NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 29, 2016

Byron Diamond, Director
Department of Administrative Services
State Capitol, Room 1315
Lincoln, Nebraska 68509-4664

Dear Mr. Diamond:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report thereon dated December 17, 2015. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Department of Administrative Services (Agency) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Agency's management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number 1 (CAFR Preparation) to be a significant deficiency.

This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

Draft copies of this letter were furnished to the Agency to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2015.

1. <u>CAFR Preparation</u>

A good internal control plan requires an adequate review of draft financial reports and information used to prepare the Comprehensive Annual Financial Report (CAFR), including the information provided by other State agencies.

The Department of Administrative Services, State Accounting Division (State Accounting) prepares the CAFR annually. In accordance with Neb. Rev. Stat. § 81-1125.01 (Reissue 2014), the CAFR is to be completed at least 20 days before the commencement of each regular session of the Legislature. For the fiscal year ended June 30, 2015 CAFR, this date was determined to be December 17, 2015. Therefore, the Auditor of Public Accounts (APA) provided a list of items to be prepared by State Accounting, with dates for submission to the APA for testing, to ensure the CAFR would be completed timely. Throughout the audit, several items were not submitted timely.

For instance, supporting documentation for several note disclosures, such as transfers in/out and interfund due to/from support, was late by 23 and 21 days, respectively; capital asset-related support was late, ranging from 14 days to 23 days; and statistical information, footnotes, and management discussion and analysis were all 15 days late. Some of this information was received only 10 business days prior to the date the CAFR was statutorily required to be completed.

Furthermore, the draft report submitted by State Accounting was incomplete and inaccurate. State Accounting provided the first draft after 5:30 pm on December 3, 2015, eight days after the auditors had requested it. The draft required several revisions to correct formatting problems and incorrect information, in addition to filling in incomplete and missing information, for the newly implemented GASB 68 Standard, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The final draft was not provided until December 17, 2015, which was 13 days after its request by the auditors in the list of items to be prepared by State Accounting and on the date the report was statutorily required to be completed.

During testing of the CAFR, we noted the following:

- The APA proposed 37 adjustments during the audit, 9 of which were not made by State Accounting. The uncorrected errors ranged from an overstatement of $8,969,617 to an understatement of $5,508,231.

- State Accounting made several errors in the capital asset supporting documentation. Errors ranged from an understatement of $37,786,139 in buildings to an overstatement of $22,869,141 in construction in progress. Furthermore, State Accounting included assets as current year additions and/or deletions with dates outside of the fiscal year audited.

- Supporting documentation for the Deposits and Investments Portfolio note disclosure was not proper due to several bank balances erroneously missing from the calculations. Balances were understated by $393,420,478 in the Governmental and Business-Type Activities. Several other errors were noted, such as missing classifications, inaccurate ratings, etc., causing the supporting documentation to be revised up to three times prior to receiving accurate information.

- When making adjustments to prior period activity, State agencies record the transactions as a miscellaneous adjustment during the current fiscal year. The activity within this account should be analyzed by State Accounting and proper adjustments made to ensure the financial statements are properly presented for these adjustments. State Accounting reviewed the account and proposed reversing some of the activity to eliminate it instead of properly categorizing it as a beginning balance adjustment. After reviewing the account, the APA proposed adjustments of $30,324,469 to correct Federal and miscellaneous revenues and proposed adjustments, totaling $5,209,964, to correct beginning balances.

- Several adjustments were necessary for missing or inaccurate State agency accrual information. For instance, State Accounting did not record a corresponding receivable from the Federal government for claims payable reported by the Department of Health and Human Services for $4,588,856. Several entries, totaling $12,773,667, were inappropriately recorded as due to vendor; however, they should have been recorded as due to government. The Department of Roads overstated accounts receivable by $13,460,035.

- Procedures performed to eliminate interfund transfers were inadequate, causing misstatements of $10,925,170. Additionally, State Accounting's analysis of Federal fund balances was inaccurate, causing a misstatement of $1,293,704 in due to other funds.

- Several entries to record investment activity were not proper due to the use of improper bank statements, improper calculations, or erroneous entries performed by State Accounting. Variances ranged from $111,176 to $1,000,000.

- There were several errors in note disclosures including the operating lease disclosure was understated by a total of $633,919, and the noncurrent liabilities disclosure was not calculated properly for compensated absences.

A similar finding related to errors in the preparation of the CAFR has been noted since the fiscal year 2007 audit.

State Accounting did make correcting entries for all material amounts, as recommended by the APA.

Without adequate procedures in place to ensure the accuracy of the financial reports and information used to prepare the CAFR, there is a greater risk material misstatements may occur and remain undetected. Furthermore, when information is not submitted to the APA on a timely basis, there is an increased risk the CAFR will not be completed timely in accordance with State statute.

> We recommend the Agency implement procedures to ensure internally prepared information is complete, accurate, and submitted timely to the auditors. We also recommend the Agency continue to work with State agency personnel to ensure accrual information is supported and has a sound accounting base. Lastly, we recommend State Accounting conduct periodic meetings with the APA to discuss items to be provided and issues identified during the course of the audit.

Agency Response: State Accounting prepared over 250 workpapers in support of the Comprehensive Annual Financial Report (CAFR). A majority of these workpapers were submitted to the Auditor of Public Accounts (APA) on or before their due date. State Accounting submitted all of the workpapers to the APA in time for the CAFR to be released by the statutory required date of December 17, 2015, one of the earliest dates the CAFR has ever been released.

State Accounting will continue to review procedures and put additional safeguards in place to prevent errors in the future. State Accounting did make correcting entries for all material amounts.

State Accounting will continue to identify the resources necessary to prepare, review, and submit workpapers and the CAFR on an accurate and timely basis.

APA Response: The Agency should ensure information submitted to the APA is complete and accurate and submitted timely in accordance with the initial listing of items to be prepared by State Accounting.

2. Government Finance Officers Association Review

The Government Finance Officers Association (GFOA) awards the Certificate of Achievement for Excellence in Financial Reporting to states that submit their CAFR reports with satisfactory results. Reports submitted to the GFOA are reviewed by members of its staff and the GFOA Special Review Committee, which is comprised of individuals with expertise in public sector financial reporting and includes financial statement preparers, independent auditors, academics, and other finance professionals.

After reviewing the State's CAFR, the GFOA submits a Detailed Listing of Comments and Suggestions for Improvements to State Accounting. The State is then to address the comments and suggestions by either providing detailed responses or making the appropriate remedies within the following year's CAFR.

We noted two of six responses generated by State Accounting to address the GFOA comments and suggestions were inadequate, as follows:

- The GFOA suggested the note disclosure related to the State's stabilization arrangement clearly describe the specific circumstances that allowed for the use of the resources to be reported as restricted or committed and consider whether it was more appropriate to classify the amount as unassigned fund balance of the general fund.

  State Accounting merely generated a response to the GFOA that claimed the stabilization arrangement met the requirements of the Governmental Accounting Standards Board (GASB), even though the note disclosure may appear "broad." State Accounting should have revised the note in this year's CAFR to address the GFOA concern, so as to ensure the users of the report could clearly decipher that the State met the requirements of the GASB.

- The second GFOA suggestion related to the specific purpose of the various categories of fund balance (i.e., restricted, committed, and assigned amounts) that are not displayed on the face of the balance sheet and, therefore, must be disclosed in the notes to the financial statements. The GFOA noted some significant amounts were shown by function not purpose and accordingly, the disclosure should identify the specific purposes.

  Again, State Accounting merely responded to the GFOA that they felt the disclosure was adequate and that the "disclosure by functions is descriptive as it identifies the significant purpose." This did not appear to address the GFOA suggestion.

When the GFOA comments and suggestions are not adequately addressed, there is an increased risk the State will not be subsequently awarded the Certificate of Achievement. Furthermore, there is a concern the State's CAFR is not presented properly for users of the State's financial statements.

> We recommend the Agency ensure GFOA comments and suggestions are adequately addressed in the State's CAFR to ensure compliance with GASB and for users of the State's financial statements.

Agency Response: The State voluntarily submits the CAFR to the Government Finance Officers Association (GFOA) for its Certificate of Achievement for Excellence in Financial Reporting certificate. The State has been awarded the certificate of excellence for the past 23 years. The GFOA will respond to the State's responses and State Accounting will take the appropriate action to ensure excellence in financial reporting.

3. Capital Asset Monitoring

A good internal control plan and sound business practices require procedures to ensure State-owned assets are recorded in the accounting system in a timely and accurate manner, so capital assets are properly reflected on the State's financial statements.

State Accounting is charged with the duty of administering the accounting system. State Accounting also establishes the State's accounting manual and trainings for State agency personnel to ensure the information in the accounting system is accurate and complete.

During our testing of capital assets, we noted 87 assets that were added to the accounting system during the fiscal year ended June, 30, 2015, which were acquired prior to the start of the fiscal year. State Accounting included these assets as additions during the fiscal year; however, the assets should have been recorded in previous fiscal year CAFR reports. The assets totaled $6,650,272, with acquired dates as early as June 2001. The Agency itself accounted for $2,060,221 of this amount, or 27 assets.

When capital assets are not recorded timely in the accounting system, and State Accounting does not make the proper adjustments to the State's CAFR, there is an increased risk the CAFR will be materially misstated.

> We recommend the Agency implement procedures to ensure capital assets are added to the State's accounting system in a timely manner. If assets are identified outside of the fiscal year reporting period, the proper adjustments should be made to ensure the financial reporting is accurate.

Agency Response: State Accounting will establish an interim review of state agency capital asset activities and continue to work with them to ensure fixed assets are added to the State's accounting system in a timely and accurate manner.

4. EnterpriseOne Timesheets

Neb. Rev. Stat. § 84-1001(1) (Reissue 2014) states the following:

> *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.*

Sound business practices, as well as a good internal control plan, require hours actually worked by State employees to be adequately documented and such documentation to be kept on file to provide evidence of compliance with § 84-1001(1). Furthermore, a good internal control plan also requires employees who accrue vacation and sick leave to have adequate support that they actually earned the amounts recorded in their leave records. A good internal control plan also requires the approval of timesheets to be documented for subsequent review.

Section 124-86, Payroll – Agency Records, of Nebraska Records Retention and Disposition Schedule 124, General Records, as issued by the Nebraska State Records Administrator, requires any "supporting records received or generated by an agency used to review, correct or adjust and certify agency payroll records" to be retained for five years. Per that same section, the supporting records may include timesheets and reports.

EnterpriseOne, the State's accounting system, was utilized by 17 agencies during the fiscal year for time entry and leave reporting. For these 17 agencies, we noted the following:

- Overtime-exempt employees were not required to maintain a timesheet or other form of documentation to show at least 40 hours were worked each week. Exempt employees were required to record only leave used in the system.

- EnterpriseOne timesheets were maintained only for the current pay period for 15 State agencies that used the time entry function.

- Supervisors and human resource staff within the State agencies were able to change the employee's submitted timesheet without the employee's knowledge or documentation of the changes made.

- EnterpriseOne did not accurately track who approved timesheets in the system. Each employee was assigned a supervisor in his or her master file in the system. For State agencies that utilized timesheet entry in the system, the supervisor assigned to an employee approved the timesheet. However, supervisors were allowed to set up delegates in the system to approve timesheets in the supervisor's absence. The system did not record who actually approved the timesheet; if a delegate approved an employee timesheet, the system would record the assigned supervisor as the approver.

A similar finding was noted during our previous audits.

Without adequate records to support hours worked and approvals in the system, there is an increased risk for fraudulent or inaccurate payment of regular hours worked or accumulation of leave. A failure to retain important documentation risks noncompliance with Nebraska Records Retention and Disposition Schedule 124.

> We recommend the Agency establish a policy requiring all employees of State agencies to maintain adequate supporting documentation, such as timesheets or certifications, in compliance with the Nebraska Records Retention and Disposition Schedule. Furthermore, we recommend the Agency make the necessary changes to EnterpriseOne for the retention of timesheets, documentation of approvals, and changes to timesheets to ensure compliance with the Nebraska Records Retention and Disposition Schedule.

Agency Response: 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. Exempt employees, when hired, are expected to work 40 hours per week and they will report any exceptions. Time sheet images are maintained until the payroll is processed; however, the electronic data is maintained indefinitely in the system of record.

APA Response: As noted, State statute 84-1001(1) requires all state officers and heads of departments and their deputies, assistants, and employees to work no less than forty hours each week. Therefore, documentation should be retained, such as a certification or a detailed timesheet to document compliance with State statute.

5. Long Term Disability Insurance

A good internal control plan requires procedures to ensure amounts withheld for payroll benefit deductions are proper.

The cost of Long-Term Disability (LTD) insurance coverage is based on the coverage selected by employees, as well as employees' age and salary as of July 1 of each year. Annually, as of July 1, the LTD rate should be updated for salary and age increases. Workday, the State's human resource application, was not set to automatically update LTD withholding rates based on July 1 pay increases and age increases, resulting in LTD rates not being updated for July 1, 2014, changes. This issue was not identified by the Agency until March 2015, and it was not corrected until May 2015. Because LTD rates were not updated for July 1, 2014, changes, State employees who elected LTD insurance underpaid their premiums from July 2014 through April 2015. Mutual of Omaha, the State's Long-Term Disability Insurance provider, agreed to write off approximately $45,000-$50,000 in underpaid premiums for July through December 2014; however, the State was responsible for repaying the underpaid premiums from January through April 2015. Total underpayments for this period were $35,379, which the State repaid in June 2015.

When proper amounts are not withheld from employee paychecks for benefit deductions, there is an increased risk that the State will be responsible for the underpayment of the employees' share of premiums.

> We recommend the Agency implement procedures to ensure that proper amounts are withheld from employees' pay, and any variances are identified in a timely manner.

Agency Response: DAS implemented an improved process beginning in July 2015, as premiums were updated for the new plan year.

6. EnterpriseOne Special Handle a Voucher Function

A good internal control plan requires an adequate segregation of duties to ensure that no one individual is able to both perpetrate and/or conceal errors and irregularities.

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 4.7.2, User Account Management, states the following, in relevant part:

> *A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification and deletion of user accounts. Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges (read, write, delete, etc.). The "Principle of Least Privilege" should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities . . . .*
>
> *Agencies or data owner(s) should perform annual user reviews of access and appropriate privileges.*

The State Accounting Administrator explained that the Special Handle a Voucher Function (Function) allows users to change the payee of a payment voucher without going through the Batch Management process and is used by the following:

- State Accounting to provide support to agencies so payments can continue in a timely manner if the agency lacks adequate personnel to process a transaction.
- State Accounting to process replacement warrants.
- State agencies to correct vouchers without having to void and re-create another voucher.

We noted the following in our review of the Function in EnterpriseOne:

- The Function allows users to circumvent the Batch Management process and change payees without the involvement of anyone else, resulting in a lack of segregation of duties.
- Access to the Function is not restricted to only high-level users. Access is available to users who have access to Accounts Payable (AP) roles 20, 21, 30, 40, 41, 50, and 51. Essentially, anyone who has access to AP in EnterpriseOne, with the exception of inquiry-only access, is able to use this Function. Due to the type of activity that can be performed with this access, we believe access should be restricted to only a limited number of high-level users. Our review noted 805 users had access to this Function.
- Users with the ability to add vendors and change vendor information in EnterpriseOne also had access to the Function. The AP 50 role allows users to add vendors and make changes to vendors. All nine users with AP 50 access also had access to the Function and, therefore, would be able, for example, to set up potentially fictitious vendors in the system, or improperly change vendor information, and then change payee information on vouchers to direct payment to the fictitious vendor.

When an adequate segregation of duties does not exist in access to special functions, there is an increased risk for errors and fraud to exist and remain undetected.

> We recommend that access to the Function be restricted to only certain high-level users. We further recommend that the use of the Function be reviewed to ensure its use is only for reasonable and necessary purposes. Moreover, we recommend that users with the ability to add vendors and make changes to vendor information in EnterpriseOne do not have access to the Function.

Agency Response: There is a control in the EnterpriseOne system that all vendor changes through Special Handle a Voucher have to be approved by State Accounting before the payment will process. State Accounting will review State Accounting users' access for accounts payable and address book processing to determine that authorized users have only access needed to fulfill their job responsibilities.

7. Changes to Vendor and Banking Information

A good internal control plan requires policies and procedures to ensure critical vendor and banking information within EnterpriseOne is proper and changes to this information are verified as accurate.

During our review of the process to change vendor and banking information in EnterpriseOne, we noted a lack of controls to ensure additions and/or changes to vendor addresses and banking information is proper and accurate. To change vendor addresses and banking information in the system, an authorized agent at the agency level submits a form W-9/ACH to State Accounting. This submission can be done by a single person at the agency. There is no required secondary approval of changes at the agency level to ensure additions and changes are proper.

In addition, we noted that State Accounting does not perform any other procedures to identify fraudulent bank accounts in the system, such as a review for duplicate bank accounts, and duplicate vendor addresses for the same vendor, since employees can also be vendors for the State.

Without adequate policies and procedures for the review and approval of vendor and banking information in EnterpriseOne, there is an increased risk of loss or misuse of State funds due to fraudulent activity.

> We recommend the Agency establish policies and procedures to ensure vendor addresses and banking information is appropriate and accurate. These policies and procedures should include modifying form W-9/ACH to require a secondary approval of all vendor and banking information at the agency level to ensure two knowledgeable individuals are involved in changes. We also recommend the Agency establish policies and procedures to identify fraudulent bank accounts in the system, such as a review for duplicate bank accounts and duplicate vendor addresses.

Agency Response: State Accounting will evaluate the forms and procedures used for address book processing and consider adjustments which could improve the process.

8. EnterpriseOne Batch Management

A good internal control plan requires an adequate segregation of duties to be established in EnterpriseOne to ensure that no one individual is able to perpetrate and/or conceal errors or irregularities. If an adequate segregation of duties is not possible, adequate compensating controls should be implemented.

Batch management in EnterpriseOne establishes who can prepare and approve/post transactions in the system to maintain a proper segregation of duties, so no one person can prepare and approve/post their own transactions. During our review of batch management, we noted 20 users had the ability to prepare and approve/post their own transactions in the system. These 20 users were identified as follows:

- Three users were set up in Batch Management with the ability to prepare and approve their own transactions.

- Twelve users were set up with *ALL approver access, which allowed them to approve documents prepared by any user. These 12 users were also set up in Batch Management as preparers, resulting in them having the ability to prepare and approve their own documents in the system.

- Five users with Super user access also had *ALL approver access. Super user access gives the individuals the ability to set themselves up as preparers in Batch Management and, therefore, the ability to prepare and approve their own documents.

To compensate for this lack of segregation of duties in the system, State Accounting claimed to have reviewed the R551085A report, which showed individuals that perform two of the three procedures in EnterpriseOne (prepare, approve, or post). However, our review of State Accounting's process noted several concerns, as follows:

- The report reflected the last person to touch the document as the "poster." However, this individual may not actually be the person to post the document; if he or she went in to observe the transaction in the system, it would include him or her on the report as the poster. Therefore, the report does not reflect the categories accurately.

- The State Financial Systems and Reports Manager (Manager), who had *ALL access through December 2014, and, therefore, was able to process a transaction completely, received the report daily. According to the Internal Control Coordinator (Coordinator), the report was received from the Manager for review only when a transaction was prepared, approved, and posted by the same user. However, since the Coordinator did not receive the complete report daily, it is unknown if all transactions that fit this criterion were received for review. There is a risk the Manager could have processed a transaction from beginning to end and not given the report to the Coordinator, or the Manager could have removed transactions prior to giving the report to the Coordinator.

- The Coordinator neither documented his review of the reports nor saved the reports, either electronically or in hard copy form.

- The report includes only accounts payable batches. Accounts receivable batches were not included in the report for review.

When a proper segregation of duties does not exist, and there are not adequate compensating controls, there is an increased risk for errors and/or fraud to occur and remain undetected.

> We recommend the Agency implement a proper segregation of duties where practical. The Agency should restrict system access so that no one individual has the ability to process transactions from beginning to end. If a proper segregation of duties is not possible, we recommend current compensating controls be improved to do the following:
>
> - Modify the R551085A report to reflect accurately the posting of transactions.

- Have the independent reviewer of the R551085A report run the report daily to ensure its completeness and accuracy.
- Have the independent reviewer document the review of the R551085A report.
- Include accounts receivable transactions in the R551085A report.

Agency Response: DAS will continue to review duties and procedures regarding the segregation of duties and EnterpriseOne access. Responsibilities for running, reviewing and maintaining the R551085A integrity report has been moved to the Internal Control department who will recommend changes when and where necessary.

9. Human Resource User Role 65

A good internal control plan requires that policies and procedures be in place to ensure that all changes to payroll are necessary and proper.

The Human Resource User Role 65 (HR 65) in EnterpriseOne was used by State Accounting to perform the final update processing for payroll. However, the HR 65 role also allowed users to make changes to payroll after it had been certified to State Accounting by agencies. State Accounting did not have policies and procedures in place to ensure that all changes to payroll, made by users with HR 65 access, were proper.

The following Agency users, by position title, had HR 65 access in the system: an Accountant II, two Accounting Clerk IIs, and two State Accounting Operations Supervisors.

When policies and procedures are not in place to ensure that all changes to payroll are proper and that no improper changes are made, there is an increased risk for errors and/or fraud to occur in the payroll process and remain undetected.

> We recommend the Agency implement policies and procedures to ensure that all changes made to payroll by users with HR 65 access are necessary and proper.

Agency Response: DAS will review its internal payroll process and ensure that payroll reports are reviewed by an individual without access to payroll in the system. State Accounting is reviewing the process and the information that is required when an Agency submits their payroll certification and will also continue to review segregation of duties and statewide payroll access.

10. EnterpriseOne Terminated User Access

NITC Standards and Guidelines, Information Security Policy 8-101, Section 4.7.2, User Account Management, states the following, in relevant part:

> *A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification and deletion of user accounts. Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges (read, write, delete, etc.). The "Principle of Least Privilege" should be used to ensure that only authorized individuals have access to applications and information and that these users only have access to the resources required for the normal performance of their job responsibilities . . . .*
>
> *Agencies or data owner(s) should perform annual user reviews of access and appropriate privileges.*

Nebraska State Accounting Manual, AM-005, General Policies, Section 32, Terminated Employee Payroll and Financial Center ID's, states the following, in relevant part:

> *Each agency shall have a documented procedure to immediately disable the ENTERPRISEONE ID of an employee who has terminated employment with the agency. It is the responsibility of the agency's authorized agent to request termination of the User ID from the computer system within five working days from the termination date . . . .*

A good internal control plan includes a process to ensure terminated users' access in EnterpriseOne is removed timely.

For 17 of 25 terminated users tested, access to the system was not disabled or removed in a timely manner (within three business days). None of these ID's accessed the system after their termination date. The delay in disabling the ID's ranged from 7 to 275 days.

A similar finding was noted in our previous audit.

When access to applications is not terminated timely, it creates the opportunity for inappropriate access to State resources, as well as unauthorized processing of transactions.

> We recommend the Agency work with State agencies, through on-going training and monitoring of agency personnel, to ensure agencies manually disable employee ID's in the system immediately upon termination and by entering employee termination dates in Workday as soon as a termination date is determined.

Agency Response: DAS will review the State Accounting Manual and provide a general communication to all agencies, boards, and commissions to ensure that they are aware of the terminated employee payroll policy.

11. Business Continuity Planning

COBIT 5, a business framework for the governance and management of enterprise information technology, lists the following management practices:

BAI10.01, Establish and maintain a configuration model, states the following, in part:

> *Establish and maintain a logical model of the services, assets and infrastructure and how to record configuration items (CIs) and the relationships amongst them. Include the CIs considered necessary to manage services effectively and to provide a single reliable description of the assets in a service.*

DSS04.03, Develop and implement a business continuity response, states the following, in part:

> *Develop a business continuity plan (BCP) based on the strategy that documents the procedures and information in readiness for use in an incident to enable the enterprise to continue its critical activities . . . 4. Define the conditions and recovery procedures that would enable resumption of business processing, including updating and reconciliation of information databases to preserve information integrity . . .*

DSS04.04, Exercise, test and review the BCP, notes the following:

> *Test the continuity arrangements on a regular basis to exercise the recovery plans against predetermined outcomes and to allow innovative solutions to be developed and help to verify over time that the plan will work as anticipated.*

NITC Standards and Guidelines, Information Technology Disaster Recovery Plan Standard 8-201, Section 1, states the following:

> *The Information Technology Disaster Recovery Plan should be effective, yet commensurate with the risks involved for each agency." This section notes, among others areas, that the plan must include an "[a]nnual plan review, revision, and approval process.*

A good business continuity plan, which encompasses disaster recovery planning, includes making available reliable and useful information for decision making when faced with a disaster or other event causing or creating the potential for a loss of business continuity. A good business continuity plan also includes regular testing and updating of the plan.

In our review of the Office of the Chief Information Officer (OCIO) Continuity of Operations Plan (COOP), we noted the following:

- The COOP did not include server-specific data, such as configuration files or locations, recovery file locations, dependencies between applications, etc. That information was maintained separately by each managing team. There was a central repository setup at one time where teams could place such pertinent business continuity information; however, it was not being utilized. This was noted in our previous audit.

- Based on discussion with OCIO staff, the COOP had not been tested for the fiscal year ended June 30, 2015.

- The COOP was last updated May 30, 2014.

When reliable and useful information is not available for business continuity purposes, and when the COOP is not tested and updated, there is an increased risk of extended downtime of vital State services.

> We recommend the Agency work to continue improving business continuity and disaster recovery plans to include a central, backed-up repository of all reliable and useful information for resuming State information technology resources and to test and update the COOP annually.

Agency Response: DAS-OCIO continues to work on documenting the continuity plan for services supported. Progress has been made in documenting this information into a central backed up repository. The OCIO also participates in the continuity planning process driven by Administrative Services.

DAS has recently hired an enterprise COOP administrator to manage and facilitate the State's COOP Plan.

12. EnterpriseOne AS/400 Access Log Review

Sound business practice and a good internal control plan require procedures to generate and review daily system logs for key applications. Sound business practice and a good internal control plan also require a segregation of duties to ensure the individual reviewing special account access does not also have access to the special accounts.

The following was noted regarding State Accounting's review process over access logs of the AS/400 computer, where the EnterpriseOne application resides:

- State Accounting did not generate and review daily system logs of users accessing the AS/400 from April 26, 2015, through June 30, 2015, as the job used to generate this log failed. According to State Accounting staff, this problem was not identified until staff started gathering information for the audit. Staff indicated this problem had since been resolved. Upon further inquiry, it was noted a daily system log of which users accessed AS/400 was normally automatically generated. The log was downloaded and saved on a shared drive and then normally reviewed on a monthly basis. Since several months went by where the log was not generated and went undetected, it could be assumed that this log may not have been reviewed monthly, as described. It was also noted in our review that State Accounting did not document its review of this log.

- A State Accounting employee who had access to the AS/400 special accounts also performed a review of special account access logs. Special accounts are ID's used for upgrades and are shared by the EnterpriseOne team for system maintenance. The daily system logs showed logins but not which team member used the ID's to access the AS/400. According to State Accounting, team members were instructed to log their use of AS/400 ID's in SharePoint. SharePoint is a web application in the Microsoft Office suite that can be used to store, track, and manage electronic documents. A State Accounting supervisor compared the AS/400 login report to SharePoint to determine if special accounts ID's were being used properly. However, this same employee also had access to the special accounts. To ensure proper segregation of duties, this review should be performed by someone without such access. In addition, our review noted the State Accounting supervisor did not document the review of these special account logs.

When system user account logs are not generated or reviewed and that review is not documented, and there is a lack of segregation of duties, there is increased risk of improper system access.

> We recommend the Agency timely resolve any issues preventing its normal review of AS/400 daily system logs and develop a procedure to document that review. We further recommend that the duty of reviewing use of special account use logs be assigned to someone who does not have access to special accounts.

Agency Response: State Accounting will improve procedures for reviewing daily system logs to ensure segregation of duties, internal controls and the ability to resolve any issues in a timely manner.

13. PACE Change Management

A good internal control plan and sound accounting practice require approval of application changes to be completed by someone independent from the person who served as the analyst for the changes.

The OCIO uses a mainframe application called PACE for its services billing system. The primary function of PACE is to track the usage of the mainframe and other information technology services by individual agencies and bill those agencies for the services they utilize.

In our review of the OCIO change management process, we noted one individual could serve as both the analyst and approver for PACE changes tracked through the Change Control Facility (CCF) and Module Migration Facility (MMF) software. In discussion with the lead analyst, he noted that, in the absence of his supervisor, he indeed was set up to approve promotions to his own programs; however, he also noted that, in these cases, his supervisor still would receive an email regarding the change and, thus, would be aware of the change.

When application changes are not approved by someone independent form the person who served as an analyst for the changes, there is increased risk of improper and unauthorized changes to the application.

> We recommend the Agency implement procedures to adequately segregate the analyst and approver roles for application changes to PACE.

Agency Response: New Change Management processes are being put into place whereby the PACE team will submit formal change requests via the Change Management tool for approval. The OCIO Change Management Team provides final approval of these changes. Once approval is received, the PACE team can then move forward with making those changes in the PACE production environment.

14. PACE Billing System

A good internal control plan includes an adequately documented supervisory review of fee changes in PACE.

We noted only one individual updated the fee table in PACE. There was no secondary supervisory review of the changes this individual made to the fee table, and PACE did not record history of changes made to the fee table.

When a supervisory review and approval process for changing and updating the fee table in PACE is not performed and properly documented, there is an increased risk the changes and updates will not be done accurately and completely.

> We recommend the Agency develop procedures to complete and properly document its supervisory review and approval process for changing and updating the fee table in PACE.

Agency Response: OCIO agrees with this finding. New Change Management processes are being put into place whereby a service request will be entered and will route to the PACE team to implement the appropriate changes. Once the change is made, the service request will automatically close notifying the requester.

Other Items – New Accounting Standards

Statement No. 72, *Fair Value Measurement and Application.*
This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*
The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues: 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported; 2) Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions; and 3) Timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*
The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016.

Statement No. 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.***
The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of State and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

Statement No. 76, ***The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.***
The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

Statement No. 77, ***Tax Abatement Disclosures.***
This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; 2) The gross dollar amount of taxes abated during the period; 3) Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Statement No. 78, ***Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.***
This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of State or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a State or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of State or local governmental employers and to employees of employers that are not State or local governmental employers, and (3) has

no predominant State or local governmental employer (either individually or collectively with other State or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Statement No. 79, *Certain External Investment Pools and Pool Participants.*
This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

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Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Agency and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to the Agency.

This communication is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be, and should not be, used by anyone other than the specified parties. However, this communication is a matter of public record, and its distribution is not limited.

Don Dunlap

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