



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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February 16, 2010

Douglas Ewald, Tax Commissioner  
Nebraska Department of Revenue  
301 Centennial Mall South, 2<sup>nd</sup> Floor  
Lincoln, Nebraska 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, 2009, and have issued our report thereon dated December 28, 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 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) or another operational matter 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, 2009.

**1. Information Technology - Segregation of Duties**

Nebraska Information Technology Commission (NITC) Standard 8-101, Section 7, states in part, “The issuance and use of privileged accounts will be restricted and controlled. Processes must be developed to ensure that users of privileged accounts are monitored, and any suspected misuse is promptly investigated.” NITC Standard 8-101, Section 3, states in part, “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, audit trails and management supervision must be implemented. At a minimum the audit of security must remain independent and segregated from the security function.”

A good internal control plan requires access to information resources be restricted based upon job responsibilities to help enforce a proper segregation of duties and reduce the risk of unauthorized system access. Programmers should generally be limited to accessing only the information specifically required to complete their assigned system development projects. They should be expressly prohibited from directly accessing production software and data information. Access to production program libraries and data information should be logged and periodically reviewed for appropriateness.

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. Procedures have been developed to remediate this issue. The Agency was still working on the implementation of the procedures, which included training staff, reassigning duties, and assigning access rights to applications at the end of fiscal year 2009. Additionally, four developers from the office of the Chief Information Officer (CIO) had access to production datasets for the Corporate Income Tax and Individual Income Tax mainframe applications.

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 continue to implement and monitor procedures to segregate developer access to the production environment. We also recommend the Agency implement controls to monitor developer access to datasets.

***Management Response:*** *The Nebraska Department of Revenue (Department) has addressed and put in place policies, procedures and work processes that address your comments and recommendations on the two points detailed in Section 1. Information Technology –Segregation of Duties. The Department has implemented a Segregation of Duties policy that prevents application developers from promoting unauthorized changes to production in the General*

*Processing System (GPS), Homestead Exemption, Motor Fuels, Charitable Gaming, and Motorboat applications. Regarding the four developers from the Office of the Chief Information Officer (OCIO) who had access to production datasets for Corporation Income Tax and Individual Income Tax mainframe applications, as well as other Revenue mainframe applications, we have implemented a procedure that generates listings for this program showing developer access to these programs which are reviewed and archived weekly by both Department and CIO staff for proper access.*

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 the Agency.

This report 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 and is not intended to be and should not be used by anyone other than the specified parties. However, this report 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, CPA, CFE  
Assistant Deputy Auditor