

**MANAGEMENT LETTER  
OF THE  
NEBRASKA STATE COLLEGE SYSTEM  
JULY 1, 2013, THROUGH JUNE 30, 2014**

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**Issued on December 15, 2014**



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 8, 2014

Mr. Stanley Carpenter, Chancellor  
Board of Trustees  
Nebraska State College System  
P.O. Box 94605  
Lincoln, Nebraska 68509-4605

Dear Mr. Carpenter:

We have audited the financial statements of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska) for the year ended June 30, 2014, and have issued our report thereon dated December 8, 2014.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the NSCS's organization gained during our work, and we make the following comments and recommendations that we hope will be useful to you.

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the 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, the financial statements of the business-type activities, and the discretely presented component units of the NSCS as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the NSCS' basic financial statements, and have issued our report thereon dated December 8, 2014. Our report includes a reference to other auditors who audited the financial statements of the Nebraska State College System Foundations, the

Nebraska State Colleges Facilities Corporation and the Nebraska State College System Revenue and Refunding Bond Fund, as described in our report on the NSCS' financial statements. The financial statements of these entities were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the NSCS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NSCS' internal control. Accordingly, we do not express an opinion on the effectiveness of the NSCS' internal control.

*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 a 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 of this section 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the NSCS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Nebraska State College System's Response to Findings**

The NSCS' responses to our findings are described below. Those responses were not subjected to the auditing procedures applied in the audit of the financial statements; accordingly, we express no opinion on them.

## SYSTEM OFFICE COMMENTS

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### A. INFORMATION TECHNOLOGY (IT) COMMENTS

#### 1. Accounts Payable (A/P) Transactions

A good internal control plan requires a proper segregation of duties to ensure no one individual can process a transaction from beginning to end. A good internal control plan also includes adequate security controls, through the design, creation, approval, and assignment of user roles, to prevent users from performing functions that do not allow for a proper segregation of duties.

During our audit of the A/P security roles in SAP, we noted 20 users had the ability to prepare an invoice, post it in SAP, and also approve and post it in EnterpriseOne (E1), the State's accounting system. Additionally, 14 of those users had the ability to create a purchase order, prepare the invoice related to the purchase order, and post the transaction in both SAP and E1.

The 20 users who could prepare invoices and post them in SAP and E1 are noted by location below:

Campus	# of Users
Wayne State College (WSC)	3
Peru State College (PSC)	7
Chadron State College (CSC)	5
NSCS System Office	3
UNCA (University)	2

Fourteen of the 20 users identified above who could also prepare a purchase order are noted by location below:

Campus	# of Users
Wayne State College	2
Peru State College	2
Chadron State College	5
NSCS System Office	3
UNCA (University)	2

The A/P roles in SAP did not restrict users from posting their own transactions. Those transactions were entered into E1 through an interface process. The users above had the ability to approve and post transactions that flowed through the interface process in E1.

A similar finding was noted in our prior audits.

A lack of segregation of duties around the A/P process allows a single individual to make purchases and pay vendors without a secondary review or approval. This risk allows for the possible theft and misuse of State funds.

We recommend the NSCS work with the University to review the security design of the A/P roles in SAP and implement controls that require separate individuals to prepare and post A/P transaction types.

*Management's Response: The NSCS continues to work with the University to strengthen controls in this area. The NSCS agrees that this deserves continued efforts and will continue to seek solutions that will further diminish risk and take into account the NSCS's small operating staff.*

**2. General Ledger Transactions in SAP**

A good internal control plan requires a proper segregation of duties to ensure no one individual can process a transaction from beginning to end. A good internal control plan also includes adequate security controls, through the design, creation, approval, and assignment of user roles, to prevent users from performing functions that do not allow for a proper segregation of duties.

The workflow in the SAP system does not require separate preparers and posters of General Ledger (GL) type transactions. As a result, certain individuals throughout the NSCS had the capability of completing GL transactions from beginning to end without a documented secondary review and approval in SAP. Each NSCS location (the three Colleges and the System Office) developed its own unique compensating controls to address this inherent system weakness. However, in general, the compensating controls put in place at all NSCS locations included a manual documentation of the preparer and poster of the GL transactions.

During our audit of the GL security roles in SAP, we identified 28 users with the ability to prepare and post GL entries in SAP without a secondary review or approval. The 28 users capable of preparing and posting GL transactions without a secondary review or approval are noted by location below, along with the GL document types they could prepare and post:

Campus	# of Users
Wayne State College	7
Peru State College	9
Chadron State College	7
NSCS System Office	3
UNCA (University)	2

(Document Types: JE – Journal Entry, IB – Internal Charges Batch, IC – Internal Charges Online, PJ – Payroll Journal Entry)

A secondary role allowed 27 of those users to prepare and post additional GL document types. The 27 users capable of preparing and posting additional GL document types without a secondary review or approval are noted by location below, along with the GL document types they could prepare and post:

Campus	# of Users
Wayne State College	6
Peru State College	9
Chadron State College	7
NSCS System Office	3
UNCA (University)	2

(Document Types: CN – ACH Receipt, ND – NIS Journal Entry\*, UU – University Only Journal Entry\*\*, UA – Accrual Journal Entry)

\* NIS refers to the State's EnterpriseOne accounting system.

\*\*Role is used for College Only Journal Entries; however, the document type is also used by the University of Nebraska, which shares the SAP environment with the State Colleges.

A similar finding was noted in our prior audits.

When individuals are able to complete GL transactions without a documented secondary review and approval prior to posting the transaction to the GL, there is a greater risk of erroneous or inappropriate GL transactions occurring and going undetected. Additionally, in the absence of an adequate segregation of duties, there is an increased risk of loss, theft, or misuse of funds.

We recognize that the NSCS has worked to implement compensating controls to mitigate risks related to the SAP system not having an established workflow, which would automatically require a segregation of duties in the preparation and posting of GL entries. Nevertheless, we continue to recommend that the NSCS work with the University on a system-based SAP solution as well.

*Management's Response: As noted above by the auditors, the NSCS has compensating controls in place. Risk is further mitigated by the fact that most journal entries relate to cost distribution versus dealing with monetary assets. The NSCS will continue to seek solutions that will further diminish risk while being cost-effective.*

### **3. Password Parameters**

#### **Wayne State College Password Settings**

Best business practices include establishing documented policies regarding minimum password standards that must be met to help adequately protect IT resources. Good internal control includes system-enforced password parameters to ensure users meet minimum password standards.

National Institute of Standards (NIST) Special Publication 800-63-2, § 6.3.1.1, Electronic Authentication Guideline for memorized secret tokens (passwords used for single factor authentication), states, in part:

*The memorized secret may be a . . . user generated string consisting of 8 or more characters chosen from an alphabet of 90 or more characters . . . . The Verifier shall implement a throttling mechanism that effectively limits the number of failed authentication attempts an Attacker can make on the Subscriber's account to 100 or fewer in any 30-day period.*

A good internal control plan includes system-enforced password reset intervals, combined with account lockout controls, based on a risk assessment and the likely consequences of an authentication error. Allowing grace logins creates unknown variables in the life of a user's password, as reset intervals are not confined to established terms.

While PSC and CSC Nebraska Student Information System (NeSIS) users authenticated through the TrueYou Identity Management system administered by the University of Nebraska, WSC administered its own Id Management system to authenticate to NeSIS. TrueYou user account settings were driven by the University of Nebraska enterprise password policy. We noted WSC did not have a password policy for its eCampus portal, which provides a sole source of authentication to many WSC resources, including NeSIS. In addition, each user was allowed 10 failed login attempts before his or her account was locked for one minute. As such, the number of available login attempts that could be made by an attacker was not reduced to a reasonable level. Finally, each faculty and staff user was allowed 24 grace logins after his or her password had expired. Passwords expire every 60-180 days for faculty and staff.

A similar finding was noted in our prior audits.

When password policies are not established by management, there is an increased risk that password parameters set by IT staff will not be sufficiently strong and in-line with management's intentions. Strong password parameters are essential to providing adequate security for information systems and protecting internal data. Inadequate password parameters increase the risk of unauthorized users gaining access to sensitive information systems and compromising the integrity and confidentiality of highly sensitive data.

We recommend WSC develop, approve, and publish minimum password standards that apply to the NeSIS application. We recommend also that WSC implement password settings that: 1) require passwords to be changed every 30-90 days for all faculty and staff users; and 2) deny user access when a password expires, until it is reset.

*Management's Response: A password policy and intruder lockout settings are in place as per the recommendation of the auditor. Grace logins have been lowered from 24 to 2. At this time grace logs cannot be set to zero as recommend due to current system limitations; however, WSC is currently implementing a new portal system which will resolve the grace login issue.*

#### **4. TrueYou and Mainframe Password Settings**

The University's Password Policy, Version 1.1, states:

*Any credential which identifies a subject or service account should follow recommendations outlined in National Institute of Standards (NIST) 800-63-2 [2], [3] using a token method and the level of entropy or randomness as outlined in §§ 6.1.2 and 6.3.*

NIST Special Publication 800-63-2, § 6.3.1.1, Electronic Authentication Guideline, presents token requirements for various levels of assurance (LOA). Token requirements for LOA1 for pre-registered knowledge tokens state, "If the questions are not supplied by the user, the user shall select prompts from a set of at least five questions." LOA1 requires a verifier to verify answers provided for at least three questions. Token requirements for LOA2 for pre-registered knowledge tokens state, "If the questions are not supplied by the user, the user shall select prompts from a set of at least seven questions." LOA2 requires a verifier to verify answers provided to at least five questions.

Good internal control includes system-enforced password parameters to ensure users meet minimum password standards.

The NSCS shares an Identity Management system known as TrueYou with the University of Nebraska for authenticating to SAP. PSC and CSC also use TrueYou to authenticate to NeSIS. The TrueYou secondary authentication policy allows users to select prompts from a set of six questions and to reset their password by providing answers to only two of those questions, which are generated randomly. These parameters do not meet National Institute of Standards and Technology (NIST) standards.

The mainframe Resource Access Control Facility (RACF) security settings include a set of password processing options. Passwords have a required length of eight characters, of which at least one character must be numeric. Mixed-case passwords are not supported, so all alpha characters are stored as uppercase. The limited character set of 39, as well as the lack of complexity rules, greatly reduces the level of password entropy or randomness.

Inadequate password settings increase the risk of unauthorized users gaining access to sensitive information contained in both the NeSIS and SAP applications.

We recommend the NSCS work with the University to ensure the password policy addresses the adequacy not only of passwords but also pre-registered knowledge tokens. We also recommend reviewing the effects of changing RACF password processing options and, if practical, changing the options to support mixed-case passwords and changing the password syntax rules to 'mmmmmmmm'.



*Management's Response: The NSCS has discussed this with the University. The University has indicated it will review the options that are possible within the mainframe RACF and TrueYou environments to determine whether technical feasibility exists and align settings with standards and take corrective action where possible. A revision of the University's Password Policy may be required to remove the NIST standard and replace it with the InCommon Bronze and Silver standard in order to better align University Identity Management requirements to those widely used in higher education. The NSCS will continue to work with the University security staff to meet the recommendations where possible.*

## **5. NeSIS Financial Aid Segregation of Duties**

A good internal control plan requires an adequate segregation of duties, so no single individual has the ability to create a scholarship, configure scholarship parameters, and award the scholarship to a student.

There were eight University users with the ability to set up a specific student, create a scholarship, configure the scholarship parameters, and then award that scholarship to the student in NeSIS. One WSC user had the ability to create a scholarship, configure the scholarship parameters, and then award that scholarship to the student in NeSIS. There were five CSC and two PSC users who could set up a student and award aid.

A similar finding was noted in our prior audits.

A lack of segregation of duties around the creation and application of scholarship awards increases the risk of a single individual setting up and applying awards to students without a secondary review or approval.

We recommend that the NSCS implement an adequate segregation of duties around the scholarship-award process, so a single user is not able to create a scholarship, configure the scholarship parameters, and then award the scholarship to a student, particularly if that user can also create a student in NeSIS.

*Management's Response: The CSC NeSIS team, along with the Senior Director of Student Services, has begun working on a security re-design to address the segregation of duties requirements for scholarship award processing. Once completed, the NSCS will look at implementing this new security at the other two Colleges.*

## **6. NeSIS Terminations**

The Nebraska State Colleges Policy 5008, Employee Use of System Computers, states, "When any employee terminates his or her employment relationship or employment with the College or System Office, his or her credentials shall be denied further access to college computing resources, facilities, and contracted services unless otherwise determined by the College President or Chancellor."

InCommon Identity Assurance Profiles: Bronze & Silver, Section 4.2.4.2, states, “The IdPO shall revoke Credentials within 72 hours after being notified that a Credential is no longer valid or is compromised.” Human resource staff are responsible for notifying the Identity Provider Operator (IdPO) of terminations and should work to achieve access removal within a 72-hour period.

A good internal control plan requires that terminated user access be removed timely and documentation, whether by system audit records, access removal forms, or both, be available to indicate that access was properly removed

For four of six terminated users tested, NeSIS roles were not removed in a timely manner (three business days or less). See table below:

Employee	Campus	Business Days Access was Active Past Termination
1	WSC	244 days
2	PSC	129 days
3	CSC	15 days
4	CSC	4 days

A similar finding was noted in our prior audits.

When access to networks and applications is not terminated timely, it creates the opportunity for unauthorized processing of transactions.

We recommend the NSCS implement a formal procedure to ensure the appropriate staff is notified of all terminations in order to remove NeSIS access within three business days and that this procedure be documented.

*Management’s Response: College personnel will review the current procedures to ensure the employee termination process is communicated effectively and access is removed on a timely basis. Additionally, a Terminated User Report is being developed and tested and will be used by the NeSIS security coordinators to remove NeSIS access on a timely basis (3 days).*

**7. NeSIS Improper Access**

A good internal control plan includes a periodic review of NeSIS user access to ensure users are restricted to access that is required as part of their job function.

- Five users were identified as having the ability to update Student Administration and Contributor Relations (SACR) security, which they did not require.
- During a review of individuals with access to modify SACR security, it was noted that 14 users (5 CSC, 2 PSC, and 7 WSC) had access to set up which security views are used. This is a function to which only the UNCA NeSIS technical team should have access.

- During a review of powerful roles, a student records role was identified that had significant access to modify enrollment data across all campuses without any tracking or logging of the activity. This role was initially intended to be checked out on a temporary basis, as needed; however, most of the four NSCS users (1 PSC, 1 CSC, 1 WSC, and 1 UNCA) with this role have had it for nearly two years.

A similar finding was noted in our prior audits.

Allowing security access to users who do not require this access as an essential part of their job duties increases the risk of unauthorized modifications being made to the system.

We recommend the NSCS periodically review lists of NeSIS users with elevated or privileged access to the system and, depending upon the need for it, restrict such access accordingly.

*Management's Response: The access to the security views identified has been removed. Each College is allowed to determine who should have the ability to update SACR Security. There are queries that can be run to show who has access to different levels of applying SACR security. These queries can be reviewed by the Colleges security coordinators. In addition, there is a NeSIS customization pending review and approval that will allow for a qualified user to check this powerful role out and it will be removed nightly.*

## **8. Business Continuity and Disaster Recovery Plans**

A good business continuity plan, which encompasses disaster recovery planning, includes making available reliable and useful information for decision making when faced with a disaster or other event causing, or creating the potential for, a loss of business continuity. A good business continuity plan also includes remote locations in varying states of readiness, in relation to IT-related business risk, that allow for the continued use, quick resumption, or controlled shutdown of vital services.

The NSCS SAP and NeSIS environments are hosted by the University of Nebraska-Central Services Network (UN-CSN). The UN-CSN disaster recovery plan did not include server-specific data, such as configuration files or locations, recovery file locations, dependencies between applications, etc. That information was maintained separately by each managing team. There was no central repository where teams could place such pertinent disaster recovery information.

The UN-CSN datacenter operations command center did not have an operational backup site for managing the datacenter in case of a disaster, emergency evacuation, or other event. A draft business continuity plan had been started. Additionally, a backup site 2.5 miles away from the primary command center had been identified, but it was not functional with required equipment or monitoring software.

When reliable and useful information and backup sites are not available for business continuity purposes, there is an increased risk of downtime, or even extended downtime, of vital NSCS services.

We recommend the NSCS work with and encourage the University of Nebraska to continue improving business continuity and disaster recovery plans to include a central, backed-up repository of all reliable and useful information for resuming NSCS information technology resources. We also recommend continuing to work toward establishing a hot site, where UN-CSN datacenter operations can continue remotely in time of disaster, emergency evacuation, or other events.

*Management's Response: UN-CSN has a full functioning hot-site at the UNMC data center in Omaha, NE. This site contains disaster recovery equipment for both the SAP and NeSIS ERP systems.*

*Additionally, UN-CSN continues to make steady progress on documenting all technical processes in a common database for disaster recovery planning and testing. UN-CSN has requested hiring a new position to support Business Continuity planning and development.*

## **B. OTHER SYSTEM OFFICE COMMENTS**

### **9. State Claims Board**

Neb. Rev. Stat. § 81-8,297 (Reissue 2014) states, in relevant part:

*The State Claims Board shall have the power and authority to receive, investigate, and otherwise carry out its duties with regard to . . . all requests on behalf of any department, board, or commission of the state for waiver or cancellation of money or charges when necessary for fiscal or accounting procedures . . . .*

During our review of the NSCS's accounts receivable write-off procedures, we noted that each of the Colleges annually submits accounts receivable, including tuition and fees and revenue bond and other fund accounts, to its Board of Trustees for write-off approval. However, no procedures were in place to forward these write-offs to the State Claims Board for its approval. Based on historical data, between 2009 and 2014, the NSCS has written off a total of \$1,079,655. This amounts to an average annual write-off for all three of the Colleges of approximately \$179,943.

When delinquent accounts receivable are not submitted to the State Claims Board for write-off approval, the NSCS is in violation of State statute.

This finding and recommendation has been noted in prior audits. In response to our fiscal year ended June 30, 2013, comment, the NSCS responded:

*The NSCS follows formalized write-off procedures that include Board of Trustees approval of write-offs in accordance with Board Policy #6008. The Board reviews and authorizes write-offs annually.*

The NSCS responded to our fiscal year ended June 30, 2014, comment by indicating that it does not anticipate any changes in its response on this issue.

Based on discussions with NSCS management, the Board does not plan to change its write-off policy.

We continue to recommend that receivables be submitted to the State Claims Board, in accordance with State statute, before they are formally written off.

*Management's Response: The NSCS continues its response from prior fiscal years which is noted above.*

**10. Payroll Vendor Payments**

In prior audits, we have noted that, since 2003, the State has utilized its accounting software to record all of its official financial records in one centralized system. However, for more than a decade, the University has relied upon its own separate software, SAP, for accounting purposes. As both “a cost-savings and efficiency directive” from Governor Dave Heineman, the NSCS moved its existing business systems from the State’s accounting system to the University’s SAP system in mid-2009.

Payroll vendor payments are set up differently in the SAP system implemented by both the University and the NSCS than in the State’s accounting system. Payments made to vendors through the State’s payroll process are recorded as vendor payments in the State’s accounting system, E1. However, instead of generating vendor payments through SAP or E1 during the payroll process, the University, on behalf of the NSCS, sends payroll payment instructions directly to the State’s bank, authorizing the automatic deposit of payments to the vendors’ banks. As a result, a vendor payment entry is not created in either accounting system; rather, a mere journal entry is made to record such payments. Because neither accounting system records vendor payments by the NSCS to health insurance vendors, such as Blue Cross and Blue Shield of Nebraska (BCBSNE), the total amounts paid to these vendors cannot be determined or identified by general users of the two systems.

The following amounts were contributed by the NSCS and its employees through the NSCS payroll process between July 1, 2013, and June 30, 2014:

Contributions*	State Colleges
Health and Dental Insurance	\$ 9,533,950
TIAA/CREF (retirement)	\$ 6,917,459
All other Contributions	\$ 1,002,895
Total	\$ 17,454,304

*\*Contributions made on behalf of the NSCS’ fully insured employee health insurance plan go directly to its health insurance carrier, BCBSNE. Other vendors paid through this method include college/University foundations, the United Way, vision and life insurance vendors, union payments, etc.*

After discussions with NSCS representatives, the APA obtained this payroll process information from the University, which provides the NSCS payroll feeds from SAP to E1.

Sound accounting procedures include complete and accurate reporting of all payments to vendors to allow users of E1 to review and report on all vendor payments. According to Neb. Rev. Stat. § 81-1110.01 (Reissue 2008), the purpose of the accounting division of the Department of Administrative Services (DAS) is:

*[T]o prescribe, coordinate, and administer a centralized, uniform state accounting and payroll system and personnel information system, to establish and enforce accounting policies and procedures for all state agencies, boards, and commissions, to monitor and enforce state expenditure limitations established by approved state appropriations and budget allotments, and to administer the federal Social Security Act for the state and the state's political subdivisions.*

When vendor payments do not originate from the State's accounting system, it is difficult for users of the two systems to ascertain the total amounts paid to all vendors.

As indicated above, the Auditor of Public Accounts (APA) has presented this finding for the past four fiscal years. Responding to current inquiries regarding the status of any corrective action taken to address our recommendation, the NSCS noted that it does not anticipate any changes in its response to this issue. The NSCS response to this issue for the fiscal year ended June 30, 2013, audit was as follows:

*The NSCS understands that the vendor payments made as part of payroll are processed differently than accounts payable, as part of the payroll clearing process. While the information is not available within the vendor file, it is available in SAP as part of the journal entry that makes the clearing entries. The amounts provided in the journal entry are reconciled by the NSCS each month to assure that the correct transfers were made. Under the current process, the NSCS completes and documents the reconciliation each month to assure the payroll journal entries are accurate. The NSCS has and will continue to consult with the University.*

This response is similar to that made by the NSCS to our prior year comments. However, the APA is unaware of any specific action taken by the NSCS to determine a possible solution to this issue.

We continue to recommend that the NSCS work with DAS and/or the University to develop a process that allows vendor payments to be recorded in E1.

*Management's Response: The NSCS continues its response from prior fiscal years which is noted above.*

#### **11. Non-compliance with Contract/Bidding Policies**

Per NSCS Board Policy 7016 – Contracts; Consulting Services – All Other Consulting Purchases:

*All consulting contracts exceeding fifty thousand dollars (\$50,000) that are covered under this policy shall follow a competitive RFP process and be approved by the Board. These contracts, once approved by the Board, shall be signed by the President or Vice President for Administration and Finance and then by the Chancellor or Vice Chancellor for Finance and Administration or General Counsel.*

Sound business practice requires that bidding requirements be followed to ensure the NSCS is receiving the best agreement possible.

During our testing of expenditure transactions, we noted one of four contracts tested did not follow a competitive RFP process, as required by Board Policy 7016. The contract was for lobbyist and legislative liaison services provided by Nowka on behalf of the NSCS. The NSCS System Office had a signed contract on file for the two-year period of July 1, 2012, through June 30, 2014. The total cost of the contract was \$71,638, payable in four equal installments over the two years. Total payments to Nowka for fiscal year ended June 30, 2014, were \$35,819.

When a competitive RFP process is not followed, the NSCS System Office is not in compliance with Board Policy, and the NSCS may not be receiving the best agreement possible.

We recommend that the NSCS System Office follow Board Policy 7016, regarding competitive bidding requirements, including for lobbyist and legislative liaison services.

*Management's Response: Board policy 7016 has been revised to specifically address lobbyist contracting.*

## **CHADRON STATE COLLEGE (CSC) COMMENTS**

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### **12. Contract & Bidding Documentation**

Neb. Rev. Stat. § 13-2910 (Reissue 2012) states, in part:

*(2) The political subdivision shall evaluate and rank each proposal on the basis of best meeting the criteria in the request for proposals and taking into consideration the recommendation of the selection committee pursuant to section 13-2911.*

*(3) The political subdivision shall attempt to negotiate a construction management at risk contract with the highest ranked construction manager and may enter into a construction management at risk contract after negotiations . . . .*

Neb. Rev. Stat. § 13-2911 (Reissue 2012) states, in part:

*(2) The selection committee and the political subdivision shall evaluate proposals taking into consideration the criteria enumerated in subdivisions (a) through (g) of this subsection with the maximum percentage of total points for evaluation which may be assigned to each criterion set forth following the criterion. The following criteria shall be evaluated, when applicable:*

*(a) The financial resources of the design-builder or construction manager to complete the project, ten percent;*

*(b) The ability of the proposed personnel of the design-builder or construction manager to perform, thirty percent;*

*(c) The character, integrity, reputation, judgment, experience, and efficiency of the design-builder or construction manager, thirty percent;*

*(d) The quality of performance on previous projects, thirty percent;*

*(e) The ability of the design-builder or construction manager to perform within the time specified, thirty percent;*

*(f) The previous and existing compliance of the design-builder or construction manager with laws relating to the contract, ten percent; and*

*(g) Such other information as may be secured having a bearing on the selection, twenty percent.*

*(3) The records of the selection committee in evaluating proposals and making recommendations shall be considered public records for purposes of section 84-712.01.*

NSCS Board Policy 8071 – Capital Construction; Contracts; Design-Build; Construction Management At Risk – generally enumerates § 13-2910 and § 13-2911.

NSCS Board Policy 7010 – Purchases; Bids; Public Lettings – states the following:

*If articles are to be purchased by competitive bidding, the Colleges and System Office shall prepare standards and specifications for these articles in such a manner it will be possible for three or more manufacturers, vendors, or suppliers to submit competitive bids. If a requisition for articles exceeds ten thousand dollars (\$10,000) and bids cannot be obtained from three bidders, then the standards and specifications of the articles upon which bids are being sought shall be reviewed. If it then is determined by the College, in consultation with the System Office staff, that because of the special nature of the articles sought to be purchased, the standards and specifications should remain as written, bids may be accepted from a fewer number of bidders than three with the approval of the Chancellor.*

A good internal control plan requires adequate documentation be maintained to support all contract bidding processes and approvals.

For 3 of 11 contracts tested, the APA was unable to verify that relevant State statute and NSCS Board policies were followed in the contract bidding and/or approval process.

CSC entered into a contract with Adolfson & Peterson Construction for Armstrong renovations. Contract was signed August 13, 2012. The guaranteed maximum price was \$13,776,250. The APA observed a sample Evaluation Form on file, showing the maximum percentage points assigned to each criterion. CSC indicated that each Selection Committee member completed an evaluation form for all six proposals, and then the committee members met to discuss and select four firms for interview. However, the completed criteria forms were not on file, and CSC indicated it did not collect the forms from the Selection Committee members. Additionally, CSC did not have documentation to support its deliberations during the interview process. No additional documentation was on file to support the selection, including discussions and/or other criteria used in the process. Because of the lack of documentation, the APA could not verify that the criteria used by the committee followed § 13-2910, § 13-2911, and Board Policy 8071, or that CSC negotiated the contract with the highest-ranked construction manager.

CSC entered into a contract with Sampson Construction Co., Inc. for Rangeland Center improvements. Contract was signed May 10, 2011. The guaranteed maximum price was \$2,902,728. The APA observed several Evaluation Forms on file, showing the maximum percentage points assigned to each criterion. CSC indicated that each Selection Committee member completed an evaluation form, and then committee members met (in person or by video conference) to discuss and select firms for interview. Committee members in Chadron met in person and were joined by video conference to committee members not physically present in



Chadron. Not all the completed criteria forms were on file, and CSC indicated it did not collect the forms from the Selection Committee members. Additionally, CSC did not have documentation to support its deliberations during the interview process. No additional documentation was on file to support the selection, including discussions and/or other criteria used in the process. Because of the lack of documentation, the APA could not verify that the criteria used by the committee followed § 13-2910, § 13-2911, and Board Policy 8071, or that CSC negotiated the contract with the highest-ranked construction manager.

CSC received a quote from EPC USA, Inc. for a Wide Area Network (WAN) system and maintenance fees for three years. The total purchase order amount was \$36,144. Three vendors were listed on the bid tab sheet; however, only two vendors actually submitted bids, and CSC did not have the Chancellor's approval on file, as required by Board Policy 7010.

When the vendor selection process for a significant outlay of resources is not documented, there is an increased risk for fraud or abuse, as well as limited documentation to demonstrate that CSC is in compliance with State statute and NSCS Board policies.

We recommend CSC maintain adequate supporting documentation for all contract bidding processes and approvals to support that it is in compliance with State statute and NSCS Board policies.

*Management's Response: In every case the highest ranked firm, based on the consensus of the Selection Committee, was awarded the contract (after negotiations). Nevertheless, documentation forms will be developed for future use. CSC agrees that the selection files for the CM at Risk selections were not well organized and documented. CSC will implement procedures to ensure that proper documentation is retained in selection files in the future. The purchase of the Wide Area Network system and maintenance without receiving the Chancellors approval was an oversight and additional review will implemented to ensure that does not occur again.*

### **13. Initial Control Over Receipts Received in the Mail**

Good internal control over receipts requires a plan of organization, procedures, and records for establishing initial control over receipts. It also requires an adequate segregation of duties to ensure that no one individual is in a position both to perpetuate and to conceal errors or irregularities. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. The control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by someone other than the two individuals opening the mail or the individual preparing the deposit. Such reconciliation should be documented.

In our prior audit, we noted that mail at CSC was received in the mailroom and then sent to either the business office or other offices or departments at the College. This mail may or may not contain cash or checks payable to the College. Based on discussions with CSC staff, most money mailed to the College was addressed to the business office – although other offices or departments also receive funds in the mail. The business office and other offices or departments then process receipts through their normal receipting process. However, initial control over receipts was not maintained in the CSC mailroom, as procedures did not include having the mailroom staff prepare an initial log of all monies received by CSC.

In response to our prior audit comment, CSC personnel stated that a lack of sufficient staffing makes it impractical for the mailroom employees to open all mail and to prepare an initial log of all cash and checks received through the mail. Additionally, CSC personnel have expressed concerns that such a process would slow down the processing of mail. The APA recommended at the time that, if such were indeed the case, CSC should take alternative action to develop the procedures described above in the business office and other offices and departments that routinely receive cash or checks through the mail.

Based on our follow-up with CSC on the current audit, CSC did not implement our prior audit recommendation.

When initial control over receipts is not initiated at each location where they are first received, there is a greater risk of loss or theft of those receipts.

We again recommend that CSC implement practical procedures to ensure the establishment of an adequate system of internal controls over receipts. This control plan should include two individuals opening the mail and the preparation of a control log for all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by someone other than the two individuals opening the mail and the individual preparing the deposit. This reconciliation should be documented.

*Management's Response: CSC believes that having mailroom staff open the mail has a great deal of liability involved. Mail can and does have sensitive student and employee information, both financial and personal, along with bid information which should not be opened until the official bid opening. If mail is opened by mailroom personnel it becomes unclear who has access to possibly sensitive information and also makes the unauthorized access of information easier.*

*As to the concern over internal controls over receipts, CSC believes there are sufficient compensating controls in place.*

*CSC does not receive cash through the mail and checks are non-negotiable, so risk of lost revenue is minimal. When cash (approx. 1.1% of all payments) is received directly in the Business Office, receipts are generated so a record of the transaction exists.*

*If payments to a student account are not applied to the account, the College is contacted immediately by the student. If a departmental receipt isn't applied to the department, contact is made immediately by the department to the appropriate personnel.*

*CSC is confident that compensating controls are in place which provide an alternative and safer method to assure appropriate handling of cash and checks than having mail room staff open mail.*

#### **14. Updating Star Rez Rate Tables**

A good internal control plan would include an adequately documented supervisory review of rate changes in Star Rez for changes made to student room and board rates.

The Nebraska State College System (NSCS) uses the Star Rez system to account for all room and board charges to students. The information in Star Rez for room and board charges is uploaded into NeSIS. NeSIS is then used to prepare student billings for all tuition and fees and room and board charges. Annually, the NSCS Board of Trustees approves changes to student room and board rates. At CSC, one person is responsible for updating the room and board rates in Star Rez. Currently, there is a supervisory review of the overall updating process and the room and board rate changes put into production in Star Rez, but that review and approval is not documented.

A similar finding was noted in our prior audit.

When a supervisory review and approval process for the updating of room and board rates in Star Rez is not documented, there is less assurance that the update will be done accurately and completely.

We recommend CSC management develop procedures to document its supervisory review and approval process for updating the room and board rates in Star Rez.

*Management's Response: The approval of the room and board rates is done annually by the NSCS Board prior to the fall semester. When approval from the Board is given, the Director of Housing enters the new rates into Star Rez. After the rates have been entered, the Housing staff tests the system to be assured that the program is operating as expected. When the testing is complete and any necessary corrections have been made the Housing Office sends a test file to the Student Financials Accountant who uploads the test file into NeSIS. This test file is reviewed and any issues are communicated to the Housing Department, typically via email for correction. CSC believes that its procedures are adequate to assure that mistakes are minimized in regard to updating the Star Rez rate tables.*

#### **15. Financial Statement Adjustments**

A good internal control plan includes procedures to ensure the completeness and accuracy of amounts recorded in the preparation of the NSCS annual financial statements.

In our review of the amounts recorded on CSC financial statements, we noted the following:

- \$1,779,917 classified as "Other" expenses should have been classified as "Repairs and Maintenance" expenses.
- An adjusting journal entry for \$376,729 wasn't properly recorded, which resulted in an overstatement of Auxiliary Enterprises revenue and overstatement of Scholarships and Fellowships expense.

- An understatement of Accounts Payable by \$9,425.
- An understatement of Prepaid Expenses by \$3,264.

When procedures are not in place to ensure the completeness and accuracy of amounts recorded in the preparation of the NSCS annual financial statements, there is a greater risk material misstatement of NSCS annual financial statements may occur and go undetected.

When the above proposed adjustments were identified, CSC corrected their fiscal year ended June 30, 2014 financial statements.

We recommend CSC establish procedures to ensure the proper recording of financial amounts in their annual financial statements.

*Management's Response: As noted above, CSC adjusted amounts when the auditor proposed adjustments to assure consistent treatment of items among the NSCS Colleges. It should be noted that the \$1,779,917 adjustment amount noted above was properly identified and included in the financials as an operating expense by CSC and was neither a misstatement of CSC's operating expenses nor a misstatement of CSC's net position. CSC has always and will always strive to ensure financial amounts are fairly stated.*

## **PERU STATE COLLEGE (PSC) COMMENTS**

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### **16. Contract and Bidding Documentation**

Neb. Rev. Stat. § 13-2910 (Reissue 2012) states, in part:

*(2) The political subdivision shall evaluate and rank each proposal on the basis of best meeting the criteria in the request for proposals and taking into consideration the recommendation of the selection committee pursuant to section 13-2911.*

*(3) The political subdivision shall attempt to negotiate a construction management at risk contract with the highest ranked construction manager and may enter into a construction management at risk contract after negotiations . . . .*

Neb. Rev. Stat. § 13-2911 (Reissue 2012) states, in part:

*(2) The selection committee and the political subdivision shall evaluate proposals taking into consideration the criteria enumerated in subdivisions (a) through (g) of this subsection with the maximum percentage of total points for evaluation which may be assigned to each criterion set forth following the criterion. The following criteria shall be evaluated, when applicable:*

*(a) The financial resources of the design-builder or construction manager to complete the project, ten percent;*

*(b) The ability of the proposed personnel of the design-builder or construction manager to perform, thirty percent;*

*(c) The character, integrity, reputation, judgment, experience, and efficiency of the design-builder or construction manager, thirty percent;*

*(d) The quality of performance on previous projects, thirty percent;*

*(e) The ability of the design-builder or construction manager to perform within the time specified, thirty percent;*

*(f) The previous and existing compliance of the design-builder or construction manager with laws relating to the contract, ten percent; and*

*(g) Such other information as may be secured having a bearing on the selection, twenty percent.*

*(3) The records of the selection committee in evaluating proposals and making recommendations shall be considered public records for purposes of section 84-712.01.*

**NSCS Board Policy 8071 – Capital Construction; Contracts; Design-Build; Construction Management At Risk; Proposal Evaluation – states the following:**

*The College shall refer the proposals for recommendation to the selection committee. The selection committee shall be at least five (5) persons designated by the College. Members of the selection shall include:*

*a. Members of the Board;*

*b. Members of the administration or staff of the College;*

*c. The College's architect or engineer when evaluating proposals from construction managers;*

*d. Any person having special expertise relevant to selection of a construction manager under the Political Subdivisions Construction Alternatives Act; and*

*e. A resident of the College's service region other than any individual listed above.*

*Any selection committee member designated under item "d" or item "e" above, shall not be employed by or have a financial or other interest in a construction manager who has a proposal being evaluated and shall not be employed by the College or the performance-criteria developer.*

*The College shall evaluate and rank each proposal on the basis of best meeting the criteria in the request for proposals and taking into considerations the recommendation of the selection committee.*

**NSCS Board Policy 7010 – Purchases; Bids; Public Lettings – states the following:**

*If articles are to be purchased by competitive bidding, the Colleges and System Office shall prepare standards and specifications for these articles in such a manner it will be possible for three or more manufacturers, vendors, or suppliers to submit competitive bids. If a requisition for articles exceeds ten thousand dollars (\$10,000) and bids cannot be obtained from three bidders, then the standards and specifications of the articles upon which bids are being sought shall be reviewed. If it then is determined by the College, in consultation with the System Office staff, that because of the special nature of the articles sought to be purchased, the standards and specifications should remain as written, bids may be accepted from a fewer number of bidders than three with the approval of the Chancellor.*

**NSCS Board Policy 7016 – Contracts; Consulting Services – All Other Consulting Services – states the following:**

*Any consulting contracts not requiring Board approval must be reported to the Board.*

A good internal control plan requires adequate documentation be maintained to support all contract bidding processes and approvals.

For 7 of 13 expenditure documents tested, the APA was unable to verify compliance with State statute or Board policy regarding contract bidding and/or the approval process. These seven documents related to three contracts.

PSC entered into an agreement on September 19, 2012 with Kiewit Building Group Inc. for renovation of the Oak Bowl. The guaranteed maximum price was \$7,943,078. Based upon discussion with PSC staff, the APA has made the following conclusions regarding the vendor selection process:

The Board appointed 8 selection committee members; however, based on the documentation provided it appears only 4 members participated in the selection process. All members of the Selection Committee were provided a proposal from each vendor and asked to review all proposals. The APA observed selection evaluation criteria forms on file, completed by four committee members, for five firms – Sampson, Kiewit, MCL, Lund Ross, and AHRS. These scoring forms narrowed the pool of five vendors down to the three that would be interviewed. There was no documentation of the accumulation of the scores, so the APA compiled the scores from those forms into a table, and the three vendors with the most points were Sampson, Kiewit, and AHRS. However, the three firms actually selected for interviews were Sampson, Kiewit, and Lund Ross. Upon inquiry by the APA, PSC noted that its procedure is to exclude scoring done by committee members who did not score all potential vendors; therefore, scores were thrown out for the one committee member who did not score all of the vendors. PSC also noted that the selection committee completed an initial rating sheet following each interview, then discussed why one vendor was favored over another, and ended with a vote of the committee on its final selection. According to PSC, discussions were held in the preliminary selection process as well as during the interview process; however, the results of those discussions were not documented. The selection committee did not have adequate documentation on file to support its process for ranking and evaluating firms, including results of discussions and/or other considerations to support that it was in compliance with § 13-2910, § 13-2911, and NSCS Board Policy 8071.

PSC entered into a three-year contract on October 28, 2013 with Spectrum Graphics & Print, DBA Spectrum Creative Solutions, for a CRM software program. The total contract amount was \$217,000. Based upon discussion with PSC staff, the APA made the following observations regarding the vendor selection process:

PSC issued an RFP and received bids from Spectrum and another vendor. PSC noted that the Chancellor provided verbal approval for fewer than 3 bids; however, the Chancellor's approval was not documented to support compliance with NSCS Board Policy 7010.

PSC's HR Director contracted on November 28, 2012 with Aureus, on a contingency basis, to search for candidates for the position of Business Process Specialist/IT Analyst. PSC agreed to pay a placement fee in the amount of 30% of the candidate's total estimated first year compensation. PSC hired an analyst starting June 17, 2013, at a starting salary of \$61,000. Total payment to Aureus was \$18,300 (30% of \$61,000). Based upon discussion with PSC staff, the APA made the following observations regarding this contract:

The purchase was for a consulting service and fell under NSCS Board Policy 7016, which directs consulting contracts not requiring Board approval to be reported to the Board; however, documentation for submittal to the Board was not provided.

When the vendor selection process for the significant outlay of resources is not documented, there is an increased risk for fraud or abuse, as well as limited documentation to demonstrate that PSC is in compliance with State statute and NSCS Board policies.

We recommend PSC maintain adequate supporting documentation for all contract bidding processes and approvals to support it is in compliance with State statute and NSCS Board policies.

*Management's Response: The Oak Bowl Selection Committee consisted of eight members, as approved by the NSCS Board at the April 2012 meeting, and all members were present at the interviews for contractors for the project. This meets the requirements of State statute and Board Policy. In every case the highest ranked firm, based on the consensus of the Selection Committee, was awarded the contract (after negotiations). Nevertheless, documentation forms will be developed for future use. PSC agrees that the selection files for the CM at Risk selections were not well organized and documented. PSC will implement procedures to ensure that proper documentation is retained in selection files in the future. When fewer than three bids are received for contracts not related to construction, PSC will ask the Chancellor to document in writing his approval to proceed in accordance with NSCS Board Policy 7010. PSC and NSCS did not consider the Aureus letter to be a contract requiring Board reporting.*

#### **17. Lack of Segregation of Duties / Journal Entries**

A good internal control plan requires a documented review and approval of all journal entry (JE) type documents before they are posted to the General Ledger (GL). In addition, a good internal control plan requires a proper segregation of duties to ensure no one individual can process a transaction from beginning to end.

For 5 of 27 journal entries tested, there was a lack of segregation of duties in the processing of journal entries. In our review of the JE process, we noted the workflow in the SAP system does not require separate preparers and approvers of JE-type transactions. As a result, certain individuals throughout the NSCS have the capability of preparing and posting these types of entries without prior review or separate, documented supervisory approval. PSC has developed a compensating control to address this inherent system weakness. PSC noted that journal entries are parked by one employee and posted by another and that supporting documentation for the entries is kept on file.

In our original sample, we tested seven JE transactions and noted that two of seven entries lacked a documented review/approval by a second individual. A second sample was selected, which consisted of all manual JEs greater than \$300,000. There were 22 such JEs. For 3 of 22 additional entries tested, there was not a documented review/approval by a second individual.

When individuals can prepare and post JEs without a documented review and approval prior to posting, there is a greater risk of erroneous or inappropriate JEs occurring and going undetected.

In addition, in the absence of an adequate segregation of duties, there is an increased risk of loss, theft, or misuse of funds.

We recommend PSC follow its established procedures/controls and require a segregation of duties for all journal entries.

*Management's Response: Four of the entries noted above were posted by an individual who is no longer with the College; however, for the remaining transaction PSC will follow up individually with the employee who both parked and posted the transaction noted above without having another employee involved in the park/post process. In addition, PSC will remind everyone in the Accounting Department and Business Office that all journal entries are to be parked by one employee and posted by another.*

#### **18. Review of Star Rez Rates**

A good internal control plan would include a supervisory review of changes made to student room and board rates in Star Rez.

The Star Rez room and board charges are uploaded into NeSIS. NeSIS then uses this information to bill students for the room and board charges. Annually, the Board approves changes to room and board rates to be charged to students. At PSC, one person was responsible for updating the room and board rates in Star Rez. There was no supervisory review of the overall updating process or a final supervisory approval of the room and board rate changes put into production in Star Rez.

A similar finding was noted in our prior audit.

Without a supervisory review and approval process for the updating of room and board rates in Star Rez, there is an increased risk of errors occurring and loss or misuse of State funds.

We again recommend that PSC management institute a supervisory review and approval process for updating changes in the room and board rates in Star Rez. This supervisory review and approval process should be properly documented.

*Management's Response: The room and board charges are entered into the Star Rez system by the Residence Life office annually as rates change. The Business Office verifies that the rate amounts are accurate once the charges are fed to NeSIS. Going forward, the Residence Life office will implement a similar process to the Business Office whereby a second person verifies the rates which another person has entered.*

#### **19. Initial Control Over Mail Receipts**

Good internal control over receipts requires a plan of organization, procedures, and records for establishing initial control over receipts. It also requires an adequate segregation of duties to ensure that no one individual is in a position both to perpetuate and to conceal errors or



irregularities. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to the deposits by someone other than the two individuals opening the mail and the individual preparing the deposits. This reconciliation should be documented.

In our prior audit, we noted that mail at PSC was received in the mailroom and given to an accounting clerk in the business office. Initial control over receipts was not maintained in the PSC mailroom, as procedures did not include having the mailroom staff prepare an initial log of all monies received. Based on our follow-up with PSC on our current audit, PSC did not implement our prior audit recommendation.

When initial control over receipts is not established at the location where they are first received, there is a greater risk of loss or theft of those receipts.

We again recommend that PSC implement procedures to ensure the creation of an adequate system of internal controls over receipts. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by someone other than the two individuals opening the mail and the individual preparing the deposits. This reconciliation should be documented.

*Management's Response: PSC mail room staff does not open the mail. They distribute it to the offices on campus, so there is no way for them to know which letters have checks or not. The Business Office does designate a separate staff person to open the mail from the person responsible for receipting the check, but they do not keep a log. The volume of check payments that PSC receives in the mail has decreased significantly with online payment options. The procedures mentioned above are not practical given the additional time this would take for the small staff of the Business Office. In addition, mail can and does have sensitive student and employee information, both financial and personal, along with bid information which should not be opened until the official bid opening. If mail is opened by mailroom personnel it becomes unclear who has access to possibly sensitive information and also makes the unauthorized access of information easier. PSC will continue to look into ways to improve internal controls over mail.*

## **20. SAP/E1 Reconciliation**

There is an un-reconciled variance between the Cash Fund accounts recorded in SAP and the State of Nebraska's accounting system. An attempt by PSC to find a consistent variance between the two systems has been unsuccessful. We noted the variance between the two systems in the cash accounts at June 30, 2013, was \$15,659, and at June 30, 2014, it was \$19,876.

Sound accounting practices require that proper procedures be in place to ensure the complete, accurate, and timely identification of all accounting system variances. This has been a prior audit finding for the last two fiscal years.

When systems are not reconciled, there is an increased risk that errors, omissions, or misuse may go undetected.

We again recommend PSC continue to work on identifying and correcting the variance and ensure that SAP and the State of Nebraska's accounting system agree.

*Management's Response: PSC will make this a priority in the coming year.*

## **21. Cashing Personal and Third Party Checks**

Sound accounting practices and a good internal control plan do not allow for cashing personal and third-party checks out of State funds.

The Business Office cashes personal and third-party checks out of petty cash with an established limit of \$25 for students and \$50 for employees. The checks were processed through NeSIS. Our review noted one State of Nebraska check and two Peru State College revolving fund checks were cashed for PSC employees and exceeded the \$50 limit. The checks totaled \$406. We also noted one State of Nebraska check was cashed for a PSC student and exceeded the \$25 limit. The check totaled \$150. Additionally, during fiscal year ended June 30, 2014, PSC cashed checks totaling \$9,146.

A similar finding was noted in our fiscal year ended June 30, 2013, audit.

There is an increased risk of loss or misuse of State funds and a loss of controls over NSCS' petty cash fund when personal and third-party checks are cashed with State funds.

We recommend the practice of cashing personal and third-party checks be discontinued.

*Management's Response: PSC has eliminated all check cashing of personal and third party checks for students and employees, effective November 12, 2014. The "Check Cashing" NeSIS menu item has been eliminated.*

## **22. Financial Statement Adjustments**

A good internal control plan includes procedures to ensure the completeness and accuracy of amounts recorded in the preparation of the NSCS annual financial statements.

In our review of the amounts recorded on the PSC financial statements, we noted the following:

- An understatement of Accrued Payroll by \$13,979.

- An understatement of Prepaid Expenses by \$63,500.
- An understatement of Accrued Compensated Absences by \$21,289.
- An overstatement of Accounts Receivable and Accounts Payable by \$249,584.

A similar finding was noted in our prior audit.

When procedures are not in place to ensure the completeness and accuracy of amounts recorded in the preparation of the NSCS annual financial statements, there is a greater risk of a material misstatement of NSCS annual financial statements to occur and go undetected.

When the above-proposed adjustments were identified, PSC corrected its fiscal year ended June 30, 2014, financial statements.

We recommend PSC establish procedures to ensure the proper recording of financial amounts in its annual financial statements.

*Management's Response: As noted above, PSC adjusted amounts when the auditor proposed adjustments. PSC always strives to ensure financial amounts are fairly stated.*

## **WAYNE STATE COLLEGE (WSC) COMMENTS**

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### **23. Initial Control of Receipts Received in the Mail**

Good internal control over receipts requires a plan of organization, procedures, and records for establishing initial control over receipts and an adequate segregation of duties to ensure that no one individual is in a position both to perpetuate and to conceal errors or irregularities. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by someone other than the two individuals opening the mail and the individual preparing the deposit. This reconciliation should be documented.

Mail at WSC was received in the mailroom and given to an accounting clerk in the business office, who opened the mail and logged the checks into a spreadsheet. Other mail, which did not include receipts or contained correspondence that should go to other departments, was then distributed to the appropriate department. However, initial control over receipts was not maintained in the WSC mailroom, as procedures did not include having the mailroom staff prepare an initial log of all monies received.

This was a prior audit finding, to which WSC responded as follows:

*WSC's Student Financial Services will continue to log receipts onto a spreadsheet but will institute a process of having two staff members present when the mail is opened. WSC will continue to review their process.*

When initial control over receipts is not initiated at the location where they are first received, there is a greater risk of loss or theft of those receipts.

We again recommend that WSC implement procedures to ensure the creation of an adequate system of internal controls over receipts. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by an individual separate from the two individuals opening the mail and the individual preparing the deposits. This reconciliation should be documented.

*Management's Response: WSC has continued to review control of cash and checks received in the mail and feels that it has adequate compensating controls in place in relation to the associated risk. WSC receives very little cash in the mail (0.002% of all payments received in fiscal year ended June 30, 2014) and the amount of checks through the mail is decreasing each year (11.67% of all payments received in fiscal year ended June 30, 2014).*

*WSC believes that having mailroom staff open the mail possesses a great deal of liability. Mail can and does have sensitive student and employee information, both financial and personal, along with bid information which should not be opened until the official bid opening. If mail is opened by mailroom personnel as suggested it becomes unclear who has access to possibly sensitive information and also makes the unauthorized access of information easier.*

*WSC's Student Financial Services office does maintain a log of all payments received in the mail and makes copies of all checks receipted. These procedures assist in tracking payments when questions arise from students and departments.*

*The procedures mentioned above are not practical given the additional time this would take for the limited office staff. WSC will continue to look into ways to improve internal controls over monies received in the mail.*

#### **24. Residence Life Office Receipting Procedures**

Good internal control requires a plan of organization, procedures, and records to ensure that all monies collected are deposited, and no one individual is in a position both to perpetuate and to conceal errors or irregularities.

During our review of the receipting procedures at the Residence Life Office, we noted the following:

- The Residence Life Office sent the deposit (transmittal form and checks/cash) to the Business Office to process the deposit; however, the Residence Life Office did not have a procedure in place to ensure the amount sent to the Business Office was deposited and recorded properly in NeSIS.

- The receipt book used by the Residence Life Office was pre-numbered; however, no one reviewed the receipt book periodically for missing receipts to ensure that all monies received were deposited.

We also noted there was generally a lack of segregation of duties in the Residence Life Office related to the collecting and processing of receipts. One person could handle the monies coming into the Residence Life Office, apply payments to the student accounts in Star Rez, and provide to the Business Office the charge and payment details, which were uploaded into NeSIS and applied to the student accounts.

The above control weaknesses were noted in our prior audit.

In addition, our prior audit recommendation to improve controls over receipts at the Residence Life Office suggested that, instead of cash and checks being receipted in the Residence Life Office, students be directed to pay all amounts due directly to the Business Office. WSC did not implement this recommendation.

When one individual has the ability both to perpetuate and to conceal errors or irregularities, there is a greater risk of loss or misuse of State funds.

We again recommend that, instead of cash and checks being receipted in the Residence Life Office, students be directed to pay all amounts due directly to the Business Office. Additionally, we recommend that the Residence Life Office maintain an appropriate level of segregation of duties in the handling of receipts. If the Business Office cannot implement this recommendation, we recommend these controls be implemented at the Residence Life Office to ensure a segregation of duties.

*Management's Response: WSC has continued to review control of cash and checks received in the Residence Life office. The Student Financial Services office has begun returning a signed copy of the transmittal form to the Residence Life office once the payments have been receipted in NeSIS. The Residence Life office will also begin keeping a spreadsheet of the receipt book so they can tell if receipts are missing. WSC will also continue to look into payment solutions that can be used in conjunction with the StarRez housing application so that applicants can make payment by credit card within the online application. The payment solutions researched up to this point have not been cost effective.*

## **25. Contract and Bidding Documentation**

Neb. Rev. Stat. § 13-2910 (Reissue 2012) states, in part:

*(2) The political subdivision shall evaluate and rank each proposal on the basis of best meeting the criteria in the request for proposals and taking into consideration the recommendation of the selection committee pursuant to section 13-2911.*

*(3) The political subdivision shall attempt to negotiate a construction management at risk contract with the highest ranked construction manager and may enter into a construction management at risk contract after negotiations . . . .*

Neb. Rev. Stat. § 13-2911 (Reissue 2012) states, in part:

*(2) The selection committee and the political subdivision shall evaluate proposals taking into consideration the criteria enumerated in subdivisions (a) through (g) of this subsection with the maximum percentage of total points for evaluation which may be assigned to each criterion set forth following the criterion. The following criteria shall be evaluated, when applicable:*

*(a) The financial resources of the design-builder or construction manager to complete the project, ten percent;*

*(b) The ability of the proposed personnel of the design-builder or construction manager to perform, thirty percent;*

*(c) The character, integrity, reputation, judgment, experience, and efficiency of the design-builder or construction manager, thirty percent;*

*(d) The quality of performance on previous projects, thirty percent;*

*(e) The ability of the design-builder or construction manager to perform within the time specified, thirty percent;*

*(f) The previous and existing compliance of the design-builder or construction manager with laws relating to the contract, ten percent; and*

*(g) Such other information as may be secured having a bearing on the selection, twenty percent.*

*(3) The records of the selection committee in evaluating proposals and making recommendations shall be considered public records for purposes of section 84-712.01.*

NSCS Board Policy 8071 – Capital Construction; Contracts; Design-Build; Construction Management At Risk – Construction Management at Risk Contract, Proposal Evaluation, states, in part:

*The College shall evaluate and rank each proposal on the basis of best meeting the criteria in the request for proposals and taking into considerations the recommendation of the selection committee.*

NSCS Board Policy 8064 – Capital Construction; Bids, Special Situations, Part 1, states:

*Emergencies – Emergencies are defined as situations where a clear and foreseeable danger will exist without the State College taking appropriate measures to reduce or remove the danger. In such cases, the College President, after consulting with the Chancellor, shall be responsible for making whatever modifications to the bidding processes are deemed most appropriate to obtain the needed services within the required time frame.*

NSCS Board Policy 8066 – Capital Construction; Contracts; Professional Consulting Services, Procedure part 5, states:

*[T]he committee shall discuss the strengths of the firms in relation to the proposed project and shall arrive at agreement on the first-, second- and third-place firms.*

The policy in part was established based on the Nebraska Consultant's Competitive Negotiation Act, Neb. Rev. Stat. § 81-1701 through § 81-1721.

A good internal control plan requires adequate documentation be maintained to support all contract bidding processes and approvals.

For 4 of 12 contract expenditure documents tested, for three contracts, the APA was unable to verify that NSCS Board policies were followed in the contract bidding and/or approval process. We noted the following:

- WSC entered into a contract with Beckenhauer Construction, Inc. for renovations to the U.S. Conn Library. Contract was dated August 19, 2013. The guaranteed maximum price was \$16,744,820. In review of the documentation for the selection process, the APA observed a list of the nine Selection Committee members, and the Selection Evaluation Criteria forms completed by one committee member for the following four companies that submitted bids: MCL, Sampson, Beckenhauer, and Lund Ross. As revealed by further inquiries into the scoring process, WSC staff explained that one committee member filled out the forms for the selection group and the selection process was narrowed to three firms. There was no documentation of the accumulation of the scores, so the APA compiled the scores and noted the top three scores were given to Beckenhauer, Lund Ross, and Sampson, which were the three firms scheduled for interviews. WSC staff also noted that when interviews were performed, each member of the Selection Committee filled out a scoring sheet, and the committee collaborated after interviews to select a company. The APA observed Interview Questions forms completed by three committee members for each of the three firms. The APA also observed a ranking sheet on which seven individual scorers gave each firm a ranking of 1, 2, or 3, but the APA was unable to determine who the seven scorers were or whether this was the final score. No additional documentation was on file to support the selection, including discussions and/or other criteria used in the selection to document compliance with § 13-2910, § 13-2911, and NSCS Board Policy 8071.
- WSC entered into a contract with Jackson-Jackson & Associates, Inc. for professional services for the U.S. Conn Library renovation. Contract was dated January 18, 2012. The contract amount was \$1,385,500. The APA observed a listing of 10 committee members and an email from a committee member who noted WSC received 12 proposals, which would be narrowed to three or four for interviews. A committee member included an evaluation sheet and questionnaire for the 10 committee members to use in narrowing down the proposals; however, the APA did not observe any completed evaluation sheets on file. The APA also observed a listing of scores for 12 firms, and the three highest scoring firms were selected for interviews, along with Sinclair Hille, who received the eighth highest score. No additional documentation was on file to support the selection of Sinclair Hille for interview. Four finalists were selected to make their presentations to the Selection Committee: Jackson-Jackson, Sinclair Hille, Clark Enersen, and Schemmer Assoc. The APA observed rating sheets completed by three committee members, but rating sheets for the other seven selection committee members were not located. No additional documentation was on file, including documentation of discussions/other criteria used in the selection process, to document compliance with § 81-1701 through § 81-1721, and NSCS Board Policy 8066.

- WSC entered a contract with Kure Associates, LLC to provide and install fiber optic and copper cables for the Conn Library project. Contract was signed April 25, 2014. The contract amount was \$175,595. Comments on the purchase order stated this purchase was done without competitive pricing because of the critical nature of the infrastructure; the vendor had done all of the work on the plants since their original installation; the complexity of the project; criticality that new matches old; and campus experience with the quality of vendor's work. WSC noted this was an emergency purchase that fell under NSCS Board Policy 8064 and, therefore, was not subject to competitive bidding. The APA discussed with management who explained the various reasons the vendor was selected and why this fell under the "emergency" policy, as noted in NSCS Board Policy 8064. However, there was no documentation that the WSC President consulted with the NSCS Chancellor regarding this contract, in accordance with policy.

When the vendor selection process for a significant outlay of resources is not documented, there is an increased risk for fraud or abuse, as well as limited documentation to demonstrate that WSC is in compliance with State statute and NSCS Board policies.

We recommend WSC maintain adequate supporting documentation for all contract bidding processes and approvals to support that it is in compliance with State statute and NSCS Board policies.

*Management's Response: In every case the highest ranked firm, based on the consensus of the Selection Committee, was awarded the contract (after negotiations). Nevertheless, documentation forms will be developed for future use. WSC agrees that the selection files for the CM at Risk and professional services selections for the Conn Library renovation were not well organized and documented. WSC will implement procedures to ensure that proper documentation is retained in selection files in the future. WSC also agrees that they overlooked having the President consult with the Chancellor when the Library Contract to provide and install fiber optic and copper cables became an emergency. WSC will work on procedures to prevent this from happening in the future.*

## **26. Financial Statement Adjustments**

A good internal control plan includes procedures to ensure the completeness and accuracy of amounts recorded in the preparation of the NSCS' annual financial statements.

In our review of the amounts recorded on the WSC financial statements, we noted the following:

- An understatement of Accounts Payable (A/P) by \$132,430.
- An understatement of Prepaid Expense by \$43,735.
- An understatement of Accrued Payroll by \$16,852.



- An overstatement of Other Capital Expense and understatement of Repairs and Maintenance Expense by \$603,531.
- An overstatement of Repairs and Maintenance and understatement of Construction In-Progress (CIP) by \$232,600.

A similar finding was noted in our prior audit.

When procedures are not in place to ensure the completeness and accuracy of amounts recorded in the preparation of the NSCS annual financial statements, there is a greater risk that a material misstatement of the NSCS annual financial statements may occur and go undetected.

When the above proposed adjustments were identified, WSC corrected its fiscal year ended June 30, 2014, financial statements.

We recommend WSC establish procedures to ensure the proper recording of financial amounts in its annual financial statements.

*Management's Response: As noted above, WSC adjusted amounts after review of proposed adjustments. WSC strives to ensure financial amounts are fairly stated and will continue efforts to improve our procedures. WSC would like to express that the understatement of prepaid expense was due to a single invoice in which the vendor incorrectly listed the services as fiscal year services rather than calendar year services. WSC had no way of knowing that the vendor inaccurately stated the dates of service.*

\* \* \* \* \*

It should be noted that this letter is critical in nature, as it contains only our comments and recommendations and does not include our observations on any strengths of the NSCS.

Draft copies of the comments and recommendations included in this management letter were furnished to the NSCS administrators to provide them with an opportunity to review and respond to them. All formal responses received have been incorporated into this management letter. Responses have been objectively evaluated and recognized, as appropriate, in the management letter. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

This letter is intended solely for the information and use of management, the Board of Trustees, others within the NSCS, and the appropriate Federal and regulatory awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



Don Dunlap, CPA  
Assistant Deputy Auditor