



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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John Albin, Commissioner
Nebraska Department of Labor
550 South 16th Street
Lincoln, Nebraska 68509

Dear Commissioner Albin:

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 Labor (Department) 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 Department 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.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Draft copies of this letter were furnished to the Department 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. Capitalization of Computer Software

The Department incorrectly expensed costs, totaling \$1,722,911, for internally generated computer software that should have been capitalized in accordance with Governmental Accounting Standards Board (GASB), Statement 51, *Accounting and Financial Reporting for Intangible Assets*. The costs were incurred from August 2017 through June 2019. The Department did not have policies and procedures for the review of internally generated software to determine which costs were appropriate to be expensed versus capitalized in accordance with GASB and the Department of Administrative Services (DAS) policies.

GASB Statement 51 provides, in relevant part, the following:

7. Intangible assets are considered internally generated if they are created or produced by the government or an entity contracted by the government, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.

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9. Computer software is a common type of intangible asset that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the government's personnel or by a third-party contractor on behalf of the government. Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this Statement.

The DAS State Accounting Manual, General Policies, Section 28, "Capital Outlay," states, in relevant part, the following:

[C]omputer software that is internally developed or substantively modified, shall be capitalized as a separate asset if the acquisition value is One Hundred Thousand Dollars (\$100,000) or more and has a life greater than one year.

Good internal controls require procedures to ensure that internally generated software is properly expensed or capitalized in accordance with GASB and DAS policies.

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

We recommend the Department implement procedures to ensure internally generated software is properly expensed or capitalized in accordance with GASB and the State Accounting Manual.

Department Response: Due to the software not being owned or hosted by the Department, we did not feel it was a capital event. We do agree that the following was true, even though we do not own the software, “Commercially available software that is purchased or licensed by the government and modified using more than minimal incremental effort before being put into operation also should be considered internally generated for purposes of this Statement.” In the future, software that is internally developed or substantively modified, shall be capitalized as a separate asset if the acquisition value is One Hundred Thousand Dollars (\$100,000) or more and has a life greater than one year.

2. Review of Users with Access to TMS and BPS Database Tables

In following up on a prior-year audit finding regarding the Department’s review of the Tax Management System (TMS) and Benefit Payment System (BPS) database tables, which contain significant financial information, the APA learned that the Department did not conduct a periodic review of users with access to those database tables. During the previous audit, we noted that users from the Department of Health and Human Services (DHHS), the Supreme Court, and the Office of the Chief Information Officer (OCIO) were members of groups with access to these database tables. A documented review would allow the Department to be aware of all users with access to these database tables, to restrict access to only Department employees who require such access to fulfill their job duties, and to verify that users employed by other agencies still require access.

Nebraska Information Technology Commission (NITC) Technical Standards and Guidelines, Information Security Policy 8-502 (July 2017), “Minimum user account configuration,” states, in relevant part, the following:

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

(2) Administrator level access is privileged and must be restricted to authorized IT personnel only. All privileged access accounts are subject to additional security, including multi-factor authentication, and enhanced auditing and logging of activity.

NITC Technical Standards and Guidelines, Information Security Policy 8-701 (July 2017), “Auditing and compliance; responsibilities; review,” provides 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 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.

Good internal controls require procedures to ensure that periodic reviews are performed of access to the TMS and BPS database tables to ensure that such access is granted only to necessary users.

Without those procedures, there is an increased risk of inappropriate access to the TMS and BPS database tables and the financial information therein.

A similar finding was noted during the previous audit.

We continue to recommend the Department implement procedures for reviewing periodically user access to the TMS and BPS database tables and the financial information therein. We also recommend the Department periodically review user access by other agency personnel to ensure that such access is granted only to those requiring it.

Department Response: The Department of Labor IT Department completed a full review of users with access to database tables with sensitive TMS and BPS information on August 8, 2019, in October 2019 (immediately following our legacy BPS system being migrated to NEWorks (GUS)), and again on December 27, 2019. We continue to have a quarterly audit scheduled for this activity.

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

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