



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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February 28, 2008

Mr. John Craig, Director  
Nebraska Department of Roads  
1500 Highway 2  
Lincoln, Nebraska 68509-4759

Dear Mr. Craig:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2007, and have issued our report thereon dated December 28, 2007. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated February 13, 2008. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with the federal Office of Management and Budget (OMB) Circular A-133 (the Single Audit) and not to provide assurance on internal control. We have not considered internal control since the date of our report.

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

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

A separate evaluation of the State's significant Information Technology (IT) systems was completed. Some findings, as noted below, were reported as a part of the audit of the Comprehensive Annual Financial Report (CAFR). Additional findings and recommendations were reported to management in a separately issued confidential summary of findings and recommendations.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Where no response has been included, the Agency declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2007.

## **COMMENTS RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS**

### **1. Segregation of Duties Over Information Technology (IT)**

Good internal control requires a proper segregation of duties so no one individual has the ability to initiate and approve payment documents. Good internal control also requires only appropriate personnel have access to key datasets. This control is especially important when the employee has ALTER access to the datasets.

During our review of the Agency's information systems in May 2007, three systems were determined to be significant. They were the Project Finance System (PFS), the Maintenance Management System (MMS), and the Roads Payment System (RPS). We noted two deficiencies in the controls over data at the Agency:

- 16 of 23 users with the authority to initiate payment in the RPS application also maintained access to approve the payments they initiated; and
- A Resource Access Control Facility (RACF) security group containing 2,219 Agency employees was set up with ALTER access for key datasets. These datasets are used to transfer invoice data, general ledger account updates, and voucher data from the RPS application to NIS.

During the attestation fieldwork the Auditor of Public Accounts (APA) met with the Agency's IT staff to determine if any corrective action had been made. The APA noted the following steps had been taken to correct the deficiencies listed above:

- RPS users no longer have the ability to approve the document they initiated. The APA observed an employee trying to approve a document, in the test environment, which they initiated and the employee was not allowed to.
- The Agency has and is still working towards identifying key datasets for all their systems. Once the datasets are identified, the Agency is determining whether or not the access is reasonable. During the attestation fieldwork, the APA reviewed the RACF groups with access to the datasets selected for testing during the IT review and observed access had been restricted to only those who need the access for their job function.

Even though the deficiencies have been corrected, the deficiencies were open during the majority of fiscal year 2007.

Without an adequate segregation of duties, payments generated by the RPS application could be initiated and approved by the same individual and these transactions could go unmonitored. As a result, unapproved or inaccurate payments could be made to vendors.

Without dataset security there is increased risk confidential information and key financial data could potentially be updated by unauthorized individuals. This could lead to incomplete or inaccurate financial data being transferred from the RPS application to the NIS general ledger accounts.

We recommend users having access to initiate payments should not have the ability to approve payments they initiate. This access should be segregated so the same user cannot perform both functions. Additionally, application owners should periodically review user access to confirm an adequate segregation of duties is maintained. We also recommend access to key datasets used to transfer information from the Agency to NIS should be restricted to employees whose jobs require this access and a documented review of the group be completed by the RACF administrators on a regular basis.

*Agency's Response: As stated in the management letter, the Auditor's comments and recommendations had already been addressed and resolved prior to June 30, 2007.*

## **2. Accrual Response Form**

Good internal control requires procedures to ensure payables and receivables reported to Administrative Services State Accounting Division (State Accounting) for the CAFR are comprehensive, accurate, and supported by adequate documentation.

During our review of the amounts reported by the Agency to State Accounting for the CAFR, we noted the following:

- The Agency did not report Deposits by Locals of \$10,360,217 to State Accounting. The amount noted was recorded as deposits on the Agency's accounting system. The Agency did not reconcile the amount recorded as deposits on their accounting system to amounts recorded as deposits on NIS.
- Retention payables were overstated by \$420,451. The Agency reported the amount on their accounting system and did not adjust the total for items paid through NIS that State Accounting accumulates separately.
- Accounts Receivables – Other was overstated by \$218,854. An invoice was cancelled in August 2007 and was still included in the receivables reported to State Accounting.

Without controls to ensure amounts reported to State Accounting for the CAFR are correct there is an increased risk the State's financials are misstated.

We recommend the Agency:

- Reconcile deposits by locals in their accounting system to deposits in NIS, make any corrections necessary, and review their procedures over receipts to ensure deposits are correctly recorded, and ensure the amounts reported to State Accounting are accurate.
- Subtract all retention payments made in July and August from the amount reported as retention payables at June 30.
- Consider whether any significant receivables were cancelled in July and August, before reporting the amount of receivables at June 30.

*Agency's Response: The first two findings were properly addressed by the Department of Roads with the Department of Administrative Services and the 2007 Comprehensive Annual Financial Report (CAFR) should be consistent and reconcilable between the two accounting systems.*

### **3. Controls Over MMS Inventory**

Good internal control requires procedures be in place and records be on hand to adequately safeguard assets.

Four of six inventory items tracked in the MMS had variances which could not be explained during our inventory testing. According to the Agency, variances were followed up but no formal documentation existed to support the process.

Without proper controls to ensure inventory items are adequately tracked there is an increased risk of loss or misuse of State property.

We recommend the Agency implement procedures to ensure variances in maintenance supplies are adequately explained and these explanations are documented.


*Agency's Response: By June 30, 2008, all supplies and materials in the Maintenance Imprest Inventory will be issued out and charged to a maintenance activity. Any future purchases will be directly costed to a maintenance activity when the purchase is made. The Maintenance Imprest Inventory will be eliminated by June 30, 2008.*

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

This letter is intended solely for the information and use of the Agency, the Governor and State Legislature, others within the Agency, Federal awarding agencies, pass-through entities, and management of the State of Nebraska. However, this letter is a matter of public record and its distribution is not limited.

We appreciate and thank all of the Agency employees for the courtesy and cooperation extended to us during our audit.

  
Pat Reding  
Assistant Deputy Auditor

  
Don Dunlap  
Assistant Deputy Auditor