MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM

For the Year Ended June 30, 2016

Issued on January 30, 2017

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

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

December 12, 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, 2016, and have issued our report thereon dated December 12, 2016.

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.

The following is from our "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," dated December 12, 2016.

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, 2016, 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 12, 2016. 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 activity of 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 and program 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 and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control that we consider to be a significant deficiency: Finding No. 2016-001: Financial Statement Errors.

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.

BASIC FINANCIAL STATEMENTS COMMENTS

Finding No. 2016-001: Financial Statement Errors

The Nebraska State College System (NSCS) submitted financial statements that were incomplete and significantly inaccurate. Throughout the audit process, over 100 errors were noted, with 84 errors identified by the Auditor of Public Accounts (APA) and another 21 corrections made by the NSCS subsequent to submission of the original statements. The excessive number of financial statement errors resulted in several time-consuming revisions, including adjustments to 41 of the 59 – or nearly 70% – of the financial statement line items. The financial statement line item changes ranged from ($24,019,000) to $11,950,000 for both fiscal years 2015 and 2016. **Exhibit B** illustrates all of the fiscal year 2016 financial statement adjustments made, by financial statement line item. Likewise, **Exhibit C** illustrates the adjustments for fiscal year 2015.

As summarized in the following table, the majority of errors noted were subsequently corrected by the NSCS, leaving 27 immaterial uncorrected errors, which were not proposed by the APA. All material adjustments were made by the NSCS.

	Identified by:		
Type of Error	**APA**	**NSCS**	**Total**
Corrected Fiscal Year 2016 Financial Statement Errors	40	18	58
Corrected Fiscal Year 2015 Financial Statement Errors	6	2	8
Uncorrected Financial Statement Errors	26	1	27
Corrected Footnote Disclosure Errors	12	0	12
Total Errors	**84**	**21**	**105**

The dollar value of the 58 adjusted errors amounted to more than $61 million in overstated line items and approximately $56 million in understated line items for fiscal year 2016. For fiscal year 2015, there were additional adjusted errors of $13 million in overstated items, and $12 million understated. Details of the 40 corrected fiscal year 2016 financial statement errors, as well as the 6 corrected fiscal year 2015 errors, are listed in **Exhibit A**.

The amounts of the 27 unadjusted errors ranged from $189,736 to $56. No corrections were made to the financial statements for these errors. The details of these adjustments relate to expenses being overstated, four errors in recording interest receivable, an error in non-operating revenue, two errors resulting in prepaid expenses being overstated, an error in State grants and contracts revenue, Federal grants and contracts revenue and scholarship allowance, accounts payable being understated, seven payroll accrual errors, three errors in the calculation of construction in progress, an error relating to interest expense, an error related to the split coding of prepaid expenses, an error in auxiliary enterprises, an error to private grants and contracts, an error to net position, one to other operating revenue and one to unearned revenue. Details for each of these unadjusted errors were provided to the NSCS management.

Lastly, the amounts disclosed in the footnotes were found to contain 12 errors, which were all corrected. The errors resulted in no disclosure of net position restricted by enabling legislation. There were also two errors in the capital asset footnote disclosure, four errors in the Foundation footnotes, one error in the reclassification footnote, one error in the deposits and investments footnote, and overstatements of the construction contracts in the commitments and contingencies footnote, the operating leases footnote, and the discretely presented component unit footnote for the PSC Foundation. Again, more detailed information on these errors was provided to management.

The audit of the NSCS is considered a component unit of the State of Nebraska and, as such, the audit must be completed prior to the statutory deadline to issue the Statewide Comprehensive Annual Financial Report (CAFR). Neb. Rev. Stat. § 81-1125.01 (Reissue 2014), requires the CAFR to be completed at least 20 days before the commencement of each regular session of the Legislature. For the fiscal year ended June 30, 2016, CAFR, this date was determined to be December 15, 2016. As such, the Nebraska State Department of Administrative Services, Accounting Division, requested that the draft NSCS financial report be completed by November 14, 2016, and the final report was required to be completed by the December 15, 2016, statutory deadline.

Additionally, a good internal control plan requires the NSCS to maintain staff with an adequate knowledge and understanding of the financial records. Furthermore, the NSCS should have sufficient procedures in place to ensure the accuracy of both the financial reports and the information used to prepare the basic financial statements. The NSCS's lack of such knowledge and procedures increases the risk that material misstatements may occur and remain undetected. Also, when information submitted to the APA contains excessive errors, there is an increased risk the CAFR will not be completed timely in accordance with the statutory deadline.

> We recommend the NSCS implement procedures to ensure internally prepared information is complete and accurate upon submission to the auditors. We also recommend the NSCS consider the need to implement system-wide training to accounting staff in order to ensure the financial statements are being prepared accurately and consistently among all campuses.

NSCS's Response: The NSCS will look at ways to improve financial statement preparation procedures in order to reduce financial statement errors. The NSCS will consider continued training opportunities, when available and where necessary, to ensure staff are informed and up to date on the proper financial statement line item handling of transactions. The NSCS will work with the APA to push forward some of their 'interim' test work dates, which occurs in July and August, so it does not conflict with the July-September timeframe the NSCS utilizes to prepare financial statements. Pushing these dates forward should give the NSCS additional time to prepare/review financial statements. In addition, the NSCS will work with the APA to determine if the financial statement deadlines can be pushed back or staggered in order to give staff the time needed to internally review the financial statements. Financial statements have historically been due to the APA in early to mid-September. The APA's current deadline does not allow each College the time needed to properly review its financial statements. Since the APA does not review all these statements immediately, the additional time gained through staggered or pushed back deadlines will help the NSCS when preparing/reviewing the basic financials.

As can be seen by the fiscal year 2015 audit adjustments noted in Exhibit A, several of the line audit adjustments proposed by the APA had been subject to audit by the APA for the last several audits and had not been noted by either previous APA audit managers and/or by NSCS staff. the

The overall impact of the errors in fiscal year 2016 resulted in a net position financial statement adjustment of approximately $500,000, the bulk of which related to one College's prior period adjustment.

APA Response: The financial statements are the responsibility of the NSCS, and the statutory change for the CAFR deadline requires the NSCS audit to be done timely. The NSCS should have a strong understanding of its own financial statements with only minimal adjustments required – not changes to 70% of the line items. The NSCS response focuses on net position; however, the evaluation of the fair presentation of the financial statements includes all line items and not only net position. It is neither effective nor cost efficient to perform one hundred percent testing of all items in the audit. Consequently, different items may arise during subsequent audits, and the rotation of audit managers is always a good auditing practice.

Finding No. 2016-002: Athletic Sponsorships

The APA noted concerns related to the handling of athletic sponsorships at Wayne State College (WSC) and Peru State College (PSC). Athletic sponsorship agreements are typically agreements with vendors for sponsorship at athletic events. In consideration for the various forms of sponsorships allowed by the NSCS, the vendors are generally required to pay cash, a trade donation, or a combination of both. The concerns noted relating to these agreements are outlined below.

Despite the WSC athletic sponsorship agreements being signed by the Wayne State Athletic Department and the Vice President for Finance, the cash received from the various corporate sponsors was actually deposited with the WSC Foundation. WSC entered into 34 corporate sponsorship agreements for the fiscal year ended June 30, 2016. The total consideration for the corporate sponsorships was $129,517, which included cash payments of $82,510 and trade donations amounting to $47,007. The APA believes these funds should have been deposited with WSC, not the Foundation, in accordance with the authorization provided by the athletic sponsorship agreements.

PSC failed to account properly for, monitor, and review the athletic sponsorship funding received from the various corporate sponsors. PSC could not provide an accurate listing of sponsorships. As such, there was no way for PSC, or the APA, to know if all athletic sponsorship revenue owed had been received.

Sound business practice and good internal control require all sponsorships to be adequately documented with a review of all revenue owed from those sponsorships in place to ensure all money is received. Sound business practice also requires money earned from contractual agreements to be deposited with the entity that entered into the agreement in consideration for services or goods provided. Without the aforementioned procedures in place, there is an increased risk of loss or misuse of public funds, either because the funds were not properly deposited with the NSCS or because the full amount of funding owed may not be received.

> We recommend the NSCS ensure that all funds arising from College contracts are deposited with the NSCS. We recommend the College keep documentation of all sponsorship agreements and implement a review of revenue received from the sponsorships to ensure all money due is received.

NSCS's Response: WSC will be reviewing and updating its process for managing sponsorships.

PSC will work with Athletics to determine what procedures can be put in place to more adequately keep track of and/or monitor sponsorship agreements. All funds received by Athletics were properly recorded and accounted for in both PeopleSoft and SAP.

Finding No. 2016-003: Contract Awarding Process

During a test of the contract bidding and awarding processes, we noted one Chadron State College (CSC) contract and four PSC contracts did not follow the procedures required by Board policy and according to good internal control and sound business practice. The five deviations are outlined below.

- CSC awarded the contract for an on-campus card system after a request for proposal process; however, the award process was not adequately documented on score sheets. The official score sheets were not signed by each of the five committee members. Additionally, there were no comments indicating why each proposal received its respective score. The only documentation provided was the final scores given to the individual bidders and their submitted proposals.

- PSC awarded a contract for the purchase of a football player statue to a vendor after presentations were given to a panel of judges; however, the award process was not adequately documented on score sheets. There was no documentation of how many judges scored the projects or what each of the judges' individual scores were because the original score sheets were not maintained. Instead, only a summary tabulation sheet, with transcribed notes from the original score sheets, was available.

- PSC awarded two contracts to single bidders without documentation supporting that it was in the best interests of the NSCS to enter into the contracts with the only bidder as required by Board policy. One contract was for the Park Avenue construction project, and the other was for the energy-monitoring dashboard project.

- PSC entered into a contract with a vendor in May 2009 for a period of three years, and then an amendment was signed in April 2011 extending the agreement for an additional three years. Since May 2015, no other amendment has been signed, but the NSCS has continued to pay the vendor based on an annual renewal notice sent by the vendor, which is not signed by PSC. Additionally, there is no specific termination date listed. During the fiscal year tested, PSC paid $77,095 for one year of those services.

NSCS Board Policy 8064 – Capital Construction and Information Technology (IT); Bids, states, in part, the following:

> *Policy 8064 applies to construction, facilities and Information Technology (IT) related purchases and bidding . . . . Exceptions to the bidding process are defined as: emergency and sole source purchases with proper approval, advertising, software licensing renewals and software/hardware maintenance agreements . . . . Construction projects and information technology related purchases with a total project cost between thirty thousand dollars ($30,000) and one hundred thousand dollars ($100,000) shall observe the following bidding procedure . . . 3. A formal contract shall be executed for the project after negotiating a price that is reasonable and within budget.*

The same policy also provides the following:

> *Fewer than Three Bids – In the event that the prescribed procedures for competitive bidding are carried out and the resulting bids received number less than three (3), the College may award the contract based upon the bids submitted, or rebid the project. Documentation shall be provided to the Vice Chancellor for Facilities and Information Technology and placed in the College's project file to show compliance with the appropriate bidding procedures and show that it is in the Board/College's best interest to enter into an agreement with the selected bidder.*

A good internal control plan and sound business practice require the procedures for requesting proposals for contract services to be clearly defined with sufficient detail to allow a fair assessment of vendor responses. Good internal control procedures also require the contract evaluation and selection process to be adequately documented. Additionally, sound business practice includes entering into contracts for services with a specified or limited duration.

Without such procedures, the NSCS is not in compliance with Board policies, and there is an increased risk for the loss of State funds should the lowest responsible bidder not be selected.

> We recommend the NSCS maintain adequate documentation of the contract award process, including original documentation of the justification for accepting a bid, documentation supporting that selecting a single bidder is in the best interest of the NSCS. We also recommend contracts contain specific termination dates.

NSCS's Response: CSC hired a consultant to facilitate the selection of a card provider over three years ago. The consultant used a very systematic process with input from the entire committee. The results of the scoring were compiled on a white board and transferred to CSC's documentation.

The contract awarded for the purchase of the football player statute followed all Board Policies. Board Policy does not require the Colleges to document the bid selection process in a certain manner to ensure compliance. The 1% Art Project complied within PSC internal controls and Board Policy.

Despite the best efforts of PSC's consultants to generate interest, only single bids were received for the other two contracts noted above. The Board of Trustees approved both projects and budgets. The single bids were discussed with appropriate System Office personnel through email and in accordance with Board Policy. The contracts were awarded within the approved budgets.

Finding No. 2016-004: Change Funds

During testing of the change funds maintained at each of the campuses, we noted the following:

- CSC maintained change funds at the Athletics Department, Conferencing Office, Print Shop, Sandoz Museum, and Nelson Physical Activity Center (NPAC). We performed cash counts at these locations and noted that checks were not restrictively endorsed at the NPAC and Athletics Department. We also noted that the balance of the change funds at multiple locations differed from the purported amount, as shown in the table below.

Location	Discrepancy
Conferencing Office*	($50)
Sandoz Museum	($27)
Print Shop	$4
Nelson Physical Activity Center	$1

**According to CSC staff, the discrepancy at the Conferencing Office was due to a lock box that could not be opened.*

- PSC maintained change funds at the Business Office, Library, Athletics Department, and Campus Services Office. We performed cash counts at these locations and noted that both the Library and the Campus Services Office held more than the purported amounts, with discrepancies of $3 and $1, respectively.

- WSC maintained change funds at the Student Financial Services Office, Mailroom, Recreation Center, Athletics Office, US Conn Library, and Student Center. We performed cash counts at these locations and noted that the Recreation Center was not performing timely deposits. We also noted that the US Conn Library change fund held $21 more than the purported amount.

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

> *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, the following:

> *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.*

Good business practice requires that funds be maintained at their established amounts and checks be restrictively endorsed "For Deposit Only" upon receipt.

WSC 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 maintained at their established amounts, and checks are not restrictively endorsed.

> We recommend the Colleges ensure change funds be maintained at their established amounts, deposits be made in a timely manner in compliance with State statute, and checks be restrictively endorsed upon receipt.

NSCS's Response: CSC requires all change funds be deposited at the end of the fiscal year and then reissued in the new fiscal year. All change funds are balanced when turned in at the end of the fiscal year. Funds for the Conferencing Office and Sandoz Museum have since been reconciled. CSC will ensure, where, possible that all checks are restrictively endorsed at the time of receipt.

It should be noted that the discrepancies at PSC for the Library of $1 and Campus Services of $3 were overages. These accounts are randomly audited internally by PSC Accountants and reconciled each day by supervisors.

WSC performed a cash count of all change funds prior to August 31, 2016, and all change funds balanced at that time. WSC has also performed a cash count at the Library since being notified by the APA of the $21 discrepancy and again the change funds balanced. It is WSC's assumption that the $21 discrepancy is associated with revenue that was collected the day of the count but has no way to verify by comparing to deposits received from the Library without knowing the date of the auditor's cash count. WSC has followed up with Library staff to let them know that they need to provide individuals who are performing cash counts with the amount of revenue they have collected up to that point for the day and that any time that their change fund is over or short they must notify the Director of Accounting. WSC has also performed a cash count at the Recreation Center and followed up with Recreation Center staff to ensure that future deposits are made in a timely manner.

Finding No. 2016-005: State Contracts Database

As of the testing date, 3 of 12 contracts or amendments to those contracts tested at PSC and 1 of 5 contracts tested at CSC – all of which were active after January 1, 2014 – were not available for public viewing on the State contract data base website. One of the PSC contracts was also tested during the System Office testing. Those contracts were as follows:

Project Description	Amount	Vendor	College
Rangeland Lab Project	$ 143,759	Sampson Construction	CSC
Park Avenue Project	$ 7,575	Nemaha Landscape Construction	PSC
N/A	$ 77,095	Blackboard	PSC
PSC Field House Project	$ 72,600	Jackson, Jackson & Associates	PSC & System Office

During the period tested, Neb. Rev. Stat. § 84-602(9) (Reissue 2014) directed 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.*

Likewise, for the period tested, Neb. Rev. Stat. § 84-602.01 (Reissue 2014) stated 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.*

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

> *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.*

During the period tested, subsection (6) of § 84-602.02 defined "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.*

By failing to enter its contracts into the State's contract database, the NSCS was not only noncompliant with requirements of the Taxpayer Transparency Act but also inadvertently preventing both the Legislature and the general public from having access to valuable financial information.

> We recommend the NSCS comply with all applicable provisions of the Taxpayer Transparency Act.

NSCS's Response: The original contract for the Rangeland Lab Project was not initially required to be entered into the State Contracts Database; however, the change order for $143,459 should have been entered and was inadvertently overlooked. Due to the revision of State Statute, all contracts must now be entered into the State Contracts Database so CSC will enter all contracts and change orders as required.

PSC has added the required contracts to the State's contract database.

Finding No. 2016-006: Initial Control Over Mail Receipts

CSC received mail, which may include cash and checks, in the mailroom and distributed it to the appropriate departments. CSC did not prepare an initial log of all cash and checks received through 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 perpetrate and to conceal errors or irregularities.

A similar finding was noted in our prior audits.

When initial control over cash 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 recommend CSC 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.

NSCS'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. CSC will review the procedures from the other two Colleges and see if their procedures can be applied to CSC.

Finding No. 2016-007: State Claims Board

During our review of the NSCS's accounts receivable write-off procedures, we noted that each of the Colleges submits annually 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 2012 and 2016, the NSCS has written off a total of $963,225. This amounts to an average annual write-off for all three of the Colleges of approximately $192,645.

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 . . . .*

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.*

Similarly, the NSCS responded to our fiscal years ended June 30, 2014 and June 30, 2015, comments with "The NSCS continues its response from prior fiscal years which is noted above."

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.

NSCS's Response: The NSCS continues its response from prior fiscal years.

INFORMATION TECHNOLOGY (IT) COMMENTS

Finding No. 2016-008: Accounts Payable (A/P) Transactions

During our audit of the A/P security roles in SAP, the NSCS's accounting system, we noted that 18 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, 13 of the 18 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, 10 of those 18 users could set up a vendor in SAP.

The 18 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)	9
Wayne State College (WSC)	2
NSCS System Office	3

Thirteen of 18 users identified above could also prepare a purchase order, as noted by location below:

Location	# of Users
CSC	4
PSC	5
WSC	1
NSCS System Office	3

Ten of the 18 users identified above could also set up a vendor in SAP, as noted by location below:

Location	# of Users
CSC	2
PSC	4
WSC	1
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 good internal control plan requires a proper segregation of duties to ensure that 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.

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 to ensure a proper segregation of duties exists.

NSCS's Response: The Colleges review the SAP and EnterpriseOne users' access for all accounting staff annually and make changes as necessary to ensure adequate daily operations while still meeting best practices for internal control. 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.

<u>Finding No. 2016-009: General Ledger Transactions in SAP</u>

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 31 users with the ability to prepare and post GL entries in SAP without a secondary, system-required review or approval. The 31 users are noted by location below, along with the GL document types they could prepare and post:

Location	# of Users
Wayne State College (WSC)	8
PSC	10
CSC	7
NSCS System Office	3
UNCA (University)	3

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

A secondary role allowed 29 of those users to prepare and post additional GL document types. The 29 users capable of preparing and posting additional GL document types without a secondary, system-required review or approval are noted by location below, along with the GL document types they could prepare and post:

Location	# of Users
WSC	8
PSC	10
CSC	6
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 good internal control plan requires a proper segregation of duties to ensure that 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.

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's lack of 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.

NSCS's Response: The Colleges review the users' access annually and determine if current access is necessary based on how the roles are defined within SAP. As noted above by the auditors, the NSCS has compensating controls in place. The NSCS will continue to seek solutions that will further diminish risk while being cost-effective.

<u>Finding No. 2016-010: NeSIS Financial Aid Segregation of Duties</u>

Eight users at University of Nebraska Central Administration (UNCA) had 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) for the NSCS. The UNCA users were IT staff with a high level of access.

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.

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 the NSCS implement an adequate segregation of duties in the scholarship award process, so no single individual is 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.

NSCS's Response: Several NeSIS support staff have access to all Financial Aid roles, which is required for problem resolution and for the application of quarterly PeopleSoft maintenance. The NeSIS team is reviewing a solution to report all update activity by NeSIS staff and to log and document this required access.

<u>Finding No. 2016-011: NeSIS Improper Access</u>

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, one CSC user with this role had it for nearly four years, and one WSC user with this role had it for nearly one year.

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

A similar finding was noted in our prior audits.

As of June 13, 2016, Computing Services Network (CSN) implemented a "Checkout Role" that allows select users to check out certain roles. The student records role is one of the roles that may be checked out by select users. The APA confirmed on June 29, 2016, that no user was permanently assigned this role.

Designing powerful user roles with access across all campuses, without a way to track user activity, prevents accountability for user actions.

> We recommend the NSCS review the design and use of the enrollment page role allowing update access across all campuses.

NSCS's Response: In August 2016, two NeSIS system changes were completed and are now in production to address this finding.

Finding No. 2016-012: TrueYou and Mainframe Password Settings

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 passwords by providing answers to only two of those randomly generated questions. 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 must be numeric. The lack of complexity rules greatly reduces the level of password entropy or randomness.

The University's Password Policy, Version 1.1 (Revised March 4, 2014), states the following:

> *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 (August 2013), 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.

The University of Nebraska Password Policy Technical Implementation Guide (effective December 31, 2013) states that a user-chosen password should be "8 characters in length requiring upper, lower, and non-alpha characters" to meet NIST Level 1 (InCommon Bronze) or NIST Level 2 (InCommon Silver) standards for password entropy.

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

A similar finding was noted in our prior audits.

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 of not only 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,' requiring a password length of a minimum eight characters 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 @.

NSCS's Response: The TrueYou Identity Management System will be replaced in 2017 with a new, vendor based solution. During this replacement, the NIST password parameter requirements will be reviewed and changed as appropriate and possible within the new solution. The University has indicated that they consider the RACF observation low risk, options will be reviewed that are possible within the mainframe RACF and TrueYou environments to determine whether technical feasibility exits and align settings with standards and take corrective action where possible.

Finding No. 2016-013: User Terminations

For 3 of 18 SAP terminated users tested, access was not removed within three business days of their termination. Access for one PSC employee and two WSC employees was not removed until 4 to 10 business days after termination.

For six NeSIS terminated users, roles were not removed timely, as noted below. Additionally, the user who terminated on July 2, 2013, logged into NeSIS as recently as May 31, 2016. Though having logged into NeSIS subsequent to termination, this user was noted to be a student-worker who was still enrolled in classes at that time.

	Campus	Termination Date	Access Removed	Business Days After Termination Access Removed
1	CSC	December 27, 2015	May 23, 2016	101
2*	WSC	August 21, 2015	June 15, 2016	202
3*	PSC	July 2, 2013	July 8, 2016	751
4*	PSC	April 1, 2014	July 8, 2016	567
5*	PSC	June 1, 2014	July 8, 2016	525
6*	PSC	May 22, 2016	July 7, 2016	32

***Note:** For five of six terminated users, access had not been removed as of testing on June 7, 2016. Access for all five users was subsequently removed.

One additional terminated employee continued to have access to E1 after termination. The WSC employee terminated on June 16, 2016, and continued to have the same E1 access as of July 6, 2016.

A similar finding was noted in our prior audits.

The Nebraska State College Policy 5008, Employee Use of System Computers (April 25, 2014), states the following:

> *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.*

Section 4.2.4.2 of InCommon Identity Assurance Profiles: Bronze & Silver (February 11, 2013) 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 is responsible for notifying the Identity Provider Operator (IdPO) of terminations and should work to achieve system access removal within a 72 hour period.

Failure to terminate system 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 all system access within three business days and to document such procedure. We recommend the process include entering termination dates – when they are known – in SAP prior to the actual termination.

NSCS'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. Where necessary, the NSCS will work with the University in the creation and/or modification of audit reports to help with this process.

* * * * *

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,

Kris Kucera

Kris Kucera, CPA, CFE
Audit Manager

ADJUSTED ERRORS

- Errors in the calculation of Net Position were noted at all campuses. At Peru State College (PSC), there were 10 separate errors noted in the calculation of these figures. There were also two errors at Chadron State College (CSC), and one error each at Wayne State College (WSC) and the System Office (SO). All errors were corrected with the exception of one of the 10 errors in PSC's Net Position calculation. The details of these 13 adjusted errors are outlined in the table below.

Error No.	Net Position Classification	Errors	Error Description
Peru State College			
1	Net Investment in Capital Assets	$148,026	The amount of transfers related to a CIP project was not included.
2	Net Investment in Capital Assets	($569)	The amount used for the current portion of master lease debt was overstated.
3	Net Investment in Capital Assets	($37,398)	The amount used for the non-current portion of master lease debt was overstated.
4	Restricted for Debt Service	$278	The net position was understated as PSC used a bond balance different than the Revenue Bond audit balance.
5	Restricted for Plant	($118,304)	The payable amount related to the asset portion of net position was not included in the calculation.
6	Restricted for Plant	$330,000	The incorrect amount was used for the Capital Improvements Fund.
7	Restricted for Other	($8,767,010)	The amount used from the revenue bond audit was incorrect.
8	Restricted for Other	($232,886)	The amount used for the auxiliary portion was overstated by $218,949, as PSC used $376,474, and it should have been $595,423. However, the amount PSC adjusted for this error was $232,886.
9	Restricted for Other	$13,937	The aforementioned $595,423 was originally adjusted by PSC to $609,360 based on an earlier version of the financial statements instead of the correct amount, which was understated and required an additional adjustment.
Chadron State College			
10	Net Investment in Capital Assets	($47,609)	The unamortized bond discount amount was not included.
11	Restricted for Other	($96,165)	The amount used from the revenue bond audit was incorrect.
Wayne State College			
12	Restricted for Other	$695,936	The Auxiliary amount was subtracted out instead of adding it in since it was a negative amount.
System Office			
13	Restricted for Plant	$2,645,093	The amount in fund 5505 should have been included in Restricted for Plant, but was erroneously included in Restricted for Debt Service.
	Restricted for Debt Service	($2,645,093)	

ADJUSTED ERRORS

- The following table outlines the next 26 adjusted fiscal year 2016 financial statements errors, as well as the six adjusted fiscal year 2015 errors.

Error No.	Campus	Financial Statement Line Item	Amount of Error	Error Description
FISCAL YEAR 2016 ADJUSTED ERRORS				
1	WSC	Current Cash and Cash Equivalents	$3,076,277	A portion of Cash was erroneously classified as restricted Cash, when it should have been classified as unrestricted.
	WSC	Current Restricted Cash and Cash Equivalents	($3,076,277)	
	PSC	Current Cash and Cash Equivalents	$54,336	
	PSC	Non-Current Restricted Cash and Cash Equivalents	($54,336)	
2	PSC	Private Grants and Contracts	($1,024,745)	Revenue and related expenses were duplicated due to outside scholarship activity that was not properly eliminated from the financial statements.
	PSC	Scholarships and Fellowships Expenses	($1,024,745)	
3	PSC	Capital Assets, Net	($442,566)	Capital costs, recorded as Capital Appropriations, were overstated. Additionally, other capital costs, recorded to various expense line items, were also overstated. See also related FY 2015 error #2 on p. 20.
	PSC	Capital Appropriations	($656,984)	
	PSC	Contractual Services Expense	($214,418)	
	PSC	Repairs and Maintenance Expense	$16,991	
	PSC	Supplies and Materials Expense	($16,991)	
4	CSC	Other Operating Revenues	($96,949)	The salary reimbursements received from the foundations were recorded as revenues but should have actually been netted against the related expense.
	CSC	Private Grants and Contracts	($184,483)	
	CSC	Compensation Expense	($281,432)	
	WSC	Private Grants and Contracts	($417,934)	
	WSC	Compensation Expense	($417,934)	
5	WSC	Other Operating Expenses	($400,392)	WSC erroneously recorded expenses to the wrong expense line item.
	WSC	Repairs and Maintenance Expense	$400,392	
6	PSC	Capital Assets, Net	($324,962)	Prior year project costs were duplicated, as well as a few other minor calculation errors.
	PSC	Contractual Services Expense	$324,962	
7	WSC	Other Operating Revenue	($259,671)	Revenues were miscoded.
	WSC	State Grants and Contracts	$259,671	
8	PSC	State Grants and Contracts	($242,851)	Revenue and expenses related to non-capitalized projects included duplicated capital project costs.
	PSC	Repairs and Maintenance Expense	($242,851)	
9	WSC	Payments to Suppliers	$170,530	WSC erroneously reported changes in its cash flow related to utilities payable.
	WSC	Payments for Utilities	($170,530)	
10	PSC	Other Operating Expenses	($154,017)	PSC erroneously recorded expenses to the wrong expense line item.
	PSC	Repairs and Maintenance Expense	$154,017	

NEBRASKA STATE COLLEGE SYSTEM **Exhibit A**

ADJUSTED ERRORS

Error No.	Campus	Financial Statement Line Item	Amount of Error	Error Description
11	WSC	State Grants and Contracts	$148,377	WSC failed to include the revenue and expenses related to a non-capitalized project.
	WSC	Repairs and Maintenance Expense	$148,377	
12	CSC	Current Cash and Cash Equivalents	$48,000	Each of the colleges failed to accrue their portions of the $147,000 bill for SAP administrative support services as a payable.
	CSC	Accounts Payable and Accrued Liabilities	$48,000	
	PSC	Current Cash and Cash Equivalents	$31,500	
	PSC	Accounts Payable and Accrued Liabilities	$31,500	
	WSC	Current Cash and Cash Equivalents	$67,500	
	WSC	Accounts Payable and Accrued Liabilities	$67,500	
13	PSC	Accounts Receivable, Net	($132,433)	A correcting entry for a duplication of 10 accounts payable documents erroneously increased accounts receivable instead of decreasing accounts payable.
	PSC	Accounts Payable and Accrued Liabilities	($132,433)	
14	CSC	Accounts Receivable, Net	$111,198	Tuition credit balances were erroneously classified as a reduction of accounts receivable, but they should have been shown as a liability.
	CSC	Deposits Held in Custody for Others	$111,198	
15	CSC	Capital Contributions	$94,000	Contributions received from the CSC Foundation for capital construction projects were erroneously recorded to the wrong line item.
	CSC	Other Non-Operating Revenue	($94,000)	
16	CSC	Private Grants and Contracts	($29,687)	Indirect Costs revenues and expenses were incorrectly duplicated in the financial statements.
	CSC	Contractual Services Expenses	($29,687)	
	WSC	Tuition and Fees, Net	($52,414)	
	WSC	Other Operating Expenses	($52,414)	
17	PSC	Other Operating Expenses	$70,667	Elimination of debt service payments were not credited to the proper expense line items.
	PSC	Repairs and Maintenance Expense	($44,796)	
	PSC	Supplies and Materials Expense	($25,871)	
18	PSC	Auxiliary Enterprises, Net	$49,475	The scholarship allowance was initially allocated using incorrect allocation percentages.
	PSC	Tuition and Fees, Net	($49,475)	
19	PSC	Auxiliary Enterprises, Net	($13,379)	The calculation used to arrive at the total scholarship allowance erroneously did not include all necessary amounts.
	PSC	Tuition and Fees, Net	($25,660)	
	PSC	Scholarships and Fellowships Expenses	($39,039)	

ADJUSTED ERRORS

Error No.	Campus	Financial Statement Line Item	Amount of Error	Error Description
20	PSC	Current Accrued Compensated Absences	$1,575	A portion of accrued compensated absences was incorrectly excluded from the accrual journal entry.
	PSC	Non-Current Accrued Compensated Absences	$20,920	
	PSC	Compensation Expense	$22,495	
21	SO	Current Accrued Compensated Absences	$141	A spreadsheet error caused accrued compensated absences to be understated.
	SO	Non-Current Accrued Compensated Absences	$1,876	
	SO	Compensation Expense	$2,017	
22	PSC	Current Restricted Cash and Cash Equivalents	$7,789	When attempting to correct a prior period error, this amount was erroneously classified.
	PSC	Other Non-Operating Revenue	$7,789	
23	PSC	Accounts Payable and Accrued Liabilities	($1,869)	An amount was duplicated.
	PSC	Compensation Expense	($1,869)	
24	PSC	Accounts Payable and Accrued Liabilities	$102	PSC used an incorrect amount.
	PSC	Net Position, Beginning of Year	($102)	
25	SO	State Appropriations	($30)	An accounts receivable accrual was erroneously entered.
	SO	Other Operating Expense	($30)	
26	PSC	Current Accrued Compensated Absences	($16)	PSC used two different amounts when recording the beginning balance and subsequent reversing entries.
	PSC	Net Position, Beginning of Year	$16	
FISCAL YEAR 2015 ADJUSTED ERRORS				
1	WSC	Current Cash & Cash Equivalents	$3,349,617	A portion of Cash was erroneously classified as restricted Cash, when it should have been classified as unrestricted.
	WSC	Non-Current Restricted Cash & Cash Equivalents	($3,349,617)	
2	PSC	Capital Assets, Net	$443,613	Capital costs, recorded as Capital Appropriations, were understated. Additionally, other capital costs, recorded to various expense line items, were also overstated.
	PSC	Accounts Payable and Accrued Liabilities	($12,723)	
	PSC	Capital Appropriations	$456,336	
3	PSC	Private Grants and Contracts	($843,270)	Revenue and related expenses were duplicated due to outside scholarship activity that was not properly eliminated from the financial statements.
	PSC	Scholarships and Fellowships Expenses	($843,270)	
4	CSC	Private Grants and Contracts	($223,929)	The salary reimbursements received from the foundations were recorded as revenues but should have actually been netted against the related expenses.
	CSC	Compensation Expense	($223,929)	
	WSC	Private Grants and Contracts	($384,404)	
	WSC	Compensation Expense	($384,404)	

ADJUSTED ERRORS

Error No.	Campus	Financial Statement Line Item	Amount of Error	Error Description
5	CSC	Accounts Receivable, Net	$50,526	Tuition credit balances were erroneously classified as a reduction of accounts receivable, but should have been shown as a liability.
	CSC	Deposits Held in Custody for Others	$50,526	
6	CSC	Private Grants and Contracts	($31,679)	Indirect Costs revenues and expenses were incorrectly duplicated in the financial statements.
	CSC	Contractual Services Expenses	($31,679)	
	WSC	Tuition and Fees, Net	($46,623)	
	WSC	Other Operating Expenses	($46,623)	

- The final adjusted error occurred when adding each of the foundations' financial statements into the NSCS report. There were two typographical errors noted. The first was the Unrestricted Cash & Cash Equivalents for WSC Foundation, which was typed in as $120,537 but should have been $102,537. The second was a wording error on the PSC Foundation Statement of Cash Flows. Both errors were corrected.

NEBRASKA STATE COLLEGE SYSTEM

Exhibit B

FISCAL YEAR 2016 FINANCIAL STATEMENT ADJUSTMENTS

FYE 6/30/2016

	CSC	PSC	WSC	System	Total NSCS
Assets					
Current Assets:					
Cash and Cash Equivalents	$ 48,000	$ 85,836	$ 3,143,777	$ (1,558)	$ 3,276,055
Restricted Cash and Cash Equivalents	5,962,923	7,789	(10,989,780)	-	(5,019,068)
Accounts Receivable, Net of Allowance	111,198	(132,433)	134	-	(21,101)
State Grants and Appropriations Receivable	-	-	-	-	-
Other Receivables	-	-	(16,877)	(1,359)	(18,236)
Inventories	-	-	-	-	-
Loans to Students, Net	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Deposits with Vendors	-	-	-	(7)	(7)
Total Current Assets	6,122,121	(38,808)	(7,862,746)	(2,924)	(1,782,357)
Non-current Assets:					
Restricted Cash and Cash Equivalents	(5,962,923)	(54,336)	7,308,301	-	1,291,042
Restricted Investments	-	-	605,121	-	605,121
Loans to Students, Net	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Capital Assets, Net	-	(323,915)	-	-	(323,915)
Total Non-current Assets	(5,962,923)	(378,251)	7,913,422	-	1,572,248
Total Assets	**159,198**	**(417,059)**	**50,676**	**(2,924)**	**(210,109)**
Deferred Outflow of Resources					
Unamortized Bond Refunding Amount, Net	-	-	-	-	-
Total Deferred Outflow of Resources	**-**	**-**	**-**	**-**	**-**
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	48,000	(116,368)	50,623	-	(17,745)
Accrued Compensated Absences	-	1,559	-	141	1,700
Unearned Revenue	-	-	(414,711)	-	(414,711)
Interest Payable	-	-	-	-	-
Master Lease Payable	-	-	-	-	-
Long-term Debt	-	-	-	-	-
Deposits Held in Custody for Others	111,198	-	-	-	111,198
Total Current Liabilities	159,198	(114,809)	(364,088)	141	(319,558)
Non-current Liabilities					
Accrued Compensated Absences	-	20,920	-	1,876	22,796
Unearned Revenue	-	-	414,711	-	414,711
Master Lease Payable	-	-	-	-	-
Long-term Debt	-	-	183,430	-	183,430
Total Non-current Liabilities	-	20,920	598,141	1,876	620,937
Total Liabilities	**159,198**	**(93,889)**	**234,053**	**2,017**	**301,379**
Net Position					
Net Investment in Capital Assets	(47,609)	(213,856)	11,144,396	-	10,882,931
Restricted for:					
Loans	-	-	-	-	-
Debt Service	-	278	(21,374,534)	(2,645,093)	(24,019,349)
Plant	-	211,696	316,412	2,645,093	3,173,201
Other	(96,165)	(9,060,467)	6,658,464	-	(2,498,168)
Unrestricted	143,774	8,739,179	3,071,885	(4,941)	11,949,897
Total Net Position	**$ -**	**$ (323,170)**	**$ (183,377)**	**$ (4,941)**	**$ (511,488)**

Figures highlighted in yellow were adjustments proposed by the APA and subsequently adjusted by the NSCS.

Figures in red font were amounts changed by the NSCS after the original financial statements were provided to the APA.

Figures highlighted in yellow and in red font were amounts changed and inlude both adjustments proposed by the APA and changes noted by the NSCS.

NEBRASKA STATE COLLEGE SYSTEM

Exhibit B

FISCAL YEAR 2016 FINANCIAL STATEMENT ADJUSTMENTS

FYE 6/30/2016

	CSC	PSC	WSC	System	Total NSCS
Operating Revenues					
Tuition and Fees, Net of Scholarship					
Allowances and Institutional Waivers	$ -	$ (75,135)	$ (54,969)	$ -	$ (130,104)
Federal Grants and Contracts	-	-	-	-	-
State Grants and Contracts	-	(242,851)	408,048	-	165,197
Private Grants and Contracts	(214,170)	(1,024,745)	(417,934)	-	(1,656,849)
Auxiliary Enterprises, Net of Scholarship					
Allowances and Institutional Waivers	-	36,096	2,689	-	38,785
Other Operating Revenues	(96,949)	-	(259,671)	-	(356,620)
Total Operating Revenues	(311,119)	(1,306,635)	(321,837)	-	(1,939,591)
Operating Expenses					
Compensation and Benefits	(281,432)	21,775	(417,934)	2,017	(675,574)
Contractual Services	(29,687)	16,597	(1,377)	-	(14,467)
Supplies and Materials	-	(42,862)	-	-	(42,862)
Scholarships and Fellowships	-	(1,063,784)	-	-	(1,063,784)
Depreciation	-	-	-	-	-
Utilities	-	-	-	-	-
Repairs and Maintenance	-	(432,401)	548,769	-	116,368
Communications	-	-	-	-	-
Food Service	-	-	-	-	-
Other	-	(83,350)	(354,469)	4,620	(433,199)
Total Operating Expenses	(311,119)	(1,584,025)	(225,011)	6,637	(2,113,518)
Operating Gain (Loss)	**-**	**277,390**	**(96,826)**	**(6,637)**	**173,927**
Non-operating Revenue (Expenses)					
State Appropriations	-	-	-	(30)	(30)
Investment Income	-	-	(81)	1,726	1,645
Interest on Capital Asset-Related Debt	-	-	(43,710)	-	(43,710)
Bond Issuance Costs	-	-	(199,662)	-	(199,662)
Gain (Loss) on Disposal of Asset	-	-	(2,774)	-	(2,774)
Other Non-operating Revenue (Expense)	(94,000)	7,789	98,336	-	12,125
Net Non-operating Revenues	(94,000)	7,789	(147,891)	1,696	(232,406)
Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	**(94,000)**	**285,179**	**(244,717)**	**(4,941)**	**(58,479)**
Other Revenues, Expenses, or Gains (Losses)					
Capital Facilities Fees	-	-	-	-	-
Capital Contributions	94,000	(393,044)	-	-	(299,044)
Operating Transfers In (Out)	-	-	61,340	-	61,340
Capital Appropriations and Grants	-	(656,984)	-	-	(656,984)
Net Other Revenues, Expenses, or Gains (Losses)	**94,000**	**(1,050,028)**	**61,340**	**-**	**(894,688)**
Increase (Decrease) in Net Position	**-**	**(764,849)**	**(183,377)**	**(4,941)**	**(953,167)**
Net Position, Beginning of Year	**-**	**441,679**	**-**	**-**	**441,679**
Net Position, End of Year	**$ -**	**$ (323,170)**	**$ (183,377)**	**$ (4,941)**	**$ (511,488)**

Figures highlighted in yellow were adjustments proposed by the APA and subsequently adjusted by the NSCS.

Figures in red font were amounts changed by the NSCS after the original financial statements were provided to the APA.

Figures highlighted in yellow and in red font were amounts changed and inlude both adjustments proposed by the APA and changes noted by the NSCS.

Exhibit C

NEBRASKA STATE COLLEGE SYSTEM
FISCAL YEAR 2015 FINANCIAL STATEMENT ADJUSTMENTS
FYE 6/30/2016

	CSC	PSC	WSC	System	Total NSCS
Assets					
Current Assets:					
Cash and Cash Equivalents	$ -	$ -	$ 3,349,617	$ 1,147,104	$ 4,496,721
Restricted Cash and Cash Equivalents	5,717,086	-	-	(1,147,104)	4,569,982
Accounts Receivable, Net of Allowance	50,526	-	-	-	50,526
State Grants and Appropriations Receivable	-	-	-	-	-
Other Receivables	-	-	-	-	-
Inventories	-	-	-	-	-
Loans to Students, Net	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-
Total Current Assets	5,767,612	-	3,349,617	-	9,117,229
Non-current Assets:					
Restricted Cash and Cash Equivalents	(5,717,086)	-	(3,349,617)	-	(9,066,703)
Loans to Students, Net	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Capital Assets, Net	-	443,613	-	-	443,613
Total Non-current Assets	(5,717,086)	443,613	(3,349,617)	-	(8,623,090)
Total Assets	**50,526**	**443,613**	**-**	**-**	**494,139**
Deferred Outflow of Resources					
Unamortized Bond Refunding Amount, Net	-	-	-	-	-
Total Deferred Outflow of Resources	**-**	**-**	**-**	**-**	**-**
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	-	(12,723)	-	-	(12,723)
Accrued Compensated Absences	-	-	-	-	-
Unearned Revenue	-	-	-	-	-
Interest Payable	-	-	-	-	-
Master Lease Payable	-	-	-	-	-
Long-term Debt	-	-	-	-	-
Deposits Held in Custody for Others	50,526	-	-	-	50,526
Total Current Liabilities	50,526	(12,723)	-	-	37,803
Non-current Liabilities					
Accrued Compensated Absences	-	-	-	-	-
Unearned Revenue	-	-	-	-	-
Master Lease Payable	-	-	-	-	-
Long-term Debt	-	-	-	-	-
Total Non-current Liabilities	-	-	-	-	-
Total Liabilities	**50,526**	**(12,723)**	**-**	**-**	**37,803**
Net Position					
Net Investment in Capital Assets	-	443,613	-	-	443,613
Restricted for:					
Loans	-	-	-	-	-
Debt Service	-	-	-	-	-
Plant	-	-	-	-	-
Other	-	-	-	-	-
Unrestricted	-	12,723	-	-	12,723
Total Net Position	**$ -**	**$ 456,336**	**$ -**	**$ -**	**$ 456,336**

Figures highlighted in yellow were adjustments proposed by the APA and subsequently adjusted by the NSCS.

Figures in red font were amounts changed by the NSCS after the original financial statements were provided to the APA.

Figures highlighted in yellow and in red font were amounts changed and inlude both adjustments proposed by the APA and changes noted by the NSCS.

NEBRASKA STATE COLLEGE SYSTEM

FISCAL YEAR 2015 FINANCIAL STATEMENT ADJUSTMENTS

FYE 6/30/2016

Exhibit C

	CSC	PSC	WSC	System	Total NSCS
Operating Revenues					
Tuition and Fees, Net of Scholarship					
Allowances and Institutional Waivers	$ -	$ -	$ (46,623)	$ -	$ (46,623)
Federal Grants and Contracts	-	-	-	-	-
State Grants and Contracts	-	-	-	-	-
Private Grants and Contracts	(255,608)	(843,270)	(384,404)	-	(1,483,282)
Auxiliary Enterprises, Net of Scholarship					
Allowances and Institutional Waivers	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-
Total Operating Revenues	(255,608)	(843,270)	(431,027)	-	(1,529,905)
Operating Expenses					
Compensation and Benefits	(223,929)	-	(384,404)	-	(608,333)
Contractual Services	(31,679)	-	-	-	(31,679)
Supplies and Materials	-	-	-	-	-
Scholarships and Fellowships	-	(843,270)	-	-	(843,270)
Depreciation	-	-	-	-	-
Utilities	-	-	-	-	-
Repairs and Maintenance	-	-	-	-	-
Communications	-	-	-	-	-
Food Service	-	-	-	-	-
Other	-	-	(46,623)	-	(46,623)
Total Operating Expenses	(255,608)	(843,270)	(431,027)	-	(1,529,905)
Operating Loss	**-**	**-**	**-**	**-**	**-**
Non-operating Revenue (Expenses)					
State Appropriations	-	-	-	-	-
Investment Income	-	-	-	-	-
Interest on Capital Asset-Related Debt	-	-	-	-	-
Gain (Loss) on Disposal of Asset	-	-	-	-	-
Other Non-operating Revenue (Expense)	-	-	-	-	-
Net Non-operating Revenues	-	-	-	-	-
Income (Loss) Before Other Revenues, Expenses, Gains or (Losses)	**-**	**-**	**-**	**-**	**-**
Other Revenues, Expenses, or Gains (Losses)					
Capital Facilities Fees	-	-	-	-	-
Capital Contributions	-	-	-	-	-
Operating Transfers In (Out)	-	-	-	-	-
Capital Appropriations and Grants	-	456,336	-	-	456,336
Net Other Revenues, Expenses, or Gains (Losses)	**-**	**456,336**	**-**	**-**	**456,336**
Increase (Decrease) in Net Position	**-**	**456,336**	**-**	**-**	**456,336**
Net Position, Beginning of Year	**-**	**-**	**-**	**-**	**-**
Net Position, End of Year	**$ -**	**$ 456,336**	**$ -**	**$ -**	**$ 456,336**

Figures highlighted in yellow were adjustments proposed by the APA and subsequently adjusted by the NSCS.