



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 17, 2009

Douglas Ewald, Commissioner
Nebraska Department of Revenue
301 Centennial Mall South, 2nd Floor
Lincoln, NE 68509-4818

Dear Mr. Ewald:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We have also audited the State's compliance with requirements applicable to major Federal award programs and have issued our report thereon dated February 10, 2009. 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 a certain internal control or compliance matter related to the activities of the Nebraska Department of Revenue (the Agency) that is presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Agency's management, is 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 comment presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Draft copies of this letter were furnished to the Agency to provide them an opportunity to review the letter and to respond to the comment and recommendation included in this letter. The formal response received has been incorporated into this letter. The response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2008.

COMMENT RELATED TO THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

1. Segregation of Duties Over Various Tax Applications

Good internal control requires procedures to ensure no one individual has the authority to administer servers and also approve changes and promote those changes to production. If security is not implemented and configured according to business risk, access to critical system settings and data can be modified inappropriately, disclosed without authorization, and/or be unavailable when necessary.

Application developers had the ability to develop and promote changes to production in the General Processing System (GPS), Homestead Exemption, Motor Fuels, Charitable Gaming, and Motorboat applications. The Agency's policies indicated production changes in these applications must be approved by a second individual; however, due to the access given to these individuals, there is still a risk changes could be made without approval.

When developers have the ability to develop and promote changes, there is an increased risk of unauthorized changes being promoted to the production environment without management's knowledge.

A similar finding was noted in our prior audit.

We recommend the Agency implement an independent review of changes made to ensure all changes are appropriate and authorized.

Management Response: The Department of Revenue recognizes the need for segregation of duties with respect to the tax applications referenced in the management letter. A review of our internal change management processes is currently being performed. We intend to continue our review and revision of procedures and to implement reasonable detective and preventative controls to ensure that changes made to Department of Revenue tax applications are appropriate and authorized.

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.

Signed Original on File

Pat Reding
Assistant Deputy Auditor

Signed Original on File

Don Dunlap
Assistant Deputy Auditor