



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Jason Jackson, Director
Nebraska Department of Administrative Services
1526 K Street, Suite 240
Lincoln, Nebraska 68508

Dear Mr. Jackson:

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, 2019, in accordance with auditing standards generally accepted in the United States of America and the 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 19, 2019. 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 Nebraska 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 the 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 certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 consider Comment Number 1 (CAFR Preparation) and Number 2 (Capital Asset Issues) 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 3 (Lack of Financial Statement Reconciliation) to be a significant deficiency.

These comments 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 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, 2019.

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). Per Neb. Rev. Stat. § 81-1125.01 (Reissue 2014), the CAFR must be completed “at least twenty days before the commencement of each regular session of the Legislature[.]” In order to ensure that the CAFR would be completed timely, the Auditor of Public Accounts (APA) requested a list of items to be prepared by DAS – State Accounting and submitted to the APA for testing. Of those requested items, 108 were submitted more than seven days after the dates specified on the list, ranging from 8 to 60 days late.

Number of Items Submitted Late	Range of the Number of Days Late
19	8 to 10
25	11 to 15
46	16 to 20
14	21 to 28
1	33
2	49
1	60

The first draft of the report was submitted two days late and was incomplete; it also contained numerous errors, requiring several revisions to correct formatting problems, rounding issues, missing line items in the financial statements, and calculation errors. Nine draft reports were provided before a complete and accurate report could be finalized.

The State is a large, complex entity with over \$17 billion in primary government assets, and it processed \$9 billion in primary government expenses during fiscal year 2019. The DAS CAFR team responsible for assimilating and reviewing the statewide information comprising the report, adhering to various Generally Accepted Accounting Principles, including the preparation and posting of \$16.8 billion in adjusting entries, was comprised of five full-time employees with duties extending beyond the annual CAFR project. It is the opinion of the APA that the DAS CAFR team was, and has been for many years, grossly understaffed for completing a project of this size and complexity in an accurate and efficient manner.

Due, in significant part, to the lack of DAS resources dedicated to the CAFR, we noted material errors in information processed and prepared by DAS – State Accounting, as follows:

Agency Accruals

DAS required State agencies to report accounts receivable and accounts payable accrual items, which were not contained within the State’s accounting system, for inclusion in the CAFR. DAS did not have documented procedures for reviewing the accrual information submitted; instead, journal entries were prepared and posted with errors due to inaccurate information provided by the Nebraska Department of Health and Human Services (DHHS) and Nebraska Department of Education (NDE). The journal entries required significant adjustments to ensure that financial reporting was accurate.

For the errors detailed in the table below, the APA proposed adjustments to ensure that the financial statements would be reflected properly. All the proposed adjustments were posted by DAS.

Description	Over/ (Understated)	Reason
DHHS – DSH Payable	\$ (54,241,902)	The Disproportionate Share Hospital (DSH) payable is for amounts due to hospitals that disproportionately serve low-income patients. DHHS did not properly calculate the liability. For the current fiscal year, it reported only \$106,306. DHHS did not consider that payments to hospitals are two years behind; thus, there should be both a long-term payable of \$26,138,914 and a short-term payable of \$28,102,988. DHHS also did not report a proper payable for fiscal year 2018, understating the beginning balance by \$30,564,634.
NDE – IDEA Payable	\$ (43,335,395)	NDE included improper amounts within its calculation of the Individuals with Disabilities Education Act (IDEA) Special Education and Grants Management System payables, causing an understatement.
DHHS – IME/DME Payable	\$ (25,923,435)	The Indirect/Direct Medical Education (IME/DME) payable is for payments to hospitals approved for medical education programs. DHHS did not report all hospitals on its accrual response form submitted to DAS, and its calculation was not proper for all managed care organizations, causing an understatement of \$25,923,435. Furthermore, DHHS did not use the proper Federal and State funding percentages for proper presentation in the financial statements.

Description	Over/ (Understated)	Reason
DAS – Federal Liabilities	\$ 22,680,772	DAS erroneously recorded an accrual journal entry for activity that netted to \$22,680,772 to record a liability to the Federal government. However, the Federal liability was recorded through a separate entry; this entry would have caused a doubling of activity on the financial statements.
DHHS – Patient & County Billing Receivable	\$ 9,600,184	The receivable is for balances due for services provided to clients at the DHHS Beatrice State Development Center and three Regional Centers in Lincoln, Hastings, and Norfolk. DHHS included balances that were not collectible, intra-agency receivables, and allowances that were not supported. Errors noted caused an overall overstatement of \$9,600,184.
DHHS – MDR Receivable	\$ (7,841,110)	The Medicaid Drug Rebate (MDR) receivable is for Medicaid drug rebates due from drug labelers. DHHS used the July 29, 2019, report, instead of the June 30, 2019, report of balances due, to calculate the receivable, causing an understatement in the amount reported totaling \$7,841,110.
DHHS – Rx Drug Benefit Payable	\$ 5,720,393	DHHS reported a payable for the State’s prescription benefit payable; however, the payment made in July 2019 was already recorded in the accounting system as a payable as of June 30, 2019. This caused an overstatement of \$5,720,393, as recording it in the accounting system and reporting it to DAS would cause a duplicate of the payable.
DHHS – NFOCUS Receivable	\$ 4,651,343	The Nebraska Family Online Client User System (NFOCUS) receivable consists of amounts due from individuals for overpayments made from various assistance programs, such as SNAP (Supplemental Nutrition Assistance Program), TANF (Temporary Assistance for Needy Families), etc. DHHS had not considered an allowance for doubtful accounts for the SNAP program, causing an overstatement of \$4,651,343.
DHHS – TPL Receivable	\$ 3,821,112	The Third Party Liability (TPL) consists of amounts subject to collection attempts from third parties, such as insurance companies, for services provided to individuals. DHHS incorrectly calculated the receivable for an annual estimated amount, versus the determined 45-day outstanding balance, causing the overstatement of \$3,821,112.
DHHS – Program Integrity Receivable	\$ 2,099,287	The Program Integrity receivable consists of amounts owed from Medicaid recipients for overpayments, fraudulent claims, etc. DHHS included balances, totaling \$1,732,892, for closed cases from which future collections are unexpected. Two account balances, totaling \$1,251, were not reduced properly for amounts received, and one account balance for \$365,144 was included in the receivable in error.

Other Items Prepared by DAS

DAS prepared other manual financial statement entries throughout the audit in order to compile the CAFR. During testing, we noted several additional errors due to a lack of both knowledgeable DAS personnel and an adequate secondary review of entries performed prior to posting. Errors of \$2.5 million or greater were as follows:

Description	Amount of Errors	Reason
BELF Beginning Fund Balance	\$ 168,262,740	During the previous fiscal year, an entry was made to establish the long-term investments in land for the Board of Educational Lands and Funds (BELF). The entry was reversed during fiscal year 2019; therefore, the beginning balances needed to be reestablished. DAS did not properly record the entry, causing the beginning fund balance to be understated by \$84,131,370, gain/loss on sale of investments to be overstated by \$83,983,013, and operating expenditures to be understated by \$148,357. DAS posted the adjustment proposed by the APA.
OSERS – Agency Fund Financial Statement	\$ 128,018,201	The Agency Fund financial statement support for the Omaha School Employee Retirement System (OSERS) contained multiple mathematical issues, which would have caused the financial statements to be improper. The errors in OSERS activity ranged from \$77,427,368 to (\$50,590,833). DAS corrected the errors after the APA brought them to its attention.
OSERS – Securities Lending	\$ 23,996,794	DAS did not properly record securities lending collateral and activity, resulting in an over allocation of \$7,245,096 to the OSERS plan and an under allocation of the same amount to the Nebraska Public Employees Retirement System (NPERS) retirement plans. After the APA pointed out the error, DAS failed to post the correcting journal entry for OSERS, resulting in an understatement of \$16,751,698 in securities lending collateral and activity. DAS posted the entry after further APA inquiry.
Permanent School Fund Restricted Balance	\$ 47,894,462	DAS understated the Permanent School Fund restricted principal balance by \$47,894,462, due to an incorrect formula and the balance not including all applicable amounts. DAS corrected the error after the APA brought it to the agency’s attention.
Restricted Fund Balances	\$ 21,365,964	DAS identified four fund balances, totaling \$21,365,864, as unrestricted in the financial statements; however, all four funds were established by State statutes, which restricted the funds usage for specific purposes. DAS agreed and corrected the errors, with the exception of one fund balance of \$310,734, which DAS did not properly reclassify.
Miscellaneous Adjustment Review	\$ 7,103,795	When agencies perform transactions for previous year activity during the current year, they use a miscellaneous adjustment account. DAS then performed a review of significant activity for reclassification in the financial statements. DAS did not perform an adequate review; therefore, the APA proposed an adjustment for \$7,103,795, of which DAS posted \$5,858,270.

Description	Amount of Errors	Reason
Improper Adjusting Entry	\$ 5,848,104	The APA proposed an entry to correct prior year activity for Medicaid capitation rates from fiscal year 2017 and 2018. The entry posted by DAS was reversed, causing the original error of \$2,924,052 to double to \$5,848,104. DAS did not post the APA-proposed adjustment to fix the error.
Fiduciary Investment Classification	\$ 5,326,792	DAS incorrectly classified an investment for \$5,326,792 as Commingled Funds rather than Private Real Estate in the Fiduciary Fund financial statements. DAS agreed and corrected the error.
Federal Fund Balance Analysis	\$ 3,470,521	DAS had an error in its calculation of the Federal fund balance analysis and misclassified two fund balances, causing errors of \$3,470,521. DAS posted the adjustment proposed by the APA.
Securities Lending Adjustment	\$ 2,792,312	A correcting entry made by DAS for securities lending duplicated a previous entry; this caused an understatement in the Federal fund and an overstatement in the Capital Projects fund of \$2,792,312. An APA-proposed adjustment was not posted by DAS.
Prior Year Revenue Activity	\$ 2,616,925	DAS did not perform adequate procedures to ensure revenue activity recorded as receivables for the fiscal year end 2019 were properly accrued in the financial statements. We tested six revenue documents posted after the fiscal year end and noted that three of the six, totaling \$2,616,925, should have been recorded by DAS. Additionally, DAS improperly recorded \$288,532 as accounts payable instead of due to government. The APA proposed an adjustment, and DAS posted \$2,324,400 of the total.

The APA noted other various errors in DAS-prepared entries, totaling \$6,078,084. Those errors included the following: 1) improper reclassification of balances due to other funds, totaling \$597,609; 2) improper reclassifications of activity in the Unemployment Compensation Fund, totaling \$2,192,925; 3) unexplained differences in the reconciliation of the general ledger to the financial statements, totaling \$64,745; 4) improper internal service fund elimination calculations, causing a variance of \$284,720 in the allocation; 5) errors of \$1,064,000 in the fund balance categories in the Health and Social Services fund; and 6) failure to reverse a prior year entry, causing the balance in fiscal year 2019 to be incorrect by \$1,874,085.

Footnote Disclosures

We noted other issues with items prepared by DAS for footnote disclosures, as follows:

Footnote Disclosure	Amount	Reason
Risk Management	\$ 396,300,000	The disclosure included several incorrect coverage amounts, the largest of which was for the vehicle coverage at \$4,700; the original version had \$401,000. The footnote was reviewed by DAS – Risk Management prior to inclusion in the report; however, the errors were not identified until brought to the attention of DAS by the APA.

Footnote Disclosure	Amount	Reason
Noncurrent Liabilities	\$ 48,403,747	DAS failed to include the DSH payable, totaling \$26,138,914, in current long-term liabilities and \$22,264,833 in the adjusted beginning balance when reporting claims payable. When DAS provided the revised footnote support, the calculation of deletions was incorrect, causing the need for further revisions.
Deposits & Investments Portfolio	\$ 31,841,261	DAS did not obtain fair value levels for deferred compensation retirement investments held by Mass Mutual, totaling \$31,841,261. Investments were to be classified in levels depending on how the fair value was determined, as required by Generally Accepted Accounting Principles. This amount was instead included as "Other Investments Not Classified." Additionally, the disclosure required multiple revisions; as DAS omitted the Nebraska and Alabama Enable Savings Plans from "Other fair value measurements," several amounts did not agree to support, and DAS miscalculated the Securities Lending Short-Term Collateral.
Receivables	\$ 31,696,000	The disclosure was understated by \$31,696,000 due to a miscalculation by DAS of the Unemployment Contributions receivable, and DAS failed to obtain updated allowance amounts for the DHHS-adjusted accruals noted above.
Lease Commitments	\$ 3,625,743	The Lease Commitments footnote inappropriately included a 2% administrative fee in the amounts committed, and the minimum annual lease payments for one lease were understated by \$3,625,743.
Restatements	\$ 430,331	DAS failed to include the Unemployment Insurance restatement of \$430,331.

We also noted the following issues during the audit:

- During the calculation of securities lending for the fiduciary funds, one OSERS fund was not included in the allocation. The fund totaled \$1,595,104, and DAS was unable to explain why the fund was not included.
- DAS did not allocate the Nebraska Public Employees Retirement System – State Cash Balance net pension obligation to other funding sources, such as fiduciary and proprietary funds in accordance with GASB Statement No. 68. The APA informed DAS of the requirement in August 2019, but DAS did not perform procedures in a timely manner. The estimated allocation calculated by DAS determined the following for proprietary funds:

Beginning Net Asset Adjustment	\$ 405,141
Net Pension Expense	\$ 621,611
Deferred Outflows	\$ 1,161,949
General Government Expenses	\$ 278,676
Deferred Inflows	\$ 642,884
Net Pension Liability	\$ 456,861

- To verify that DAS had an adequate segregation of duties over CAFR entries, we reviewed 25 accrual entries in EnterpriseOne (E1), the State’s accounting system. Two were prepared, approved, and posted by the same individual. This increases the risk that an error could occur and remain undetected. Furthermore, 5 of the 25 entries tested were not included on a DAS tracking sheet provided to the APA.

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 were lacking, and these deficiencies appear to have been the primary causes of the material weakness addressed in not only this comment but also 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. A sound business plan includes dedicating adequate staffing resources to meet the requirements of State statute.

Without adequate procedures and staffing to ensure the accuracy of the financial reports and information used to prepare the CAFR, there is an increased risk that material misstatements may occur and remain undetected.

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. We also recommend DAS utilize resources to work with State agency personnel to ensure accrual information is supported and has a sound accounting base.

DAS Response: State Accounting agrees an increase in staff hours dedicated to the CAFR is needed to improve the completeness, accuracy, and timeliness of information provided. The 2019 CAFR was issued 20 days prior to the start of the 2020 legislative session, compared to the 2018 CAFR issued 5 days prior to the start of the 2019 legislative session. Additionally, there were 36 adjustments proposed, with all but 9 being made; compared with 38 adjustments proposed for the 2018 CAFR in which 14 were not made. We will continue working to improve the CAFR process.

2. Capital Asset Issues

Due to a significant lack of experienced staff and inadequate secondary reviews, we noted material errors in information processed and prepared by DAS for capital asset reporting, as follows.

Capital Asset Entries

DAS created manual journal entries to record capital asset activity for the financial statements. During testing of the entries, we noted numerous errors, totaling \$6,677,641, as follows:

Description	Net Amount of the Error	Reason
Governmental Activities – Buildings	\$ 353,442	DAS did not properly prepare the beginning balances or the activity for the fiscal year for the buildings entry. The calculation provided by DAS did not agree to reports run from the State’s accounting system. The APA requested that DAS revise its calculation; however, the second version was still improper, with net understatements totaling \$353,442. DAS posted the adjustment proposed by the APA.
Governmental Activities – Equipment	\$ 1,515,623	DAS did not properly prepare the beginning balances or the activity for the fiscal year for the equipment entry. The calculation provided by DAS did not agree to reports run from the State’s accounting system. The APA requested that DAS revise its calculation; however, the second version was still improper, with net understatements totaling \$1,515,623. DAS posted the adjustment proposed by the APA.
Business-Type Activities – Buildings	\$ 584,205	DAS included improper additions of \$584,205, which were reported during the previous fiscal year and included in the fiscal year 2019 beginning balance. DAS corrected the error after it was brought to the agency’s attention.
Internal Service Funds – Office of the CIO	\$ 4,162,660	DAS included several assets as additions that had already been reported during the previous fiscal year and included in the fiscal year 2019 beginning balance. These included prior year depreciation expense as current year expense and several assets as current year additions; however, the assets were purchased prior to fiscal year 2019 and should have been beginning-balance adjustments. DAS posted the adjustment proposed by the APA.
Internal Service Funds – General Services	\$ 33,491	DAS included four assets as additions for \$33,491; however, the assets were purchased prior to fiscal year 2019 and should have been beginning-balance adjustments. DAS did not post the adjustment proposed by the APA.
Internal Service Funds – Transportation Services	\$ 17,048	DAS included one asset as an addition for \$17,048; however, the asset was purchased prior to fiscal year 2019 and should have been a beginning-balance adjustment. DAS did not post the adjustment proposed by the APA.
Internal Service Funds – Other Internal Services	\$ 11,172	DAS included one asset as an addition for \$11,172; however, the asset was purchased prior to fiscal year 2019 and should have been a beginning-balance adjustment. DAS did not post the adjustment proposed by the APA.

We also selected five of the largest projects from the DAS 309 Task Force (Task Force) expenditures for testing. The Task Force is a program administered by DAS for statewide building maintenance projects. We tested one expense from each of the projects and noted that one purchase was for a new generator at the Eastern Nebraska Veterans Home, costing \$848,462. The costs were expensed as repair and maintenance, instead of capitalized in accordance with accounting policies. No adjustments were made to the financial statements.

A good internal control plan requires procedures to ensure capital asset activity is reported accurately for financial statement presentation.

A similar finding was noted during the previous audit.

Construction in Progress

During testing of DAS’s support for Construction in Progress (CIP), we noted several issues, including inconsistent or inaccurate calculations, omissions or inaccurate inclusion of projects, and failing to include completed projects removed from CIP in capital asset additions. DAS adjusted CIP by \$14,258,323, as proposed by the APA. Errors of \$1.5 million or greater were as follows:

Description	Over/ Understated	Reason
DMV – VicToRy system	\$ (14,660,000)	During the audit, it was determined that the VicToRy system needed to be capitalized. DAS was informed of the costs but did not include the system in CIP, causing the understatement.
DHHS – Edifecs system	\$ 5,949,497	The Edifecs system was identified by the APA as a system that needed to be capitalized. Expenditures of \$5.9 million were recorded by DAS as a beginning balance adjustment; however, the system was completed prior to fiscal year 2019 and should have been recorded as capital asset equipment instead. Furthermore, the amount capitalized was overstated by \$935,278.
Kearney Veterans Home	\$ 5,069,283	DAS overstated additions to CIP for previous year costs to the Kearney Veterans Home.
DHHS – NeHII system	\$ 4,735,158	DAS included the NeHII system as a capitalized computer software project; however, after further discussions with DHHS, it was determined the project did not meet the requirements of GASB Statement No. 51 and, therefore, should not have been included in CIP.
DHHS – Improvements	\$ (4,080,327)	During the audit, the APA identified two CIP improvements (Kearney YRTC Security upgrades & HRC building improvements) that were not properly capitalized in the accounting system. DAS was informed of the costs but did not include the projects in CIP, causing the understatement.
State Capitol HVAC	\$ (3,325,350)	The Capitol heating and air conditioning project included \$1.2 million in costs for a separate project, but it was understated by \$4.5 million for costs improperly omitted, for a net understatement of \$3.3 million.
Game & Park Commission Projects	\$ (2,801,591)	DAS did not include beginning balance costs for several park projects, causing an understatement of \$2.8 million.

Description	Over/ Understated	Reason
Nebraska Department of Transportation – Kronos system	\$ (2,781,920)	DAS recorded a reduction to CIP for the completed system; however, it failed to include the costs as an addition to equipment, causing an understatement in capital assets-equipment.
DHHS – Data Management & Analytics (DMA) system	\$ (1,801,110)	The APA identified the DMA system as needing to be capitalized. Expenditures of \$1.8 million were incurred prior to fiscal year 2019; however, DAS did not properly reflect these expenses as beginning balance adjustments, causing an understatement.
NDOL – Benefit system	\$ (1,722,911)	During the audit, it was determined that the NDOL system needed to be capitalized. DAS was informed of the costs but did not include the system in CIP, causing the understatement.

Furthermore, DAS understated the Construction Commitments footnote disclosure by \$81 million. DAS’s calculation of remaining commitments was improper; several projects included inaccurate expenditures to date; funding sources were improper; and all significant projects were not included, as required by GASB Codification § 2300.106(k), which requires inclusion of “[c]onstruction and other significant commitments, including encumbrances, if appropriate.” The footnote required four revisions in order to be properly reflected in the report.

We also noted that the entry to record construction retainage payable was understated by \$1,851,319, due to two projects inappropriately omitted from the calculation.

Good internal controls require DAS to implement adequate procedures for the accurate and complete preparation of construction in progress and related footnote disclosures. Good internal controls also require an adequate secondary review to ensure supporting documentation is proper prior to submission to the auditor for review.

Infrastructure Capitalization Policy

DAS had not established a statewide policy for the capitalization of improvements made to land in accordance with accounting standards. During testing, we noted that fiber optic cable was installed at the Platte River State Park, costing \$557,511, which was expensed rather than capitalized due to the lack of a policy. DAS claimed to be working on a policy, but it was not implemented during the fiscal year.

Neb. Rev. Stat. § 81-1111(1) (Reissue 2014) states, in relevant part, the following:

Subject to the supervision of the Director of Administrative Services, the Accounting Administrator shall have the authority to prescribe the system of accounts and accounting to be maintained by the state and its departments and agencies, develop necessary accounting policies and procedures, coordinate and approve all proposed financial systems, and manage all accounting matters of the state’s central system.

Governmental Accounting Standards Board (GASB) Codification § 1400.103 provides the following:

[T]he term capital assets includes land, improvements to land . . . that are used in operations and that have initial useful lives extending beyond a single reporting period.

Codification § 1400.702-1 goes on to explain the following:

Q-What are land improvements?

A-Land improvements consist of betterments, other than buildings, that are ready for its intended use. Examples of land improvements include site improvements such as excavation, fill, grading, and utility installation; removal, relocation, or reconstruction of property of others, such as railroads and telephone and power lines; retaining walls; parking lots; fencing; and landscaping.

Without adequate policies and procedures for capitalization, there is an increased risk of material misstatement of the financial statements.

Master Lease Financing Period

We noted two instances of equipment financed through the Master Lease Program (Program) being assigned a useful life in the State's accounting system that was shorter than the financing period of the lease. The Office of the Chief Information Officer (OCIO) financed \$6,533,744 of network and storage equipment and assigned the assets a useful life of three years within the State's accounting system; however, the financing period of the lease was five years.

The State of Nebraska's Master Lease Purchase Program Policy states the following:

Repayment terms will be negotiated for each equipment group with a term not to exceed the expected life of the equipment being leased.

A good internal control plan requires procedures to ensure that assets purchased through the Program are depreciated and financed in accordance with the life of the asset.

Without such procedures, there is an increased risk of not only lack of compliance with Program policy but also the State paying for assets that are no longer being used.

A similar finding was noted during the previous audit.

We recommend DAS implement procedures to ensure that capital assets are recorded accurately for financial statement presentation, including footnote disclosures. Those same procedures should ensure also that agencies utilizing the Master Lease Program are recording financed assets in the State's accounting system in accordance with policy. Additionally, DAS should implement a statewide policy for the capitalization of land improvements in accordance with accounting standards.

DAS Response: State Accounting agrees that fixed asset policies and procedures need updated to improve the accuracy of financial statement presentation.

3. Lack of Financial Statement Reconciliation

DAS did not perform a reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the financial statements. Expenditures of \$2.5 billion were recorded to the Federal fund in the financial statements for the fiscal year ended June 30, 2019.

Good internal controls require DAS to reconcile the SEFA to the financial statements to ensure the schedule and financial statements are complete and accurate.

Without such a reconciliation, there is an increased risk of the SEFA or the financial statements being inaccurate and those inaccuracies going undetected.

We recommend DAS implement procedures to reconcile the SEFA to the financial statements.

DAS Response: State Accounting understands the risk identified and will prioritize remediation of the finding based on the assessment of that risk.

4. Enable Alabama Savings Plan

The Nebraska State Treasurer (State Treasurer) was the trustee of the State of Alabama’s Enable Savings Plan (Alabama Plan) starting in February 2017. The State Treasurer entered into an agreement with the State of Alabama in November 2016 to provide administration, operation, and maintenance of the Plan. DAS had not included the fiduciary funds in the financial statements prior to fiscal year 2019. The APA identified and discussed the issue with DAS when the audit began, but DAS did not agree to include the activity in the CAFR until the APA proposed an adjustment and prepared a draft financial schedule.

Furthermore, the Alabama Plan is administered by the same vendor as the State’s Enable Savings Plan. The State’s Plan is audited separately on an annual basis, but no such audit existed for the Alabama Plan.

For the fiscal year ended June 30, 2019, the Alabama Plan’s activity consisted of the following:

Beginning Balance, July 1, 2018	\$ 362,663
Additions	905,528
Deletions	213,771
Ending Balance, June 30, 2019	\$ 1,054,420

Good internal controls require procedures to ensure that the financial statements include all fiduciary activity of the State.

Without such procedures, there is an increased risk of material misstatement of the financial statements.

We recommend DAS implement procedures to ensure fiduciary activity is complete and accurately reported in the financial statements. Additionally, we recommend DAS work with the State Treasurer to establish an audit of the Alabama Plan.

DAS Response: State Accounting agrees with the importance of ensuring fiduciary activity is complete and accurate for reporting in the financial statements. Procedures are currently being implemented to include the Enable Alabama Saving Plan for future CAFR reporting years.

5. Improper Payable

The State’s accounting system, EnterpriseOne (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.

One payment for a technology service agreement was incorrectly identified as a prior-period obligation and, therefore, was included as expenditures and accounts payable in the fiscal year ended June 30, 2019, financial statements. The service agreement was for the period March 29, 2019, through March 28, 2020; therefore, only three months of the payment were for the fiscal year ended June 30, 2019. As a result, expenditures and accounts payable were overstated by \$990,000 on the fiscal year ended June 30, 2019, financial statements for the remaining nine months. DAS posted the adjustment proposed by the APA.

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 measureable”

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.

A similar finding was noted during the previous audit.

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

DAS Response: State Accounting agrees with the importance of recording expenditures in the proper fiscal year for accurate reporting in the CAFR. State Accounting will continue to develop and present training materials at semi-annual Business User Group meetings that will address prior period obligations and the process to determine correct recording of these expenditures.

6. Voyager Card Issues

For the purchase of fuel, service, maintenance, and repair of its vehicles and equipment, the State of Nebraska (State) uses Voyager Fleet Systems Inc. (Voyager) cards, which are essentially credit cards issued through US Bank. The Voyager cards are used for electronic purchases at Nebraska Department of Transportation gas pumps and hundreds of participating commercial vendors in Nebraska. The Voyager card can be used also in surrounding states.

We ran a report of all Voyager card transactions for the fiscal year ended June 30, 2019, and noted the following issues for DAS:

- Nearly all of the Voyager cards are assigned to a vehicle, a piece of equipment, or a State shop. Voyager cards assigned to a specific vehicle usually require the State employee to enter a vehicle identification number and the odometer reading of the vehicle before the card can be used. This serves as a monitoring tool to ensure the fuel purchased is for the proper vehicle. DAS made 125 fuel purchases, totaling \$12,276, without the odometer reading of the vehicle being entered at the time of purchase.
- Additionally, Neb. Rev. Stat. § 81-1019(1) (Reissue 2014), states, “Any person using a bureau fleet vehicle shall, whenever possible, obtain fuel from state-owned facilities.” The DAS – Transportation Services Bureau (TSB) “Policies and Procedures,” Section 8, *Fuel*, also requires fuel purchases in Lincoln, NE, to be made from State-owned facilities, instead of commercial vendors. The State purchases bulk fuel at a reduced price; therefore, fuel purchased at State-owned facilities reduces costs incurred by agencies. Contrary to TSB policy, 43 fuel purchases, totaling \$2,898, made in the City of Lincoln were not from State-owned facilities.

- We selected one Voyager card transaction for vehicle repairs, totaling \$542. We noted that no documented pre-approval for the purchase was on file, as required by DAS – Transportation Services Bureau (TSB) “Policies and Procedures,” Section 9, *Voyager Fuel Cards*, which mandates approvals for repair and maintenance charges in excess of \$100.

A similar finding was noted during the previous audit.

Good internal controls require procedures to ensure that odometer readings are tracked when fuel purchases are made with Voyager cards, and fuel purchases in Lincoln, NE, are made at State-owned facilities, as well as at such facilities elsewhere whenever possible. Those same procedures should ensure adherence to State policies.

Without such procedures, there is an increased risk for not only misuse or waste of public funds and resources but also noncompliance with State statute and/or administrative policies.

We recommend DAS implement procedures to ensure that odometer readings are tracked when fuel purchases are made with a Voyager card, and fuel purchases in Lincoln, NE, are made at State-owned facilities, as well as at such facilities elsewhere whenever possible. Additionally, those same procedures should ensure adherence to State policies.

DAS Response: The Department of Administrative Services will continue working to educate teammates on policies and procedures in place for Voyager card use. DAS will continue to have fuel purchases without an odometer reading for those pieces of machinery and equipment that do not have an odometer.

7. Human Resource User Role 65 & E1 Pay Rate Override

We noted 59 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.

Additionally, we noted over 1,000 users with access to add, change, and delete information in the Speed Time Entry screen in E1, which provided the ability to override pay rates, including their own, without approval.

A good internal control plan includes an adequate segregation of duties to ensure that at least two individuals are involved in processing payroll payments, and no single individual has the ability to adjust his or her own pay rate.

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 ensure any batches involving payroll be processed by at least two individuals. We also recommend DAS review options for disabling the ability of users to override pay rates or implement a compensating control to identify and review instances of users overriding pay rates in E1.

DAS Response:

Human Resource User Role 65: *State Accounting will establish compensating controls incorporating procedures to review the activity of those DAS employees assigned User Role 65, who have responsibility for processing internal payroll batches. DAS will continue working to minimize the number of times payroll batches are processed by one person.*

E1 Pay Rate Override: *State Accounting will establish procedures to periodically review the use of pay rate overrides. A sample of overrides will be tested to ensure there is a reasonable basis for the change and to ensure users have not overridden their own pay rate. Any entry that looks questionable will be brought to the State Accounting Administrator's attention so further action can be considered.*

8. E1 Special Handle a Voucher

The Special Handle a Voucher Function (Function) in E1, allows users to change the payee of a payment voucher without going through the batch management process. The Function 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; and
- 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 798 users had access to the Function as of July 9, 2019.
- 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 seven 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 claims to use 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 nine 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. In addition, one of these nine users had access after the employee had been terminated.

- One user 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 to perpetrate and/or to conceal errors and irregularities.

The Nebraska Information Technology Commission's (NITC) "Technical Standards and Guidelines," § 8-303, *Identification and authorization* (2017), states the following, in relevant part:

(4) To reduce the risk of accidental or deliberate system misuse, separation of duties must be implemented where practical. Whenever separation of duties is impractical, other compensatory controls such as monitoring of activities, increased auditing and management supervision must be implemented. At a minimum, the audit of security must remain independent and segregated from the security function.

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 access to the Function be restricted to only certain high-level users. Moreover, we recommend removing access to the Function for users with the ability to add vendors and make changes to vendor information in E1. We recommend 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: State Accounting will continue to review compensating control processes and procedures related to Payee Control and Special Handle a Voucher functions. As noted in the finding, only one user has access to the payee control-approval process, Special Handle a Voucher, and vendor address book records. If the vendor/payee is changed on a voucher, another user does complete a review and documentation from the agency is retained.

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 that 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 W-9/ACH form 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.

The APA was informed of three erroneous payments resulting from unauthorized changes to an employee's and vendor's banking information, resulting in the loss of nearly \$20,000 in State funds.

The first two payments were from the Nebraska Department of Tourism to Visit Omaha and are detailed in the table below:

G/L Date	Payee	Explanation	Amount
4/24/2019	VISITOMAHA	Community Impact Grant	\$ 7,486
5/21/2019	VISITOMAHA	Tourism Marketing Grant	\$ 8,659
Total			\$ 16,145

DAS processed a change to the banking information of this vendor from a fictitious ACH form it had received. The APA obtained both the original and fraudulent bank ACH forms from DAS. Although the intended recipient was based out of Omaha, NE, and used the city's tax identification number, the spurious bank information provided to DAS was for a bank in West Point, NE. The APA noted also that the authorized signer's name on the counterfeit form was misspelled. Finally, the logo used as the bogus bank's letterhead did not match that found on the actual bank's website.

In our fiscal year 2018 management letter to DAS, the APA had warned of a lack of controls over vendor and banking information in E1. Doing so, we encouraged the implementation of more stringent procedures to ensure additions and/or changes to vendor addresses and banking information were proper and accurate.

The third fraudulent payment resulted from a phishing email received by a DAS employee. The email appeared to originate from one of the employee's supervisors and asked the employee to change the bank account to which the supervisor's net payroll funds were deposited. An employee is able to make changes to his or her own bank accounts for payroll deposits by using a valid user ID and password to access Workday, the human resources system, or by providing the change information to the HR department for entry into Workday. The information entered in Workday is identified by the authorized ID of the individual who made the change.

After the next payroll was processed and the supervisor failed to receive his payroll deposit, DAS realized that the email requesting the change was a scam. The total amount of the misdirected payroll deposit was \$3,542.

None of the payments identified in this comment have been recovered.

A good internal control plan requires procedures to ensure that critical vendor and banking information within E1 is proper, and changes to that information are 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. As a control that DAS already has in place, changes to a vendor/payee's banking information requires prior banking information be provided for verification.

10. E1 Terminated User Access

The APA ran a query to identify terminated users of E1, whose access was not removed timely, within three business days of termination. The query parameters identified 72 terminated employees whose access was removed more than five days (three business days plus two weekend days) after they terminated employment.

The APA selected 10 employees from the list of 72 to verify that their access was not removed within three business days. Nine of the 10 employees did not have their access removed in a timely manner. For those nine employees, the periods between termination and the removal of access ranged from 9 to 77 days. Additionally, one of the nine employees appears to have logged into E1 after she had ended employment.

We also identified one terminated employee whose access had not yet been removed when the query was run. The employee terminated employment on June 28, 2019, but her access was not removed until July 11, 2019, some 13 days after termination.

DAS is responsible for disabling a user's access to E1 when that employee terminates; however, for these terminated users, DAS was not notified in a timely manner to remove the access. DAS is notified when the State agency for which the employee worked enters a termination date into Workday (the State of Nebraska's Human Resources system). Without timely notification, DAS is unable to remove the access expeditiously. For the users noted, DAS removed their E1 access within three business days of receiving notification of termination.

Also, during testing of users with elevated access, we noted that one employee retained access to E1, along with the elevated access, for 12 business days after her termination date. The access was not removed until after the APA inquired about this employee's access.

NITC "Technical Standards and Guidelines," § 8-701, *Auditing and compliance; responsibilities; review* (July 2017), states the following, in relevant part:

An agency review to ensure compliance with this policy and applicable NIST SP 800-53 security guidelines must be conducted at least annually.

National Institute of Standards and Technology (NIST) Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Access Control 6 (AC-6), Least Privilege, states, in part, the following:

The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.

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 Payroll and Financial Center [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.

We recommend DAS work with State agencies, through on-going training and monitoring of agency personnel, to ensure agencies request termination of E1 user IDs 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.

DAS Response: DAS will continue to provide multiple training events during which agency personnel are reminded to enter termination dates in a timely manner, to facilitate the deactivation and termination of a user's EnterpriseOne access.

11. 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.
- E1 timesheets were maintained only for the current pay period for 14 State agencies and one year for one State agency 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 (November 2017), 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 State agencies to maintain adequate supporting documentation of time worked for all employees, 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 EnterpriseOne until the payroll is processed; however, the electronic data is maintained in EnterpriseOne indefinitely. Agencies will be reminded to retain any information they may receive, generate or create outside of EnterpriseOne in support of an agency’s payroll to be done in accordance with the Nebraska Records Retention and Disposition Schedule 124.

12. PACE Change Management

During testing of the change management process for the PACE (Programming Analysis Consulting Education) application, we noted an adequate segregation of duties was not in place from development to migration into production. For one change tested, 7 of the 41 modules changed were requested and approved by the same individual.

NITC “Technical Standards and Guidelines,” § 8-202, *Change control management* (July 2017), states the following, in relevant part:

Agency management must formally authorize all changes before implementation and ensure that accurate documentation is maintained.

A good internal control plan requires that no one individual is able to develop, implement, and approve his or her own changes.

Without an adequate segregation of duties, there is an increased risk of unauthorized, and possibly malicious, changes to the PACE application.

We recommend the Agency implement policies and procedures to ensure that no one individual is able to request, implement, and approve his or her own changes to the PACE application.

DAS Response: A procedural change has been put into place so that no one individual is approving their own changes. The approvers for projects are regularly reviewed to ensure that the approver is a different person than the requester.

13. OCIO Datacenter Access

During testing of users with access to the OCIO datacenter, the APA noted that five terminated individuals still had access to the datacenter.

NITC “Technical Standards and Guidelines,” § 8-207, *Facilities; identification badges; visitors* (July 2017), states the following, in relevant part:

Only authorized individuals are allowed to enter secure areas of state facilities that contain information technology infrastructure.

The APA was provided listings showing users who had access to the OCIO datacenter as of July 2019. Five individuals who appeared on those listings had been terminated between 7 and 100 business days previously. Following the APA’s inquiry on July 24, 2019, the OCIO said that it was submitting a request to remove access for the terminated individuals noted.

Without adequate procedures to ensure timely user access removal, there is an increased risk of improper access to State systems.

We recommend the OCIO strengthen its procedures to ensure that terminated individuals have their datacenter access removed in a timely manner.

DAS Response: The OCIO’s data center access control is currently a separate process from the staff off-boarding process. So the process depends on the OCIO immediate supervisor submitting a separate data center access removal request. The OCIO is working to further integrate and automate its staff off-boarding process to include the data center access control to ensure access is removed in a timelier manner. Once complete (anticipating by mid-2020), the off-boarding process would automatically initiate and assign requests (i.e., via an Activity in the Service Portal) to the appropriate Support Group to have such access removed. The OCIO also conducts its own data center access audit on an annual basis. Other agencies and divisions that are not utilizing the OCIO staff off-boarding process are responsible for submitting data center access removal requests to the OCIO on a timely manner in order to have such access removed.

14. Workday User Access

Users assigned to Workday roles or security groups are given elevated access within Workday. In order to receive access to a Workday role or security group, a security partner at a State agency submits an email request that is approved by either the DAS HR Systems Coordinator or the DAS Personnel Program Administrator. However, during our testing of 11 users assigned Workday roles and 3 users assigned to Workday security groups, we noted the following:

- For 5 of the 14 users tested, no documentation was on file to support that a State agency security partner requested the access granted. For these same five users, documentation was not on file to support that the DAS HR Systems Coordinator or the DAS Personnel Program Administrator approved the access granted.

- DAS lacked a formal process for requesting and approving access to Workday security groups.

Additionally, during our review of users with Workday role or security group access, we noted the following:

- DAS did not perform a periodic review of users with access to Workday during the audit period.
- Roles are assigned to position IDs and are not removed when users terminate.

A good internal control plan and sound business practices require a formal request and approval process for giving users elevated access in applications; furthermore, such access should be followed. Lastly, good internal controls require the performance of periodic reviews to ensure that only proper individuals are provided elevated access.

NITC “Technical Standards and Guidelines,” § 8-502, *Minimum user account configuration* (July 2017), states the following, in relevant part:

(1) User accounts must be provisioned with the minimum necessary access require to perform duties. Accounts must not be shared, and users must guard their credentials.

Without a formal process for requesting and approving user access to applications, there is an increased risk of such access not being reviewed periodically, as well as not being removed when an employee is terminated, resulting in a greater likelihood of unauthorized access.

We recommend DAS implement formal procedures for requesting and approving security group access. We also recommend DAS have a process for verifying that a position still needs role access when a user terminates. Lastly, we recommend DAS implement procedures for periodically reviewing, at least annually, user access to Workday.

DAS Response: Formal procedures for requesting and approving group access are in place. When an agency needs a teammate to have new / updated access in Workday, they send a request to NIS.Security. NIS.Security forwards that request to State Personnel for review and approval or denial. A process is in place for verifying a position still needs role access when a user terminates. When someone terminates employment, the “NIS.Security team” removes the Role Assignments on that vacated position, unless the termination event is rescinded based on a request from the agency.

APA Response: The process explained by DAS was not documented in formal policies or procedures, and DAS was unable to provide documentation showing the access granted to the users tested was requested and approved.

15. NITC State and Agency Security Planning and Reporting Technical Standard and Guideline

The Nebraska Information Technology Commission (NITC) is a nine-member commission, whose members are appointed by the Governor with the approval of the Legislature. Neb. Rev. Stat. § 86-516(6) (Reissue 2014) directs the NITC to do the following: “Adopt minimum technical standards, guidelines, and architectures upon recommendation by the technical panel.”

The NITC’s “Technical Standard and Guidelines,” § 8-209, *State and agency security planning and reporting* (July 2017), which requires State agencies to have an Information Security Strategic Plan, a System Security Plan, and a Plan of Action and Milestones Report on file, has not been communicated effectively to those entities.

The APA met with IT staff from six State agencies to inquire as to whether they had completed the reports required by § 8-209 of the NITC's "Technical Standard and Guidelines." Five of the six agencies did not have any of the required reports, though they did have other documents with elements supposed to be in them. DAS, which is directed by Neb. Rev. Stat. § 86-515(5) (Reissue 2014) to assist the NITC with administrative and operational support, was one of the agencies that did not have any of the reports required by § 8-209. One agency had two of the three required reports; however, its Information Security Strategic Plan was only in draft form.

The APA met with the State Information Security Officer to discuss the widespread agency noncompliance with § 8-209 of the NITC's "Technical Standard and Guidelines." Due to this prevalent lack of compliance, the APA expressed concerns that § 8-209 has not been communicated effectively to the various agencies. Additionally, many agencies told the APA that the NITC requirements were the responsibility of the OCIO, a division of DAS, and did not apply to them. According to the State Information Security Officer, work was under way to update the "Technical Standard and Guidelines."

Section 8-209 of the NITC's "Technical Standard and Guidelines" states the following:

The following standard and recurring reports are required to be produced by the state information security officer and each agency information security officer; these reports will reflect the current and planned state of information security at the agency:

- (1) Information security strategic plan (section 8-210);*
- (2) System security plan (section 8-211); and*
- (3) Plan of action and milestones report (section 8-212).*

When requirements of the NITC's "Technical Standards and Guidelines" are not communicated effectively, there is an increased risk of noncompliance with them.

We recommend the NITC take steps to communicate more effectively its "Technical Standards and Guidelines," particularly § 8-209 thereof, to State agencies.

DAS Response: The NITC will work with the OCIO's public information officer to provide information about the NITC's Technical Standards and Guidelines to agency contacts on a regular, recurring basis.

The current standards were revised prior to the consolidation efforts of the OCIO. Upon completion of the consolidation, it was decided several of the standards need to be revised to correctly align with the new IT environment brought about by the consolidation. The Security Architecture Workgroup (SAW) is working on revising the standards to meet the new environment. Standards are discussed at all SAW meetings and will also be discussed during a breakout session of the annual Cyber Security Conference to be held in October of 2020.

* * * * *

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 management, 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.



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