MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM

For the Year Ended June 30, 2015

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Issued on January 21, 2016

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January 21, 2016

Mr. Stanley Carpenter, Chancellor
Board of Trustees
Nebraska State College System
1327 H Street, Suite 200
Lincoln, Nebraska 68508-3751

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, 2015, and have issued our report thereon dated December 10, 2015.

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, 2015, and the related notes to the financial statements, which collectively comprise the NSCS's basic financial statements, and have issued our report thereon dated December 10, 2015. 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 Program, as described in our report on the NSCS's 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's 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 NSCS's internal control. Accordingly, we do not express an opinion on the effectiveness of NSCS's 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's 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, and 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's responses to our findings are described below. The NSCS's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

INFORMATION TECHNOLOGY (IT) COMMENTS

1. Accounts Payable (A/P) Transactions

A good internal control plan requires 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 15 users had the ability to prepare an invoice, post it in SAP – the NSCS's accounting system, and also approve and post it in EnterpriseOne (E1) – the State's accounting system. Additionally, 10 of the 15 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. Finally, seven of those 10 users could set up a vendor in SAP.

The 15 users who could prepare invoices and post them in SAP and E1 are noted by location below:

Location	# of Users
Chadron State College (CSC)	4
Peru State College (PSC)	8
NSCS System Office	3

Ten of 15 users identified above who could also prepare a purchase order are noted by location below:

Location	# of Users
CSC	4
PSC	3
NSCS System Office	3

Seven of the 10 users identified above who could also set up a vendor in SAP are noted by location below:

Location	# of Users
CSC	2
PSC	2
NSCS System Office	3

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 in the A/P process allows a single individual to make purchases and pay vendors without a secondary review or approval. Additionally, some of those users had the ability to create new vendor records in SAP. This risk allows for the possible theft and misuse of State funds.

> We recommend the NSCS 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. We also recommend reviewing users with the ability to create vendors in SAP and ensure a proper segregation of duties exists.

Management's Response: 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. The University is currently working on defining additional roles in SAP which may address this issue. Once these additional roles are defined, the NSCS will work with the University to determine if these roles can be utilized by the NSCS as a solution.

2. SAP Security Access Controls

The APA noted concerns regarding SAP logical security access. Due to the sensitive nature of the information in this comment, it has been disclosed to management in a separate communication.

Management's Response: The NSCS acknowledges the concern expressed and has implemented security access controls to mitigate the associated risk.

3. General Ledger Transactions in SAP

A good internal control plan requires 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, primarily journal entries that do not result in vendor payments. 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 29 users with the ability to prepare and post GL entries in SAP without a secondary, system required, review or approval. The 29 users capable of preparing and posting GL transactions without a system required secondary review or approval are noted by location below, along with the GL document types they could prepare and post:

Location	# of Users
Wayne State College (WSC)	7
PSC	10
CSC	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 28 of those users and an additional 3 users (31 users total) to prepare and post additional GL document types. The 31 users capable of preparing and posting additional GL document types without a system required secondary review or approval are noted by location below, along with the GL document types they could prepare and post:

Location	# of Users
WSC	10
PSC	9
CSC	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 system required, documented, secondary review and approval prior to posting the transaction to the GL, there is a greater risk for error and for inappropriate GL transactions to occur and remain 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 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.

4. 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 users at UNCA (University) and one consultant with the ability to set up a student, create a scholarship, configure the scholarship parameters, and then award that scholarship to the student in the Nebraska Student Information System (NeSIS). The UNCA users were IT staff with a high level of access. In addition there were six users (four at CSC, one at PSC, and one at WSC) with the ability to set up a student and award a scholarship to the student.

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 in the scholarship award process, so a single individual is not able to create a scholarship, configure the scholarship parameters, and then award the scholarship to a student, particularly if those users 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. Additionally, a new NeSIS Security analyst was hired in December and will assist the NSCS in developing these new re-designed segregation of duties roles. Once completed, the NSCS will look at implementing this new security at the other two Colleges.

CSC agrees that three of the people do not need the roles as noted in this finding. These three have been changed. The fourth person, while having the roles that the APA noted, does not have the SACR security needed to create a person in NeSIS.

5. NeSIS Improper Access

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

During a review of NeSIS roles that provide significant system access, a student records role was identified that had access to modify enrollment data across all campuses without being tracked or logged. This role was initially intended to be utilized on a temporary basis, as needed; however, the three NSCS users with this role had it for nearly three years (one CSC, one PSC, and one WSC).

We also noted that 5 of 16 users inappropriately had access to update Academic Institutional - Student Administration and Contributor Relations (SACR) security. The access allowed those 5 campus-level users to change which campuses they or other users could access and update.

A similar finding was noted in our prior four audits.

Designing powerful user roles with access across all campuses, without a way to track user activity, prevents accountability for user actions. Allowing campus level users to change Academic Institutional SACR security increases the risk that users will be granted unauthorized access to NeSIS.

> We recommend the NSCS review the design and use of the enrollment page role allowing update access across all campuses. We also recommend periodically reviewing users with the ability to update Academic Institutional SACR security to ensure only appropriate staff have access.

Management's Response: Each College determines 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.

6. TrueYou and Mainframe Password Settings

The University's Password Policy, Version 1.1 (Revised March 4, 2014), 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 (August 2013), § 6.3.1.1, Electronic Authentication Guideline, presents token (password) 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." An example of a question from a selected prompt could be, "What was your first pet's name?", with the answer becoming the pre-registered knowledge token. LOA1 requires a verifier to submit correct answers 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 submit correct answers to at least five questions.

Good internal control includes system enforced password parameters to ensure users meet minimum password standards. We noted the following during testing:

- 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; 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, where at least one character has to be numeric. Mixed case passwords are not supported, so all alpha characters are stored as uppercase. The limited character set of 39, and 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, change the options to support mixed case passwords and change the password syntax rules to 'mmmmmmmm', requiring a password length of eight that must contain at least one alpha character, one lowercase alphabetic character, and one numeric character. Alpha characters are defined as uppercase alphabetic characters and the national characters #, $, and @.

Management's Response: The NSCS has discussed this with the University. The University has indicated that they consider the RACF observation a low risk, options will be reviewed 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. Additionally, the IDM environment, including the TrueYou will be replaced over the next 2 years and will incorporate improved provisioning and de-provisioning processes as well as standards based security controls.

7. <u>NeSIS Terminations</u>

The Nebraska State College Policy 5008 (April 25, 2014), Employee Use of Campus 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 computing resources, facilities, and contracted services unless otherwise determined by the College president or Chancellor.*

InCommon Identity Assurance Profiles: Bronze & Silver (February 11, 2013) 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.

For two of eight NeSIS terminated users tested, roles were not removed timely. One user at PSC terminated on November 1, 2014. One user at WSC terminated on January 1, 2015. Access had not been removed for either user as of June 5, 2015. Additionally, the WSC user logged into NeSIS as recently as May 11, 2015.

Failure to terminate user access timely 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 to document such procedure.

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 has been completed on the University instance and will be implemented for the NSCS which can be used by the NeSIS security coordinators to remove NeSIS access on a timely basis (3 days).

SYSTEM OFFICE COMMENTS

8. 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, 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 2011 and 2015, the NSCS has written off a total of $884,446. This amounts to an average annual write-off for all three of the Colleges of approximately $176,889.

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, 2014, 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.*

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.

9. <u>Non-compliance with Contract/Bidding Policies</u>

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

> *All consulting contracts exceeding seventy thousand dollars ($70,000) 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 practices require contract bidding processes be followed to ensure the NSCS is receiving the best agreement possible.

We noted one of five contracts tested did not follow a competitive Request For Proposal (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 System Office had a signed contract on file for a two year period of July 1, 2014, through June 30, 2016. Total consideration for the contract was $74,532 payable in four equal installments over the two years. Total payments for fiscal year ended June 30, 2015 to Nowka were $37,266.

A similar finding was noted in our prior audits.

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

> We recommend the NSCS System Office follow Board Policy 7016, regarding competitive bidding requirements, and obtain RFPs for all consulting contracts, including lobbyist and legislative liaison services, exceeding seventy-thousand dollars.

Management's Response: The NSCS is in the process of revising Board policy 7016 to clarify that lobbyist contracting does not fall under the "all other consulting" contracts category requiring a competitive RFP process if the contract exceeds $70,000.

10. Local Charge Accounts

NSCS Board Policy 6015 (March 11, 1994) – Prompt Payments – states, in relevant part:

> *Each State College shall make payment in full (unless an alternate payment plan has been agreed upon) for all goods delivered or services rendered in accordance with the State of Nebraska's Prompt Payment Act (RRS 81-2401 through 81-2408). This will require the colleges to make payment on or before the forty-fifth (45th) calendar day after (a) the receipt by the college of the goods or services, or (b) the date of receipt by the college of the bill for the goods or services, whichever is later, unless other provisions for payment are agreed to in writing by the creditor and the college.*

A good internal control plan requires adequate policies and procedures regarding the authorization and use of local charge accounts. It also includes a process to ensure that all purchases made on the local charge accounts are appropriate and necessary. Additionally, a good internal control plan requires a periodic review of the local charge accounts to ensure no unauthorized accounts have been opened for the State Colleges without their knowledge and consent.

Wayne State College informed the APA of suspicious activities related to a charge account at a local grocery store, Pac "N" Save. A former employee of the Athletic Department allegedly opened a second local charge account with this vendor and had the billing statements sent directly to their office. This former employee allegedly charged personal expenses to this second account. WSC had not authorized this second account. Some of the purchases made occurred when the purchaser was purportedly on work related trips. This was determined by the employee's Expense Reimbursement Request forms which the employee submitted for mileage reimbursements.

When WSC discovered this additional account and the questionable charges at the Pac "N" Save, WSC reviewed the employee's purchases at local retailers and restaurants that had been submitted for reimbursement, their travel Expense Reimbursement Requests, and purchases made using their team travel purchase card. WSC noted several questionable purchases summarized by vendor below:

Vendor	Amount
Pac "N" Save*	$ 1,237
Mileage Costs per Expense Reimbursement	$ 626
Shopko	$ 353
Student Bookstore	$ 340
Pizza Hut	$ 66
The Max	$ 29
Total**	**$ 2,650**

* Includes $79 purchased on a team travel purchase card, the remaining amount was charged to the local account.

** Includes $550 in purchase funded by the WSC foundation.

WSC also noted that many of the bills were not submitted to the Accounting Office in a timely manner, and were not paid in compliance with NSCS Board Policy 6015 which requires the College to make payment in accordance with the Nebraska Prompt Pay Act. For example, a Pac "N" Save invoice dated October 2, 2014 was not submitted to the Accounting Office for payment until May 8, 2015, seven months later.

When confronted with these allegations, the employee resigned. Information on the above purchases was sent by the NSCS to the Nebraska State Patrol. A formal investigation by the Patrol was not started. The NSCS did not wish to pursue any civil action and left further investigation and/or criminal proceedings to the discretion of the State Patrol.

A review of local charge accounts at the campuses identified the following:

- CSC, PSC, and WSC lacked policies and procedures regarding the authorization and use of local charge accounts. Additionally, none of the Colleges maintained a comprehensive listing of their local charge accounts and those authorized to make purchases on the accounts. Furthermore, the Colleges failed to periodic review the local charge accounts to ensure only authorized accounts were opened.

A lack of internal control over local charge accounts can lead to loss or misuse of State funds.

> We recommend the Colleges create policies and procedures regarding these local charge accounts which would include a comprehensive listing of all local accounts and the employees authorized to make purchases on those accounts. We also recommend the Colleges implement a periodic review of their local charge accounts and take action to ensure that no unauthorized charge accounts are opened by employees. Finally, we recommend WSC take action to recover any questionable expenditures identified from their internal investigation.

Management's Response: CSC will work collaboratively with the other Colleges and the System Office to determine policies and procedures related to local charge accounts. CSC will continue to monitor local charge account transactions for possible unauthorized purchases.

As of January 11, 2016, PSC compiled a comprehensive listing of local charge accounts with authorized users. The majority of local charge accounts will be closed in an effort to avoid risk. Those accounts that remain open will be reconciled with the statement from the vendor. The statement for all local accounts will be sent to Accounts Payable and receipts will be submitted by each department for payment along with proper documentation. A letter will be sent to all current local vendors indicating the change. A follow-up letter will be sent on a yearly basis in order to monitor existing and/or closed accounts.

WSC put into place procedures to annually communicate with all local businesses in regards to the charge accounts they hold with WSC. WSC initially sent letters out in June 2015 to each local business that has established a WSC charge account. WSC worked with the businesses to create a single WSC account. The businesses were then instructed that all statements/invoices must be sent to the WSC accounts payable office. The WSC accounts payable office distributes invoices to the rest of the campus as necessary.

11. 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 perpetrate and to conceal errors or irregularities. This control plan should include two individuals who open the mail, prepare a control log of all monies received, and initial and date the log. The control log should then be reconciled to the deposits by someone other than those individuals who opened the mail and the individual who prepared the deposits. This reconciliation should be documented.

CSC, PSC, and WSC all received mail, which may include cash and checks, in the mailroom and distributed it to the appropriate departments. None of the campuses prepared an initial log of all cash and checks received through the mail. However, WSC implemented controls in June 2015 that included two people opening the mail and establishing a control log of all monies received.

A similar finding was noted in our prior audits.

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

> We recommend the NSCS campuses implement practical procedures to ensure an adequate system of internal controls over receipts. These procedures should include two individuals who open the mail and prepare a control log for all monies received. The control log should be initialed and dated by the two individuals who opened the mail and should be reconciled to deposits by someone other than the two individuals who opened the mail and the individual who prepared the deposit. This reconciliation should be documented.

Management's Response: CSC believes there are sufficient compensating controls in place related to the internal controls over receipts. CSC does not receive cash through the mail and checks are non-negotiable, so risk of lost revenue is minimal.

All mail sent to the general mailbox at PSC will be sent to the Business Office before mail is opened. The Business Office will log any funds received via mail into a daily log signed by two individuals. The deposit will be initialed by a third person to reconcile receipts on a daily basis.

WSC will continue with the new procedures implemented in June 2015, two people opening the mail as well as a control log of monies received.

12. Change Funds

Neb. Rev. Stat. 85-316 (Reissue 2014) states, in relevant part:

> *All funds appropriated for the use and benefit of the state colleges together with the income arising from the lease and sale of endowment lands belonging to such colleges shall be under the direction and control of the board of trustees, subject to the provisions contained in this section, except that each college may retain in its possession a sum not to exceed fifty thousand dollars out of which to make settlement and equitable adjustments with students entitled thereto, to make payments for day-to-day operations calling for immediate payment, and to provide for contingencies.*

Neb. Rev. Stat. 84-710 (Reissue 2014) states, in relevant part:

> *It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state, including the State Racing Commission, to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.*

NSCS Board Policy 6004 (July 1, 2010) – Cash Funds; Source and Use – states the following:

> *The Board shall cause all money belonging to these funds, which are received under the authority delegated to the College administration, to be paid over to the State Treasurer to be placed to the credit of each institution's Cash Fund, except that each college may retain in its possession a sum, not to exceed fifty thousand dollars ($50,000), to make settlement and equitable adjustments with students so entitled, to make payments for day-to-day operations calling for immediate payment, and to provide for contingencies. All such funds shall be maintained in an interest-bearing account such as a money market fund account.*
>
> *As cash funds are collected by the Colleges, they shall generally be deposited each business day in federally-insured banks until such time that a transfer is made to the State Treasurer. All short-term deposits shall be placed into interest-bearing accounts such as money market funds. Any cash funds received after the deposit shall be locked in a college-designated location.*

NSCS Board Policy 7005 (March 11, 1994) – Safeguards; Cash and Personal Property – states the following:

> *Each college and the System Office shall develop specific safeguards to reduce the risk of theft and destruction of cash on hand and in transit and other general items of value, including art work, and instructional and administrative equipment.*

A good internal control plan requires that funds used to make change be adequately documented and approved. Furthermore, good business practice requires that funds be maintained at their established amounts and checks be restrictively endorsed "For Deposit Only" upon receipt. Additionally, a good internal control plan requires that the campuses maintain adequate physical safeguards over cash and cash items.

We noted the following at each campus:

- CSC maintained change funds at the Athletics Department, Conferencing Office, the Print Shop, the Sandoz Museum, the Library, the Nelson Physical Activity Center (NPAC), and Sparks Hall. With the exception of the Athletics Department, there was no documentation for the establishment of the change funds or the authorized amount of each change fund. We performed cash counts at these locations and noted that receipts were not deposited timely at the Print Shop, Sandoz Museum, and Library, checks were not restrictively endorsed at the NPAC and Athletics Department, the Conferencing Office change fund had $67 more than its purported amount, and the NPAC change fund had $10 less than its purported amount.

- PSC maintained change funds at the Business Office, the Library, the Athletics Department, and the Campus Services Office. With the exception of the Athletics Department, there was no documentation for the creation of the individual change funds or the amount of each change fund. We performed cash counts at these locations and noted that the Business Office was $10 less than its purported amount of $900, and the Athletic Department held $405 more than its purported amount of $2,800.

- WSC maintained change funds at the Student Financial Services Office, the Mailroom, the Recreation Center, the Athletics Office, the US Conn Library, the Student Center, and the South Sioux Community College. We performed cash counts at these locations and noted that checks held at the Library and Recreation Center were not restrictively endorsed. Additionally, funds held at the Student Center were taken to a supervisor's office for safekeeping over the weekend. The funds totaled $103 and were placed in an unlocked desk drawer in an unlocked office. On the day of the cash count, WSC reported that $87 had been stolen from the supervisor's office. WSC reported the theft to Campus Security.

CSC was not in compliance with State statute regarding timely deposits. Additionally, there is an increased risk for the loss or misuse of State monies when change funds are not documented and maintained at their established amounts, checks are not restrictively endorsed and physical safeguards over cash are not implemented.

> We recommend the Colleges approve the change funds held at the various locations and establish an authorized amount for each fund. Additionally, we recommend that deposits be made in a timely manner in compliance with State statute, checks be restrictively endorsed upon receipt and physical safeguards of cash fund be properly implemented.

Management's Response: CSC's accounting staff met with the departments utilizing change funds. CSC established authorized amounts and documentation for these change funds. Relevant state statute, procedures, and forms for timely deposits were also distributed.

Change fund procedures for long/short cash drawers have been established at PSC. The Accounting Office will audit change fund accounts at random to ensure proper balances are maintained.

WSC's library and rec center do have an endorsement stamp. Further training was given to prevent this from happening in the future. WSC has changed the procedure in the Student Center so funds will to be locked in the safe during non-business hours.

13. <u>State Contracts Database</u>

Neb. Rev. Stat. § 84-602(9) (Reissue 2014) directs the Nebraska State Treasurer to do the following:

> *To develop and maintain a single, searchable web site with information on state tax receipts, expenditures, and contracts which is accessible by the public at no cost to access as provided in section 84-602.02.*

Neb. Rev. Stat. § 84-602.01 (Reissue 2014) states the following:

> *The establishment of the web site provided for in section 84-602 and described in section 84-602.02 shall be known and may be cited as the Taxpayer Transparency Act.*

Neb. Rev. Stat. § 84-602.02(3)(a) (Supp. 2015) states the following, in relevant part:

> *Beginning July 1, 2014, the web site described in this section shall include a link to the web site of the Department of Administrative Services. The department's web site shall contain: (i) A data base that includes a copy of each active contract that is a basis for an expenditure of state funds, including any amendment to such contract and any document incorporated by reference in such contract. . . . The data base shall be accessible by the public and searchable by vendor, by agency, board, commission, or department, and by dollar amount. All agencies, boards, commissions, and departments of the state shall provide to the Department of Administrative Services, in electronic form, copies of such contracts for inclusion in the data base beginning with contracts that are active on and after January 1, 2014; and (ii) A data base that includes copies of all expired contracts which were previously included in the data base described in subdivision (3)(a)(i) of this section and which have not been disposed of pursuant to policies and procedures adopted under subdivision (3)(e) of this section. The data base required under this subdivision shall be accessible by the public and searchable by vendor, by agency, board, commission, or department, and by dollar amount.*

Subsection (6) of the § 84-602.02 defines "expenditure of state funds" as follows:

> *(a) For purposes of this section, expenditure of state funds means all expenditures of appropriated or nonappropriated funds by an agency, board, commission, or department of the state from the state treasury in forms including, but not limited to:*
>
> *(i) Grants;*
>
> *(ii) Contracts;*
>
> *(iii) Subcontracts;*
>
> *(iv) State aid to political subdivisions; and*
>
> *(v) Tax refunds or credits that may be disclosed pursuant to the Nebraska Advantage Act, the Nebraska Advantage Microenterprise Tax Credit Act, the Nebraska Advantage Research and Development Act, or the Nebraska Advantage Rural Development Act.*
>
> *(b) Expenditure of state funds does not include the transfer of funds between two agencies, boards, commissions, or departments of the state or payments of state or federal assistance to an individual.*

As of the testing date, two of seven contracts tested at WSC and one of six contracts tested at PSC – all of which were active after January 1, 2014 – were not available for public viewing on the State contract data base website. Those contracts were as follows:

Project Description	Amount	Vendor	College
Morey Hall Window Replacement	$ 533,750	Radec Construction	Wayne State College
Recreation Center Fire Alarm Upgrade	$ 154,431	Electronic Systems	Wayne State College
Oak Bowl Renovation	$ 7,943,078	Kiewit Building Group	Peru State College

The PSC contract was expected to be completed prior to January 1, 2014. Because work on the project continued well past that anticipated timeline, the contract remained active and should have been uploaded to the State contract data base website.

Both WSC contracts were financed with revenue bond surplus funds, which were raised through certain student fees and expended by a trustee at the direction the Board of Trustees (Board). Because those funds were not paid out of the State treasury, as specified by § 84-602.02(6), the State College System Office advised WSC that the contract payments did not fall within the Taxpayer Transparency Act (Act).

The Auditor of Public Accounts questions the Board's method of using revenue bond surplus funds raised through student fees to finance the WSC contracts. Having been pledged to pay off the bonds, the revenue bond surplus funds should not have been committed to new projects and paid out by a trustee. Instead, such funds should be used solely to pay off the bonds or returned to a fund under the control of the State Treasurer once all bond payments had been made.

Consequently, rather than being financed with revenue bond surplus funds raised through student fees pledged to the payment of bonds, the WSC contracts should have been paid with funds out of the State Treasury, which would have subjected them to the requirements of the Act.

> We recommend revenue bond surplus funds be expended as pledged or returned to the State Treasurer and construction contracts be financed with either bond proceeds or funds paid out of the State Treasury. We further recommend that contracts financed with the latter be made available for public viewing on the State contract data base website in accordance with the provisions of the Act.

Management's Response: The PSC contract was uploaded to the system upon learning of the APA's concern. The NSCS disagrees with the APA's assertion that revenue bond surplus funds should not be held by the trustee.

14. Athletic Department Receipt Procedures

A good internal control plan requires an adequate segregation of duties over receipts and the establishment of initial control over monies received at sporting events and camps. This initial control should include consistent and reasonable beginning cash amounts for each event's cash drawer. A good internal control plan also requires a documented explanation when making concession item purchases outside of the established contract. Furthermore, a good internal control plan requires documentation to support any changes made to the final cash count documentation.

During our review of the Athletic Department receipt procedures at CSC and PSC, we noted the following:

- There was a lack of segregation of duties within the CSC Athletics Department. One individual had the ability to record receipts in the Athletic Department's record keeping system, make the deposits, and reconcile receipts.

- There was a lack of initial control over monies received at CSC and PSC for athletic camps. The majority of camp registrations and payments were received prior to the start of the camps; however, both Colleges allowed campers to register and pay the first day of the camp. There was no record or log of money received by coaches when camp fees were paid by participants upon arrival to camp.

- At PSC, the beginning cash in each cash drawer used for concessions and gate admissions was not uniform throughout the year or event. There was a lack of documentation to support beginning cash requirements.

- For concession stand and gate admissions receipts, the PSC Athletic Department Project Coordinator made changes to the final cash counts after the counts had been signed and reviewed by a student worker and a supervisory coach. No documentation was maintained to explain the necessity of the changes.

- Stocking the concessions stands was the responsibility of Creative Dining under their contract with PSC; however, the APA observed purchases of concession items from vendors like Costco and Wal-Mart with no documented explanation as to why they were purchased outside of the Creative Dining contract.

There is an increased risk for the loss or misuse of State funds when one individual has the ability to process a transaction from beginning to end. There is also an increased risk of loss or misuse of State funds when adequate controls are not in place and sufficient documentation is not obtained for cash receipts, cash drawer beginning balances, cash counts, or purchases made outside of established contracts.

> We recommend CSC implement procedures to ensure that one individual does not have the ability to conceal any errors or irregularities and ensure there is a proper segregation of duties over cash receipts. We also recommend CSC and PSC attempt to collect all of their athletic camps registrations and payments through an online registration process. For registrations and payments received the day of a camp, we recommend the campuses implement proper controls over cash receipts. Furthermore, we recommend PSC establish consistent and reasonable beginning cash amounts for their event cash drawers and document all changes made to cash count documentation after the cash counts have been finalized. We also recommend PSC document the need for concession purchases outside of their Creative Dining contract.

Management's Response: CSC believes there are sufficient segregation of duties within the CSC Athletic Department. Individuals other than the Athletic Accountant collect funds. The Athletic Accountant records the funds in the Athletic Departments' internal records, gives the deposit with supporting documentation to the Athletic Director for review and approval, and then submits the compiled deposit with supporting documentation to the Business Office for deposit. The Business Office records the deposit within NeSIS in the same process as other departmental receipts.

The CSC Athletic Department plans to use an online registration process for athletic camps starting in 2016 and campers who haven't registered through the online registration process will be manually logged in this system for complete recording.

PSC will implement procedures to ensure proper control of athletic camp monies, cash drawer balances, final cash counts, and concession stand purchases.

* * * * *

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 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,

Philip J. Olsen, CPA, CISA
Audit Manager