



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 26, 2018

Byron Diamond, Director  
Department of Administrative Services  
1526 K Street, Suite 240  
Lincoln, Nebraska 68508

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, 2017, 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 14, 2017. 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 (DAS) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of DAS 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 a 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.

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

In addition, we noted other matters involving internal control and its operation that we have reported to management of DAS, pursuant to AICPA Auditing Standards AU-C Section 265.A17, in separate early communication letters dated May 22, 2017, May 31, 2017, October 2, 2017, and November 27, 2017.

Draft copies of this letter were furnished to DAS 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 they will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2017.

## **1. CAFR Preparation**

The Department of Administrative Services (DAS), State Accounting Division (DAS – State Accounting), prepares the State of Nebraska Comprehensive Annual Financial Report (CAFR). 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, 2017, CAFR, this date was determined to be December 14, 2017. Therefore, the Auditor of Public Accounts (APA) agreed to a list of items to be prepared by DAS – State Accounting, with dates for submission to the APA for testing, to ensure the CAFR would be completed timely. Nevertheless, 46 items were submitted more than seven days after the dates specified on the list.

Additionally, a rough draft of the report was received on the evening of December 4, 2017; however, the APA had requested that a completed first draft be submitted by November 27, 2017, in order to allow for the successful completion of our audit of the report under normal working conditions. Given the late submission of the 46 items, including the 162-page CAFR, extraordinary effort and resources had to be utilized by the APA in order to meet the required deadline.

Furthermore, the draft report submitted by DAS – State Accounting was incomplete and inaccurate. DAS – State Accounting first provided a rough draft on December 4, 2017, in order for the APA to begin work on the report. The deficient draft required several revisions to correct formatting problems and incorrect or missing information. Among other things, the draft's Management Discussion and Analysis (MD&A) and footnotes were incomplete.

During testing of the CAFR, we noted the following:

- We proposed 47 adjustments during the audit, 20 of which were not made by DAS – State Accounting. At the fund level, the accumulated uncorrected errors ranged from an overstatement of \$11,745,127 to an understatement of \$9,785,234. At the government-wide level, the accumulated uncorrected errors ranged from an overstatement of \$20,092,529 to an understatement of \$29,139,102.
- The State of Nebraska contracted with OptumRx and United Health Care to process the State's employee pharmacy and health insurance claims. DAS was unable to provide the Service Organization Control (SOC) Reports as audit evidence for the suitability of the design and operating effectiveness of OptumRx and United Health Care's internal controls. Claims expenditures for the fiscal year ended June 30, 2017, totaled \$184,052,764. The opinion on the CAFR financial statements was modified as a result of this issue.
- DAS – State Accounting made several errors in the capital asset supporting documentation. Those errors ranged from an understatement of \$11,077,046 in construction in progress (CIP) to an overstatement of \$600,100 in land. The majority of the understatement of CIP was due to DAS lacking a policy on capitalizing infrastructure costs; therefore, some agencies were expensing all costs rather than capitalizing them. Furthermore, DAS – State Accounting included assets as current year additions and/or deletions with dates outside of the fiscal year audited. There were also assets with dates inside of the fiscal year audited that were not included in current year additions and/or deletions.
- When making adjustments to prior period activity, State agencies recorded the transactions as a miscellaneous adjustment during the current fiscal year. On the financial statements, this activity was reflected as other revenue unless DAS – State Accounting performed adjusting entries to reflect properly the activity. DAS – State Accounting did not perform an adequate review of this prior period activity, as only line items equal to or over \$500,000 were reviewed. We reviewed this activity and noted several additional adjustments, ranging from \$78,789 to \$5,696,387, that were needed to ensure the financial statements reflected proper activity. Additionally, the entry that DAS – State Accounting did post for the miscellaneous adjustment activity was deleted from the State's accounting system (E1). DAS – State Accounting reentered this into E1 once we pointed out the omission.
- Several adjustments were necessary for inaccurate State agency accrual information. For instance, the Department of Health and Human Services (DHHS) payable for State Ward Education was overstated by \$4,345,320. Additionally, the DHHS payable for the Children and Family Services was incorrectly recorded in the Federal Fund, when it should have been reflected in the General Fund, causing an understatement in the General

Fund of \$1,269,560. Furthermore, the Nebraska Department of Education payables were doubled up by a separate entry performed by DAS – State Accounting, resulting in an error of \$29,787,124.

- DAS – State Accounting performed an analysis on transfers in and out to determine what activity needed to be eliminated for the CAFR financial statements. During this analysis, DAS – State Accounting failed to eliminate interfund transfers of \$413,456,866 in the Highway Fund and \$64,302,487 in an Agency fund.
- Several errors were identified in the support and adjusting entries prepared by DAS – State Accounting. For instance, one entry performed by DAS – State Accounting to reclassify loan activity included duplicate line items, causing an error in the entry of \$57,425,625. Another entry performed by DAS – State Accounting to reclassify investment manager fees from gains/losses on investments to investment expenses for \$18,478,470 was incorrectly recorded as administrative expenses rather than investments expenses.
- The Investment Footnote contained several errors. A total of \$27,302,427 in investments were misclassified. Additionally, DAS – State Accounting did not perform procedures to determine fair value reporting levels for \$34,186,101 of investment holdings.
- DAS – State Accounting lacked adequate procedures related to the following:
  - To ensure all Federal activity was being properly shown in the Federal Fund.
    - The Nebraska Game and Parks Commission recorded \$9,625,547 and \$8,671 in Federal activity to the Game and Parks Cash Fund and the General Fund, respectively. We proposed an adjustment to move this activity to the Federal Fund.
    - The Department of Transportation recorded \$16,456,169 in Federal activity to the Airport Development Fund. We proposed an adjustment to move this activity to the Federal Fund.
  - To perform a reconciliation of the State of Nebraska’s Schedule of Federal Expenditures (SEFA) to the expenditures reported in the Federal Fund for the CAFR to ensure all activity was included.
  - To review activity recorded as receipts of operating grants from State agencies. Since this account is recording receipts from other State agencies, it is possible that activity would be doubled up within the CAFR financial statements that should be eliminated.
  - To review balances classified as a due to fund. For the CAFR, all due to fund payable balances should have a corresponding due from fund receivable indicating both the fund from which the balance is owed and the fund to which the balance is due. Instead DAS – State Accounting eliminated all due to fund balances in E1 at June 30, rather than determining where the corresponding due from fund should be classified. DAS – State Accounting then reestablished any

due to fund balances in which it knew where the corresponding due from fund should be classified. We identified \$1,983,155 that should have remained as a due to fund on the financial statements but was not reestablished.

- To review manual journal entries posted in E1 after June 30, 2017, to determine if the activity was related to the fiscal year ended June 30, 2017. DAS – State Accounting did not perform this review until we requested one. After it was brought to the attention of DAS – State Accounting, a review was performed on line items larger than \$500,000. This threshold did not appear reasonable for all funds.
- To ensure there was an adequate segregation of duties over CAFR entries recorded in E1, we reviewed accrual entries in E1. During testing we found two journal entries that were prepared, approved, and posted in E1 by the same individual. This increases the risk that an error could occur and remain undetected.

Similar findings related to errors in the preparation of the CAFR have been noted since the fiscal year 2007 audit. Adequate DAS staff resources needed to prepare and review the CAFR and supporting documentation in a timely manner was lacking, and these deficiencies appear to be the primary causes of the significant issues addressed in this comment, as well as similar ones preceding it for the past several years.

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

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

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 DAS dedicate or hire a sufficient number of staff to ensure internally prepared information is complete, accurate, and submitted timely to the auditors. Additionally, we recommend that SOCs be received and reviewed timely to ensure service organization and user entity controls are in place and adequate. We also recommend DAS continue to work with State agency personnel to ensure accrual information is supported and has a sound accounting base.

*DAS Response: State Accounting agrees that additional staffing is necessary, and has attempted to secure internal resources to increase the number of staff dedicated to preparation of the CAFR. Until such time that approval is given to add additional staff, State Accounting will*

*continue implementing new processes and training for existing staff with the intent to increase efficiency and accuracy. It is critical that current staff be retained to capitalize on their continuity of growth in experience and knowledge.*

*State Accounting agrees with the importance of receiving and reviewing the SOCs within a time frame that supports the completion of the CAFR on or before the due date. State Accounting is working with the service providers on an action plan to assure timely completion and delivery of the SOCI reports.*

*State Accounting agrees with the importance of training and communication with State agencies on the accrual reporting process. State Accounting will continue to work with individual agencies on specific accrual reporting issues, as well as developing additional enterprise-wide training on these reporting issues.*

## **2. Incorrect Payable**

E1 has the ability to identify payments as current period or prior period obligations. Payments made after the fiscal year end, and entered as a prior period obligation, would be included as an accounts payable for CAFR reporting purposes.

Two payments for technology service agreements were incorrectly identified as prior period obligations and, therefore, were included as expenditures and accounts payable in the fiscal year ended June 30, 2017, financial statements. The service agreements were for the time period June 1, 2017, through May 31, 2018; therefore, only one month of the payments were for the fiscal year ended June 30, 2017. As a result, expenditures and accounts payable were overstated by \$8,464,195 on the fiscal year ended June 30, 2017, financial statements for the remaining 11 months.

Per Governmental Accounting Standards Board (GASB) Codification section 1100, Summary Statement of Principles, paragraph .110(a), “Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable . . . .”

A good internal control plan requires procedures for ensuring that expenditures are properly recorded in the correct fiscal year.

Without such procedures, there is an increased risk of the financial statements being misstated.

We recommend DAS implement procedures to ensure expenditures are recorded in the proper fiscal year.

*DAS Response: State Accounting agrees on the importance of recording expenditures in the proper fiscal year for accurate reporting in the CAFR. State Accounting will develop more detailed training for the Post-CAFR and Fiscal Year-End BUG meetings. This training will address prior period obligations and the process to determine accurate allocation of expenditures between reporting periods.*

### **3. Lease Obligations**

Lease obligations were understated by \$3,423,970 due to errors noted for five leases. A 2% increase every two years in the lease obligations, as stated in the terms of the building lease, was not included in the DAS calculation, which was the cause of the majority of the understatement. The remaining understatement was due to DAS not recording the correct lease obligation in accordance with the signed agreement on file.

Sound accounting practices and a good internal control plan require procedures for ensuring the accurate reporting of the State's lease commitments.

Without such procedures, there is an increased risk that material misstatements may occur and remain undetected.

A similar finding was noted in the prior audit.

We recommend DAS implement procedures to ensure all financial information is complete and accurate.

*DAS Response: DAS finance and accounting department will continue working with the DAS Building Division to ensure all critical lease information is entered into the Pro Lease system for accurate lease commitment reporting, and to support the rental billing process.*

### **4. Capital Assets**

We noted the following related to capital assets:

- There was a lack of controls to ensure additions and disposals were recorded in a timely manner. We noted five assets that were acquired in previous years but not added to E1 until the fiscal year ended June 30, 2017. We also noted one asset was capitalized twice on E1. The State agency requested the duplicate be placed in disposal status in February 2017; however, the asset was still duplicated on E1 as of June 30, 2017.
- Additionally, we tested a DAS land acquisition, totaling \$308,816, which was purchased as part of the State Capitol heating, ventilation, and air conditioning project in order to drill geothermal wells. These costs were recorded to construction in progress in E1 with the intent to depreciate the costs when the project was completed. According to the Governmental Accounting Standards Board (GASB), land should not be depreciated.

A good internal control plan and sound business practices require policies and procedures to ensure that State-owned assets are recorded in E1 in a timely and accurate manner, so capital assets are properly reflected on the State's financial statements.

GASB 34, Paragraph 21 (codification 1400.104 *Reporting Capital Assets*) states, in relevant part, "Inexhaustible capital assets such as land and land improvements should not be depreciated."

Without adequate controls in place to ensure assets are recorded timely and accurately, there is an increased risk material misstatements may occur and remain undetected.

A similar finding was noted in the prior audit.

We recommend DAS strengthen its controls by implementing policies and procedures to ensure assets are recorded in E1 timely and accurately.

*DAS Response: DAS understands and agrees with the need for stronger controls using policies and procedures to ensure assets are recorded timely and accurately. State Accounting is currently updating Capital Asset policies and procedures, and will provide formal training to all agencies on their application. The new policy/procedures will help ensure capital assets are recorded timely, accurately and consistently across all agencies.*

## **5. E1 Pay Rate Override**

E1 has a Speed Time Entry screen that was used to upload or enter in timecard information for State employees for each pay period. We noted that users with access to add, change, and delete information on the Speed Time Entry screen had the ability to override pay rates, including their own, without approval. No compensating controls were in place to determine when an employee used the override field. As of September 20, 2017, there were 1,127 user ID's with this access.

A good internal control plan includes an adequate segregation of duties, so no single individual has the ability to adjust his or her own pay rate.

A lack of segregation of duties related to the change or override of pay rates increases the risk of possible theft or misuse of State funds.

We recommend DAS review options for either disabling the ability of users to override pay rates in E1 or implementing compensating controls to identify and review instances of users having engaged in such override activity.

*DAS Response: DAS concurs with this finding and will initiate action to establish compensating controls to monitor this E1 function. The segregation of duties related to this function will also be addressed in the new Oracle Fusion ERP platform during vision, validation, and configuration sessions.*

## **6. E1 Timesheets**

Seventeen State agencies utilized E1 to record their employees' work 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 that at least 40 hours were worked each week. Exempt employees were required to record only leave used in the system.
- For 1 of 25 employees tested, timesheet approval was not properly documented.

- E1 timesheets were maintained only for the current pay period for 15 State agencies that used the time entry function in E1.
- Supervisors and human resource staff within the State agencies were able to change the employee's submitted E1 timesheet without the employee's knowledge or documentation of the changes made.
- E1 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 E1, 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 the prior audit.

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 requires employers of employees who accrue vacation and sick leave to maintain adequate support that employees actually earned the amounts recorded in their leave records.

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.

A good internal control plan requires the approval of timesheets to be documented for subsequent review.

Without adequate records to support hours worked and approvals in the E1 system, there is an increased risk for fraudulent or inaccurate payment of regular hours worked or accumulation of leave. Additionally, failure to retain important payroll documentation risks noncompliance with Nebraska Records Retention and Disposition Schedule 124.

We recommend DAS – State Accounting establish a policy requiring all employees of State agencies to maintain adequate supporting documentation, such as timesheets or certifications, in compliance with Nebraska Records Retention and Disposition Schedule 124. Furthermore, we recommend DAS – State

Accounting make the necessary changes to E1, or save supporting documentation to a data warehouse, to allow for the retention of timesheets, documentation of approvals, and changes to timesheets to ensure compliance with Nebraska Records Retention and Disposition Schedule 124.

*DAS Response: Timesheet images are maintained in the system of record (E1) until the payroll is processed; however, the electronic data is maintained in E1 indefinitely. Agencies will be reminded to retain any information they may receive, generate or create outside of the E1 system in support of an agency's payroll to be done in accordance with Nebraska Records Retention and Disposition Schedule 124. This function will also be addressed in the new Oracle Fusion ERP platform during vision, validation, and configuration sessions.*

## **7. E1 Special Handle a Voucher**

The Special Handle a Voucher Function (Function) in E1, which allows users to change the payee of a payment voucher without going through the Batch Management process, is used by the following:

- DAS – 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;
- DAS – State Accounting to process replacement warrants;
- State agencies to correct vouchers without having to void and recreate another voucher.

We noted several issues with the Function in E1, including the following:

- Access to the Function was not restricted to only high-level users. Access was available instead to users who had access to Accounts Payable (AP) roles 20, 21, 30, 40, 41, 50, and 51. Essentially, anyone who had access to AP in E1, with the exception of inquiry-only access, was able to use the 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 804 users had access to the Function as of May 2, 2017.
- Users with the ability to add vendors and change vendor information in E1 also had access to the Function. The Address Book (AB) 50 role allowed users to add vendors and make changes to vendors. All eight users with AB 50 access also had access to the Function, creating an environment in which a user could set up fictitious vendors in the system or improperly change vendor information and then change payee information on vouchers to direct payment to the fictitious/modified vendor.

DAS – State Accounting indicated it uses the payee control approval process in E1, a required step in payment processing, to review and approve vendor changes made through the Function. However, we noted the following issues related to the payee control approval process:

- All eight users with access to the payee control approval process also had access to the Function. Thus, these users could change a payee on a voucher and then approve it, without involvement of a second person, resulting in a lack of segregation of duties.
- Two users with access to the payee control approval process also had access to the Function and could add vendors or change vendor information in E1.

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

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101 (December 2013), 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.*

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

A similar finding was noted in the prior audit.

We recommend that access to the Function be restricted to only certain high-level users. Moreover, we recommend that users with the ability to add vendors and make changes to vendor information in E1 do not have access to the Function. We recommend that documentation be maintained to support review/approval of vendor changes through the payee control approval process. Finally, we recommend users with access to the payee control approval process be prevented from accessing the Function and/or from adding/changing vendor information in E1.

*DAS Response: DAS State Accounting will continue to review compensating control processes and procedures related to Payee Control and Special Handle a Voucher functions and will assure they are in place and functioning. The segregation of duties related to the vendor management function will also be addressed in the new Oracle Fusion ERP platform during vision, validation, and configuration sessions.*

## **8. E1 Terminated User Access**

For 18 of 25 terminated users tested, access to E1 was not disabled or removed in a timely manner (within three business days). Three of these users accessed the system after their termination date. The delay in disabling the user ID’s ranged from 14 to 42 business days.

NITC Standards and Guidelines, Information Security Policy 8-101 (December 2013), 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 privilege.*

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 the timely removal of terminated users’ access to E1.

The lack of such a process creates the opportunity for inappropriate access to State resources, as well as unauthorized processing of transactions.

A similar finding was noted in the prior audit.

We recommend DAS work with State agencies, through on-going training and monitoring of agency personnel, to ensure agencies request termination of E1 user ID’s prior to, or immediately upon, termination. We recommend agencies trigger such requests by entering employee termination dates in Workday as soon as a termination date is determined, which may be prior to that date.

*DAS Response: DAS will continue to provide multiple training events during which agency personnel are reminded to deactivate a terminated user’s E1 access on a timely basis. This function will also be addressed in the new Oracle Fusion ERP platform during vision, validation, and configuration sessions.*

## **9. Changes to Vendor and Banking Information**

During our review of the process to change vendor and banking information in E1, we noted a lack of controls to ensure additions and/or changes to vendor addresses and banking information were 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 DAS – State Accounting. This submission can be made 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 DAS – State Accounting did not perform any other procedures to identify potentially fraudulent bank accounts in the system. A review could include querying for duplicate bank accounts or addresses existing for both a vendor and employee of the State.

A good internal control plan requires procedures to ensure that critical vendor and banking information within E1 is proper, and changes to that information is verified as accurate.

A lack of such procedures increases the risk of loss or misuse of State funds due to fraudulent activity within E1.

A similar finding was noted in the prior audit.

We recommend DAS establish procedures to ensure vendor addresses and banking information in E1 are appropriate and accurate. These procedures should require a secondary approval of all vendor and banking information at the agency level when modifying W-9/ACH forms, ensuring that at least two knowledgeable individuals are involved in the changes. We also recommend DAS establish procedures, such as a periodic review for duplicate bank accounts and vendor addresses, to identify potential fraudulent bank accounts in the system.

*DAS Response: DAS continues to review and improve procedures for vendor set-up and maintenance including accuracy of vendor records and review and identification of duplicate bank accounts and vendor addresses. Procedures for this function will also be addressed in the new Oracle Fusion ERP platform during vision, validation, and configuration sessions.*

#### **10. Human Resource User Role 65**

We noted several DAS payroll batches that were prepared, approved, and posted by a single DAS payroll employee.

The Human Resource User Role 65 (HR 65) in E1 was used by DAS – State Accounting to perform the final update processing for payroll. However, the HR 65 role also allowed users to prepare, approve, and post transactions, as this role is not set up with batch management. We noted several payroll journal entries and vendor payroll deduction batches, including batches that contained DAS payroll, that were prepared, approved, and posted by a single DAS employee.

A good internal control plan includes an adequate segregation of duties to ensure that at least two individuals are involved in processing payroll payments.

A similar finding was noted in the prior audit.

We recommend DAS ensures any batches involving its own payroll be processed by at least two individuals.

*DAS Response: DAS will establish compensating controls to incorporate procedures to review the activity of those DAS employees assigned User Role 65 who also have responsibility for processing internal payroll batches. This function will also be addressed in the new Oracle Fusion ERP platform during vision, validation, and configuration sessions.*

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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 DAS 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 DAS.

This communication is intended solely for the information and use of DAS, the Governor and State Legislature, others within DAS, 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.



Philip J. Olsen, CPA, CISA  
Audit Manager