



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

January 29, 2016

Kyle Schneweis, Director
Department of Roads
1500 Nebraska Hwy 2
Lincoln, Nebraska 68502

Dear Mr. Schneweis:

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, 2015, in accordance with auditing standards generally accepted in the United States of America and 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 17, 2015. 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 Department of Roads (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.

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 a certain deficiency in internal control that we consider to be a significant deficiency.

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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider Comment Number 1 (Financial Information Errors) to be a significant deficiency.

This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Agency in a separate early communication letter pursuant to AICPA Auditing Standards AU-C Section 265.A17, dated November 2, 2015.

Draft copies of this letter were furnished to the Agency 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, 2015.

1. Financial Information Errors

A good internal control plan and sound accounting policies require adequate procedures to ensure amounts are reported correctly on the State's financial statements and recorded to the appropriate account codes in the accounting system.

During testing, we noted the following:

- The Agency overstated Federal accounts receivable by \$13,216,396 for the fiscal year ended June 30, 2015. Of this amount, \$12,984,402 was for July 2015 Federal billings and, therefore, not properly included as a receivable as of June 30. Of the remaining amount, \$231,993 was included twice.
- The Agency overstated accounts receivable-other by \$475,633. The Agency included \$108,488 as accounts receivable; however, the monies had already been receipted prior to June 30. Furthermore, \$367,145 in receivables was included twice.
- The Agency understated accounts payable by \$3,681,830. The liability was measurable and incurred in the fiscal year ended June 30, 2015, and, therefore, should have been recorded as current year payable for financial statement presentation.

When transactions are not recorded properly, there is increased risk that the financial statements will be misstated.

We recommend the Agency ensure accounting transactions are properly recorded in the accounting system for financial reporting purposes. We also recommend the Agency implement procedures to review receivables and payables to ensure amounts are properly reported to State Accounting for the State's Comprehensive Annual Financial Report.

Agency Response: NDOR concurs and will continue to review and refine our process for capturing information for the CAFR reporting at fiscal yearend.

2. Risk Assessment

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 4.5.1, Physical Security Perimeter, states the following, in relevant part:

Agencies will perform a periodic threat and risk assessment to determine the security risks to facilities that contain State information

NITC Standards and Guidelines, Information Security Policy 8-101, Section 4.9.3, Risk Assessment, states the following:

Security requirements and controls must reflect the value of the information involved, and the potential damage that might result from a failure or absence of security measures The framework for analyzing the security requirements and identifying controls to meet them is associated with a risk assessment, which must be performed by the data owner(s) and Agency management. A process must be established and implemented for each application to:

- *address the business risks and develop a data classification profile to understand the risks;*
- *identify security measures based on the criticality and data sensitivity and protection requirements;*
- *identify and implement specific controls based on security requirements and technical architecture;*
- *implement a method to test the effectiveness of the security controls; and*
- *identify processes and standards to support changes, ongoing management and to measure compliance.*

Good internal controls require a risk assessment plan to be completed and updated periodically.

During the previous audit, we noted the Agency did not have a formalized risk assessment for all applications. We recommended the Agency complete a risk assessment on a periodic basis. During the current audit, we noted the Agency had been working on its risk assessment; however, the risk assessment had not been completed or documented.

When the Agency does not have a formal risk assessment plan, there is an increased risk that security vulnerabilities, which could have been prevented or monitored, could be exploited. This could cause downtime, loss of productivity, unauthorized access, or interference with State and/or Federal systems.

We recommend the Agency continue to work towards completing and documenting a risk assessment for all applications and, when completed, have procedures in place to update it on a periodic basis.

Agency Response: NDOR concurs and is working toward completing and documenting the risk assessment.

* * * * *

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 communication 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 communication is a matter of public record, and its distribution is not limited.



Don Dunlap, CPA
Assistant Deputy Auditor