audit Committee.

To avoid the appearance of questionable objectivity, the majority of the Finance Committee members should be independent of the DOT.Comm organization, Douglas County, or the City of Omaha. It is important to consider members that have relevant expertise, including audit, finance, and technology. DOT.Comm management should not be members of the committee which provides oversight on the status of their financial affairs.

### **Management Response Finding #3:**

The Finance and Audit Committee is a committee created and governed by the DOT.Comm By-Laws (most recently amended in July 2006). Below is the section of the By-Laws that govern the Finance and Audit Committee.

*Section 7.2.1. Finance & Audit Committee. This Committee will provide oversight and ensure that DOTComm senior management reports monthly to the Board on the status of financial affairs of DOTComm. This includes reviewing and reporting on dynamically changing three-year financial plans, and reviewing and recommending an annual budget to the full Board for approval. The Committee shall ensure that the annual financial report, audit activities, and other factors that can impact financial statements, internal controls, and business ethics occur as required. The Committee shall provide interim expenditure authorizations as necessary to maintain operations and conduct business in a timely manner. The CIO is authorized to approve expenditures and contracts of up to \$50,000. He will report expenditures to the Finance & Audit Committee at their regular meetings. The Finance & Audit Committee Chairperson and CIO are*

---

<sup>8</sup> Ibid

<sup>9</sup> SEC Regulation 330-8220, "Background and Overview"

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

*authorized to approve expenditures and contracts over \$50,000 and up to \$250,000. The Committee shall report quarterly to the full Board and perform an annual performance evaluation of the committee. This Committee will be chaired by the Chairperson of the Douglas County Board of Commissioners, or his/her designee.*

### **Action:**

DOT.Comm management will forward the finding to the Finance and Audit Committee and the full DOT.Comm Board for further consideration.

### **Timeframe:**

July 2007 – the next Board Meeting

**Auditor's Response:** DCIAD is aware the DOT.Comm by-laws outline the responsibilities of the Finance and Audit Committee. The recommendation that DCIAD is addressing is amending the by-laws to separate the Audit Committee from the Finance Committee.

**Finding #4: The financial condition of DOT.Comm is precarious. With the current financial condition, DOT.Comm's ability to financially comply with contract requirements is questionable.**

DOT.Comm's revenue is entirely derived from either the City of Omaha or Douglas County budgets. There are two (2) primary revenue sources for DOT.Comm, base services (75%) and professional services (13%). Douglas County contributes roughly fifty-six percent (56%) of DOT.Comm's base services budget and roughly forty-nine percent (49%) of their professional services budget. Revenue received for professional services is generated by project (contract) proposals, chargebacks, and Oracle hosting.

The base services funds received from Douglas County is derived from the original model that was established at the time of the inter-local agreement. The model was based upon how many computer programs were utilized in Douglas County and supported by DOT.Comm and the number of resources that were used within each department. This dollar amount is adjusted annually based upon the cost-of-living increase. In the 2006 base services contract between Douglas County and DOT.Comm, Douglas County utilizes between forty (40) and fifty-two percent ( 51.6 %) of DOT.Comm's resources (45.2% PC-computers, 46.9% business units, 45% devices, 40% log-ins, 40% applications hosting, 51.6% phones).<sup>10</sup> This model is outdated and should be revised. The funding model does not support the current state of DOT.Comm or take into account the percentage of base services that are provided to Douglas County, as well as a current or updated inventory of all the equipment and resources DOT.Comm offers the County.

Even though DOT.Comm is setup as a non-profit corporation, the following information illustrates using basic business ratios, the current financial position of DOT.Comm. The current ratio, the absolute liquidity ratio, and the basic interval ratio are ratios that determine the liquidity of the organization and its ability to meet current short-term obligations as they become due. The following table shows the percentages for the different liquidity ratios. The current

---

<sup>10</sup> These percentages do not include the annexation of Elkhorn in 2007.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

ratio determines the organization's ability to cover their current liabilities. During calendar year 2006, DOT.Comm's current assets had the ability to cover fifty-three percent (53%) of their current liabilities. Over the last three years, the current ratio has dropped twenty-three percent (23%) from seventy-six percent (76%) to fifty-three percent (53%). Anything below one hundred percent (100%) would indicate poor liquidity. Anything over two hundred percent (200%) indicates that the organization is not investing excess assets. A current ratio between one hundred twenty percent (120%) and two hundred percent (200%) would be classified as sufficient current assets to cover current liabilities.

The absolute liquidity ratio tests the short term liquidity in terms of cash and marketable securities. This ratio eliminates the accounts receivable balance due to the time needed to convert accounts receivable into cash. DOT.Comm currently does not have marketable securities listed on their statement of net assets; therefore, the calculation of the absolute liquidity ratio is using only cash. The absolute liquidity ratio indicates that DOT.Comm has enough cash to cover seven percent (7%) of their current liabilities. Over the last three years, the absolute liquidity ratio has dropped twenty-two percent (22%) from twenty-nine percent (29%) to seven percent (7%). The absolute liquidity ratio should be at least one hundred percent (100%);<sup>11</sup> this would indicate that DOT.Comm had enough cash to pay their current liabilities as they came due

<b>Liquidity Ratios</b>	<b>2006 (unaudited)</b>	<b>2005</b>	<b>2004</b>
Current Ratio	0.53	0.54	0.76
Absolute Liquidity Ratio	0.07	0.19	0.29
Basic Defense Interval	16.79 days	22.88 days	54.08 days

The basic defense interval ratio measures the time span an organization can operate with present liquid assets without additional financing. The basic defense interval indicates that DOT.Comm has less than seventeen (17) days of liquid assets to operate without requiring additional financing. This ratio has dropped thirty-seven (37) days over the last three years from fifty-four (54) days to roughly seventeen (17) days. The general standard for the basic defense interval would be the greater number of days an organization can operate without additional financing, the better.

The net operating profit ratio measures the effectiveness of management regarding the returns generated on revenue. A high or increasing operating profit ratio would be a positive sign, showing that DOT.Comm is increasingly able to generate sales from its operations. One profitability ratio is the management rate of return which determines whether an organization and/or management are utilizing their assets efficiently to generate revenue. Over the last three years, the management rate of return has decreased 3.08% from 3.28% to 0.20%.

During this audit process, DCIAD tested the design and operating effectiveness of internal controls relating to contract transactions and overall contract compliance with Douglas County departments and offices. A random sample of vendor maintenance contracts, project (contract) proposals and chargebacks between City and County departments were gathered. During the testing phase of the audit, to determine overall contract compliance, DCIAD determined that

<sup>11</sup> [http://www.spireframe.com/docs/financial\\_ratios.aspx](http://www.spireframe.com/docs/financial_ratios.aspx)

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

there are deficiencies in the language and structure of the contracts. The scope of the audit was not designed to determine whether these deficiencies were caused by management. The management rate of return ratio does indicate that DOT.Comm is not efficiently utilizing their assets to generate revenue.

	<b>2006 (unaudited)</b>	<b>2005</b>	<b>2004</b>
Management Rate of Return	0.20	1.66	3.28

The current debt and funded debt (long-term liabilities) to net worth ratios measure the proportion of funds that creditors contribute to the organization. These ratios show that DOT.Comm has a negative net worth (assets minus liabilities). Over the last three years the current debt to net worth ratio has increased 10.57%, due to a consecutive decrease in current liabilities. The current debt to net worth ratio indicates that DOT.Comm's creditors, which primarily are the City of Omaha and Douglas County, are allowing DOT.Comm's payables to accrue. DOT.Comm is using accrued payables for operating expenses. DOT.Comm's current liabilities are \$1,715,556 as of December 31, 2006; eighty-eight percent (88%) of this total is owed to the City of Omaha and Douglas County. The funded debt to net worth ratio has increased consecutively over the last three years due to the payoff of a capital lease. As of December 31, 2006, the statement of net assets did not list any long term liabilities.

One of the most significant reasons for failure of an organization is the lack of adequate working capital, which makes it difficult to adjust to sudden or unexpected economic changes. An acceptable level of current debt and funded debt would depend upon the organization and the industry it was in. Considering DOT.Comm is a non-profit corporation and their debt is funded by the City of Omaha and Douglas County, these ratios should be comparable to them. The funded debt to net working capital for the City of Omaha and Douglas County is roughly one hundred fifty three percent (153%) and fifty-seven percent (57%), respectively.<sup>12</sup>

	<b>2006 (unaudited)</b>	<b>2005</b>	<b>2004</b>
Current Debt to Net Worth	-4.87	-5.85	-15.44
Funded debt to Net Working Capital	0.	-0.03	-0.1

These financial ratios indicate the current financial stability of DOT.Comm is precarious. In the event the City of Omaha or Douglas County is unable to sustain the current level of funding for DOT.Comm, the financial burden will be absorbed by the remaining political subdivision. As it has been shown, currently, DOT.Comm would be unable to continue operations.

**Recommendation:** The issue of a sustainable funding source will need to be addressed to maintain the DOT.Comm organization.

**Management Response Finding #4:**

DOT.Comm realizes the need for a sustainable funding source for DOT.Comm to remain a viable organization. We also realize that in the event the City of Omaha or Douglas County is

---

<sup>12</sup> City of Omaha, NE, 2005 Basic Financial Statements and Douglas County, NE, 2006 Comprehensive Annual Financial report

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

unable to sustain the current level of funding, DOT.Comm would be unable to continue to provide the current level of service. While the ratios and related information are acceptable financial measures, they do not take into consideration the manner in which DOT.Comm was originally created and funded. Under the present funding model, looking at Statement of Net Asset ratios may not provide an appropriate measure. DOT.Comm was not created or funded with any initial capital (as recommended in the original Deloitte & Touché report) or a plan to provide for working capital. DOT.Comm is not structured to generate cash or market securities. DOT.Comm was created as an expense recovery organization. Therefore an examination of DOT.Comm's income statement, matching revenues and expenses would give a much better picture of the financial health of the company.

A Base Services definition has been developed and the draft is being critiqued as this is written. This definition will enable DOT.Comm to communicate in a more effective manner what is included in Base Services and what services require Professional Services. DOT.Comm has also met with several other agencies to research and review their billing methodologies. This analysis and next step actions for alternate billing methodologies will be addressed through the DOT.Comm Committees and Board.

Additionally DOT.Comm is recommending the engagement of Dr. Robert Sweeney, AIM Institute, to research, develop and recommend potential financial structuring options for DOT.Comm.

The Finance Committee has also been engaged in conversations regarding funding for capital improvements. DOT.Comm, the City and the County have realized that this is a requirement for the future. Discussions will continue to progress to find a viable solution.

**Action:**

DOT.Comm will complete the original research of other agencies and provide a summary of those findings.

**Timeframe:**

3<sup>rd</sup> Quarter 2007

**Action:**

DOT.Comm will continue the discussion with the Finance and Audit Committee regarding the capital improvement program. Once the Committee has approved a viable program, this will be submitted to the DOT.Comm Board, City Council and County Commissioners for final approval.

**Timeframe:**

End of Year 2007

**Action:**

DOT.Comm, with endorsement from the Finance and Audit Committee, will engage Dr. Robert Sweeney, AIM Institute, to research, develop and recommend potential financial structuring options.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### **Timeframe:**

End of Year 2007

**Auditor's Response:** The financial model of an expense recovery organization is designed to keep expenses in line with revenues. The financial situation of DOT.Comm is currently unable to recover all the expenses. DCIAD reiterates the original recommendation that DOT.Comm needs to address the issue of obtaining sustainable funding. Viable funding would be needed for capital improvements; however, the funding DCIAD was referencing was for supporting daily operations.

DCIAD is not recommending hiring an outside consultant to accomplish a commission management is responsible and should be capable of implementing. The cost associated with hiring a financial consultant would outweigh the benefits the DOT.Comm organization would incur or receive for the service rendered. The 2006 annual report indicates expenses already match revenues, adding additional expenses at the present time would be problematic to the organization.

### **Finding #5: DOT.Comm does not utilize any benchmarks for financial or performance measures.**

- **Customer survey**
- **Performance standards (deliverables) not always stated in proposals**
- **Change orders for extensions**
- **Track number of projects performed for each agency (City/County)**
- **Track resource hours for each agency**

The use of benchmarks for financial and/or performance measures allows the organization to establish goals and evaluate progress towards these goals. During our interviews, DCIAD inquired about the five (5) specific benchmarks listed above. Currently, DOT.Comm is not consistently utilizing benchmarks to measure and evaluate financial progress or performance goals.

At the beginning of 2007, DOT.Comm began utilizing a customer survey questionnaire to provide feedback to the organization. The information is being collected but not utilized. Performance standards, which DOT.Comm calls deliverables, are not consistently stated in the contract proposals. The deliverables are contingent upon the age of the proposal and the client manager who draft the proposal. Within the last twelve (12) months, DOT.Comm has been more diligent to ensure that the deliverables are clearly stated in each contract proposals. A uniform contract proposal should be developed and used to ensure all required information is included and/or supplied in each proposal. Change orders to contract proposals, are only prepared when there is a change in scope and/or design, or a change in cost. Change orders are not completed on projects that require a time extension. It would be important to track all change orders so variances can be calculated between budgeted and actual resources (time and money) spent on the projects. All project (contract) proposals, accepted and declined, should be documented in the access database with applicable information to determine resource allocation for annual budgeting and costing matrixes for future requests of bid proposals.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

DOT.Comm does not track resource hours, or the number of projects for base, or professional services that are allocated towards each agency (City/County). Currently, when a call is received by the help desk, it is prioritized based upon employee's loss of computer productivity or on a first come first serve basis. Based upon the allocated percentages of base services utilized by Douglas County, the financial contribution to DOT.Comm's revenue exceeds the amount of service requested. The base services funding amount should be calculated using an allocation percentage between the City of Omaha and Douglas County. As the City annexes additional Douglas County property, the City's request for services increases, however, their dollar amount funded towards DOT.Comm revenue is still less than Douglas County's share. When an agency or department requests professional services, DOT.Comm determines whether their employees are competent to provide the service requested, the amount of time that the project requires, and if there are any mandates that require the project to be prioritized. Mandated project requests take priority over an agency or department general request. Devoid a system to track and/or account for all allocated resource hours, this endeavor could become problematic when all DOT.Comm's resources are committed to existing projects. An unorganized effect would result in order to satisfy the mandated project.

**Recommendation:** DOT.Comm should establish financial costing matrixes and performance benchmarks that should be clearly stated and utilized for each contract. The benchmarks should be documented and regularly re-evaluated to determine variances and needed adjustments. Uniform contract proposals should be utilized for all contracts (maintenance/vendor, proposals, and chargebacks) to ensure all required information is supplied.

**Management Response Finding #5:**

DOT.Comm concurs and is currently working with its Committees to establish and report the benchmarks and performance measures.

**Action:**

DOT.Comm will develop performance measures and report these measures on an annual basis.

**Timeframe:**

On-going

**Action:**

The User Committee recently approved the creation of a satisfaction survey to measure DOT.Comm service. DOT.Comm will participate in this process and once completed utilize the survey for performance measurement.

**Timeframe:**

Dependent on the User Committee.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### **Finding #6: Contract proposals for professional services have omitted pertinent information.**

DCIAD received copies of project (contract) proposals where pertinent contract information was consistently omitted. Omitted information consisted of: price or cost of the project, time frame of the project, signatures, and there wasn't any performance measures indicated or documented. This information is needed to establish benchmarks or standards. Since DOT.Comm does not supply the above mentioned pertinent information, departments are placed in uncomfortable positions when trying to allocate required resources. Exclusive of the agency or department knowing the estimated or actual cost for a project, it would be difficult for them to request adequate funding for the project in their annual budget. Departments should be allowed to expect a project time from inception to completion, so they can allocate their department resources to the project if needed. Performance standards should be outlined in the project proposal to allow both the department and DOT.Comm a method of gauging quality of work.

At the beginning of 2007, DOT.Comm started utilizing a customer survey questionnaire to provide feedback to the organization. The customer survey questionnaire is an important and effective tool to measure performance standards. If DOT.Comm's customers are not provided any expectations concerning the cost of the project, the time required for completing the project, or any performance standards DOT.Comm will provide during the project, in the signed and approved contract proposal by the department, how will the customer survey effectively measure performance? Lacking all the pertinent information outlined in the project (contract) proposal, the customer survey questionnaire would be ineffective.

**Recommendation:** DOT.Comm should develop a uniform project (contract) proposal to be utilized for all projects to ensure all required information is supplied.

### **Management Response Finding #6:**

DOT.Comm concurs.

### **Action:**

DOT.Comm will continue to provide a standard proposal format with the following information:

- Project Goal
- Project Objectives
- Project Benefits
- Project Scope of Work – this includes project deliverables.
- Project Cost and Fees – this section identifies if the project is included in Base Services or is Professional Services. It also includes the number of resource hours for DOT.Comm staff and the estimated project schedule.

DOT.Comm will also conduct a more detailed review process for the approval and development of project proposals.

### **Timeframe:**

On-going.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

**Auditor's Response:** DCIAD would like to emphasize the high priority of developing a uniform project (contract) proposal to ensure all required contract proposal information is included.

**Finding #7: DOT.Comm is inconsistent regarding contract compliance for base services; perform offsite backup and recovery procedures, and administer authorized users (add/remove/modify).**

In the 2006 Base Services and Oracle Chargeback Proposals for the City of Omaha and Douglas County, Section II, application hosting management, there are two services where DOT.Comm's ability to provide the service is unreliable. The database operations and maintenance service of performing offsite backup and recovery procedures are not performed effectively to eliminate the risk of loss of data. There has been an occurrence recently where DOT.Comm employees did not backup data properly which resulted in a loss of essential data, MugShot & CrimeScene Application. According to the DOT.Comm technology plan draft dated October 12, 2006, there were several requests for hardware (battery backups, backup/recovery, business continuity), and additional personnel for a database administrator and enterprise systems administrator. These requests were presented to the Technology & Planning Committee and the committee declined the requests due to budget constraints. The Finance & Audit Committee approved expenditures in the amount of \$20,000 to replace a server.

In the summary notes from the Nominating & Corporate Governance Committee, DOT.Comm was questioned concerning the preventive methods in place to prevent the loss of necessary data like the incident of the MugShot & CrimeScene Application. It was stated that DOT.Comm has identified all the servers on a consolidated list and are beginning the tedious task of individually verifying each server is backed up, who/how that is being accomplished, and if any deficiencies need to be corrected. It is paramount for DOT.Comm to maintain adequate computer equipment to properly perform offsite backup and recovery procedures for all programs they support, and to comply with the base services contract terms. It is also important for DOT.Comm to have a positive perspective towards the importance of offsite backup and recovery.

The application administration services ensure availability and support for hosted application. DCIAD has uncovered a deficiency with the service of administering authorized users (add/remove/modify). In the Corrections – Inmate Billing and Reimbursement Audit, 2006/07 – 01, released March 28, 2007, it was discovered that DOT.Comm was not removing or disabling employee's log-in access that have severed employment with Douglas County in a timely manner. The department claims the responsibility to disable prior employee's access lies with DOT.Comm and DOT.Comm claims that the responsibility lies with the individual department. According to the base services contract between the City of Omaha and the Douglas County, any changes (add/remove/modify) made to a user account is the responsibility of DOT.Comm.

**Recommendation:** DOT.Comm needs to budget and coordinate with the appropriate committee(s) adequate funding for computer hardware and personnel in order to comply with the Base Services Contracts.

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### **Management Response Finding #7:**

DOT.Comm concurs with the overall finding and has taken the appropriate actions to prevent another occurrence of the Mug Shot and Crime Scene incident. DOT.Comm is fully aware of the responsibilities for proper storage, backup and recovery of customer data. DOT.Comm will continue to identify needs for equipment or services that we believe are required to provide the appropriate level of information storage, backup and recovery.

After the Mugshot & Crime Scene incident DOT.Comm compiled a consolidated list of all servers managed and maintained by DOT.Comm and has completed a physical audit of 90% of those servers and their backup status.

As a service provider, DOT.Comm's current procedure for timely removal of computer access for terminated employees is entirely dependent on timely notification from County departments. In this context, access removal is performed on request by the department submitting a service desk request. Without a request for removal of access, DOT.Comm currently has no way of knowing when a County employee is terminated from employment, or when access privileges should be updated to reflect the change from one job to another.

Since the current method of notification does not ensure timely notification, DOT.Comm recommends that County HR and DOT.Comm work together to develop a uniform process whereby County HR or County supervisors immediately notify DOT.Comm of all employee terminations and status changes that could require a change to employee computer access privileges. This uniform method of notification would enable DOT.Comm to provide a consistent response with a service level measurable by the elapsed time between notification and access removal or modification. As a backup, DOT.Comm will request that the County provide a regular summary report of employee terminations and status changes to ensure that no notifications were overlooked.

### **Action:**

Complete the server audit and provide a written recommendation as to the findings.

### **Timeframe:**

30-60 days from the date of final audit delivery

### **Action**

DOT.Comm will schedule meeting with County HR to discuss the need for a uniform policy to ensure timely removal of computer access for employees separated from the County.

### **Timeframe**

30-60 days from the date of final audit delivery.

**Finding #8: DOT.Comm's insurance coverage is not adequate to cover all the computer equipment in Douglas County.**

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

DCIAD reviewed the insurance coverage DOT.Comm retained on the computer equipment located throughout Douglas County. The current DOT.Comm insurance policy is for replacement cost of business personal property for locations listed in the insurance policy. This policy does not have blanket coverage; however, it does have a very limited amount of coverage for locations not listed in the policy. The following table on page 15, identifies the locations listed in the DOT.Comm insurance policy. Douglas County has approximately twenty-four (24) business locations and there are only five (5) Douglas County locations listed. Loss of business property at a location other than what is listed in the table would not be covered.

Location	Occupancy
1819 Farnam Street Rm 311	Office
408 S 18 <sup>th</sup> Street (DOT.Comm)	Office
215 S 15 <sup>th</sup> Street (Library)	Office
505 S 15 <sup>th</sup> Street (OPD)	Office
1516 Jackson Street (Fire Station)	Office
360 N 156 <sup>th</sup> Street (DC Sheriff)	Office
4102 Woolworth (DC Hospital)	Office
710 S 17 <sup>th</sup> Street (Corrections)	Office

DOT.Comm and Douglas County have been in disagreement since last year (2006) over which entity shall have responsibility of ownership and control over the computer equipment. The inter-local agreement states in Exhibit “A”, item number 9, equipment transferred from City and County, to the extent of City and County title, shall be vested with DOT.Comm during the term of this agreement.<sup>13</sup> The Douglas County Attorney’s Office presented an opinion that DOT.Comm is responsible for the ownership and inventory control of all personal property assets over \$500.<sup>14</sup> DOT.Comm has sent a letter to the Douglas County Attorney’s office requesting the inter-local agreement be amended to reflect ownership, whether the computer equipment will reside with the agency that control the department using the personal property assets or DOT.Comm. If the interlocal is changed to have the County resume ownership, DOT.Comm should be required to supply a complete listing of all assets transferred, with all appropriate information that would enable the County to re-enter the equipment onto its personal property listing. The City of Omaha retained ownership of the personal property assets even though the language in the inter-local agreement states that title will be transferred.<sup>15</sup>

**Recommendation:** DOT.Comm should coordinate with Douglas County as to which entity shall be responsible for the ownership and control of the personal property inventory. In the meantime, an agreement should be reached to determine which entity burdens risk of loss in the event a loss shall occur. DOT.Comm and Douglas County should evaluate their respective insurance coverage appropriately. The current insurance policy that DOT.Comm has should be modified to add blanket coverage and remove the limited loss coverage on specific locations.

### **Management Response Finding #8:**

<sup>13</sup> DOT.Comm Inter-Local Agreement, 12/11/01

<sup>14</sup> DOT.Comm Finance Committee minutes, Oct 13, 2006

<sup>15</sup> Ibid

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

DOT.Comm concurs. DOT.Comm and the DOT.Comm Finance Committee have been discussing this issue for over a year. In recent months, a draft Customer Technology Asset Management Policy/Procedure has been presented and reviewed at the Finance Committee. The recommendation of the Finance Committee was to continue working and refining the policy, for a July DOT.Comm Board Meeting presentation.

**Action:**

DOT.Comm will continue drafting the policy and include discussion with the County Board and the City of Omaha to formulate a policy that clearly identifies technology asset ownership and responsibility in the context of business continuity and disaster planning. DOT.Comm will also include the DOT.Comm User Committee, City Attorney and County Attorney in the discussions.

**Timeframe:**

90-120 days from the date of final audit.

**Action:**

Once ownership has been determined, DOT.Comm will take necessary actions to amend its insurance policy to ensure adequate coverage.

**Timeframe:**

Dependent on ownership decision.

The DCIAD would like to thank everyone for the cooperation and assistance they provided us during the audit process. We would also like to compliment everyone involved in assisting with the Audit Report. Special thanks to the DOT.Comm personnel for their tremendous assistance and collaboration.

DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

DCIAD Staff participants in 2006 - 2007 Audit # 03A, DOT.Comm Contracts

\_\_\_\_\_(sign)  
Susan Wiggins, Internal Audit Analyst  
Primary Auditor

\_\_\_\_\_(sign)  
Carmen Harmon, Internal Audit Supervisor

**Audit 2006/07 - 03A was released on June 5, 2007**

**Appendix A: Taken from the DOT.Comm Organizational Chart**

**Client Services**

