MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM

For the Year Ended June 30, 2018

Issued on January 30, 2019

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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December 12, 2018

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

Dear Mr. Turman:

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, 2018, and have issued our report thereon dated December 12, 2018.

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, 2018.

We have audited in accordance with 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, 2018, 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, 2018. 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*, and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

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 the NSCS's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 NSCS's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we 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: Comment No. 2018-001, "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

We did note certain other matters that we reported to management of the NSCS, which are included below. 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; accordingly, we express no opinion on them.

Comment No. 2018-001: Financial Statement Errors

The Nebraska State College System (NSCS) did not have adequate review procedures to ensure the accuracy of its financial statements. The draft financial statements that the NSCS submitted to the Auditor of Public Accounts (APA) for fiscal year ended June 30, 2018, were materially misstated, resulting in revisions of 53 of the 82 line items therein. Some of these revisions were a result of 40 errors discovered and corrected on the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year. Thirty-three of those errors were identified by the APA, and the other 7 were noted by the NSCS subsequent to submission of the original statements. Not all of the 40 errors were significant enough to require a proposed adjustment; however, the NSCS chose to adjust the financial statements for these errors regardless of dollar amount.

The table below summarizes, by campus and financial statement, the number of lines that were revised due to errors for fiscal year ended June 30, 2018. The individual financial statement line item changes ranged from $167 to $4,018,662 for NSCS in total.

Financial Statement	Statement of Net Position	Statement of Changes	Cash Flows Statement	Totals
Available Line Items	31	25	26	**82**
Peru State College (PSC) Lines Revised	14	13	12	**39**
PSC Error Rate	45%	52%	46%	**48%**
Wayne State College (WSC) Lines Revised	11	8	7	**26**
WSC Error Rate	35%	32%	27%	**32%**
Chadron State College (CSC) Lines Revised	8	7	3	**18**
CSC Error Rate	26%	28%	12%	**22%**
System Office (SO) Lines Revised	2	2	2	**6**
SO Error Rate	6%	8%	8%	**7%**
NSCS Total Lines Revised	**21**	**17**	**15**	**53**
NSCS Total Error Rate	**68%**	**68%**	**58%**	**65%**

Note: Financial statement line item changes for $2 or less were not included in the table above.

Exhibit A illustrates, by financial statement line item, all of the fiscal year 2018 financial statement adjustments made by the NSCS. The amounts shown in the exhibit represent the change in the value from the original financial statements provided to the APA to the final issued financial statements. A positive number represents the amount the number increased; therefore, the value had been originally understated. A negative number represents the amount the number decreased; therefore, the value had been originally overstated.

It is important to note that the number of errors illustrated in the above table, as well as in **Exhibit A**, does not account for instances in which the same financial statement line item was revised numerous times. This is illustrated in **Exhibit B**, which includes each individual adjustment made to every financial statement line item on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position that changed for fiscal year 2018. No such detail was provided for the Statement of Cash Flows due to the number of revisions from adjustments in the other statements. However, see **Exhibit A** for the Statement of Cash Flows changes by financial statement line item. **Exhibit C** is included to illustrate adjustments made to the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position that changed for fiscal year 2017.

Some of the more significant financial statement adjustments in **Exhibit B** were a result of incorrect classifications or miscoding of items related to the following: net position, cash, scholarship allowance, foundation receipts, other private grant receipts, athletic receipts, pass-through transactions, suspense accounts, allowance for doubtful accounts, and plant expenses. Additionally, as noted in Comment No. 2018-002, "Expense Issues," and Comment No. 2018-003, "Revenue Issues," other coding issues were found by the APA during detail testing. The NSCS did not have in place an accounting manual or other written guidance to assist the campuses in coding transactions in the accounting system. Without a form of guidance to assist the campuses in coding transactions, there is an increased risk that financial misstatements and inconsistencies between campuses will occur.

In addition to the financial statement errors, the footnote disclosures, which are considered to be an integral part of the financial statements, were found to contain 43 errors requiring revision. All of those errors are listed in **Exhibit D**. Lastly, the Management Discussion and Analysis (MD&A) section of the report was found to contain one additional error. Though unaudited, the MD&A is still compared to the final financial statements as well as reviewed for spelling, grammar, and mathematical accuracy.

In addition to the adjustments noted in **Exhibit B** and **Exhibit C**, the APA noted several other financial statement errors for the fiscal year ended June 30, 2018, which the NSCS chose not to correct and were not significant enough to require adjustment. Those errors ranged from $88,500 to $87.

A similar finding has been noted since the fiscal year 2016 audit. The fiscal year 2017 finding was a material weakness.

A good internal control plan requires procedures, including a sufficient review process, to ensure that the NSCS prepares the financial statements accurately and in accordance with government accounting standards. Those procedures should also include written guidance to assist with coding transactions. Without such procedures, there is an increased risk that material misstatements may occur and remain undetected.

> We recommend the NSCS implement procedures, including an adequate documented review by a second individual at each College and an additional documented review by the System Office, to ensure internally prepared information is complete and accurate upon submission to the auditors. Additionally, we recommend the NSCS develop written, uniform guidance to assist the colleges in coding transactions consistently and accurately.

NSCS's Response: Subsequent to the fiscal year 2017 audit that ended in December 2017, the NSCS has taken multiple steps to improve financial statement preparation. The NSCS has taken the following actions to address the material weakness in the 2017 audit:

- *Reorganized accounting departments and hired accounting professionals with significant financial statement experience as Comptrollers at all three Colleges, with two having CPA credentials. The NSCS hired these individuals into their positions in late spring, 2018.*

- *Put into practice procedures to improve consistency, including use of a financial statement template at all three colleges.*

- *Addressed specific concerns that arose during the prior year audit.*

- *Implemented monthly meetings of the Director of Systemwide Accounting and the Comptrollers to address questions that arise and to improve uniformity on the treatment of items across the system.*

The NSCS also wants to note that the "significant deficiency" noted above is a substantial improvement from last years "material weakness". As noted by the APA, "A significant deficiency is a deficiency or combination of deficiencies in internal control that is ***less severe*** *than a material weakness, yet important enough to merit attention by those charged with governance."*

When an adjustment or reclassification is made to the financial statements, it automatically affects at least two line items, therefore dramatically increasing the error rate percentage in the table shown above. However, the NSCS understands that the financial statements are its responsibility and will consider the significance of each adjustment before a correction is made in the future.

The NSCS remains committed to finding ways to continue to improve on existing procedures for financial statement preparation in order to reduce financial statement errors. With strong accounting teams now in place, the NSCS will continue to provide 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.

Comment No. 2018-002: Expense Issues

During testing of expense transactions, several concerns were noted by the APA. Those concerns related to a lack of adequate support, payments not made timely, expenses not coded correctly, contracts not obtained, a lack of legal review of contracts, and a missing contract termination clause. All of these concerns are described in more detail below.

Lack of Adequate Support

Adequate supporting documentation could not be provided for the allocation of one payment at WSC and the allocation of utility payments at CSC, PSC, and WSC. The details of both of these instances are outlined below:

1. A WSC payment of $22,207 for software was split with $5,000 or 22.5% coded to the Auxiliary (Revenue Bond) Fund and $17,207 or 77.5% coded to the Unrestricted Fund. There was no support for how this allocation was calculated.

2. Utility payments tested at CSC, PSC, and WSC lacked adequate documentation to verify the accuracy of charges split between the Unrestricted Fund and the Auxiliary (Revenue Bond) Fund. At CSC, a payment to the Nebraska Public Power District for $87,226 on September 28, 2017, was paid $52,336 or 60% from the Unrestricted Fund and $34,890 or 40% from the Auxiliary Fund. At PSC, a payment to the Omaha Public Power District for $39,713 dated October 24, 2017,

was paid $29,785 or 75% from the Unrestricted Fund and $9,928 or 25% from the Auxiliary Fund. WSC split its utility billings 49% to the Auxiliary Fund and 51% to the Unrestricted Fund. This was then further split to charge only 25% to the Auxiliary Fund. WSC had support for the 49% / 51% split but lacked documentation to support why only 25% was recorded to the Auxiliary Fund. Total utility payments of $955,937 at WSC were paid $716,953 from the Unrestricted Fund and $238,984 from the Auxiliary Fund.

Good internal control procedures require adequate supporting documentation to be on file and periodically updated to ensure the accuracy of costs coded among various funding sources. Without such procedures, there is an increased risk of financial misstatements.

A similar finding was noted in the prior year report.

> We recommend the NSCS develop and maintain adequate documentation to support the allocation of expenses between various funding sources.

NSCS's Response: Statute and Board policy allow discretion on these decisions. Additionally, Board policy 9005 and Nebraska State Statute 85-409, allows discretion to furnish heat, light, power and other similar utilities for the revenue bond facilities without charging the same against the revenues thereof. The Colleges work within this framework to fairly allocate expenses overall, between State and the Revenue Bond program.

APA Response: When costs are split between the Unrestricted Fund and the Auxiliary Fund, this affects net position classification on the financial statements. The APA continues to recommend that the NSCS maintain adequate documentation to support the allocation of expenses between funding sources.

Untimely Payments

One WSC payment for $29,349 was not issued within the statutorily required 45-day payment timeframe. The invoice was dated July 11, 2017, and the item was received on July 14, 2017. However, the payment was not made until September 22, 2017, which is 70 days after the item was received. WSC did not have on file the date that the invoice was received.

Neb. Rev. Stat. § 81-2403(1) (Reissue 2014) states the following:

> *Except as provided in subsection (2) of this section, each agency shall make payment in full for all goods delivered or services rendered on or before the forty-fifth calendar day after (a) the date of receipt by the agency of the goods or services or (b) the date of receipt by the agency of the bill for the goods or services, whichever is later, unless other provisions for payment agreed to in writing by the creditor and the agency.*

When payments are not made within 45 days, the NSCS is noncompliant with State statute.

A similar finding was noted in the prior year report.

> We recommend the NSCS implement procedures to ensure invoices are paid within 45 days, as required by State statute.

NSCS's Response: WSC will remind staff that once an item is received or service rendered the invoice should be submitted to the accounting department for prompt payment.

Improper Coding
During testing, the APA noted the following:

1. One entry at CSC moved $500,000 of student activity funds earmarked for equipment from the Restricted Fund to the Unrestricted Fund. Upon further inquiries by the APA, it was determined that these funds should have remained as restricted. An adjustment was proposed by the APA and posted by CSC.

2. During a review of coding for an advertising payment at WSC, the APA noted nine other payments, totaling $212,090, which were coded as Supplies, Materials, and Other expenses on the financial statements but should have been coded to Contractual Services. An adjustment was proposed by the APA and posted by WSC.

3. One payment at PSC for a construction project was not properly expensed and accrued as Accounts Payable in the prior fiscal year. The invoice for $50,771 was dated June 19, 2017, with a work completion date of July 30, 2016.

4. One CSC entry tested was to record a revenue in the Auxiliary Fund (Revenue Bond) and a corresponding expense in the Unrestricted Fund for the amount of $28,350 related to rent of office space in an on-campus Revenue Bond building, partially used for non-Revenue Bond offices. A revenue and expense should not be shown between funds, resulting in an overstatement in revenues and expenses.

A good internal control plan requires procedures to ensure all expenses are classified correctly and accurately for financial statement presentation. Without such procedures, there is an increased risk the financial statements will be incorrect or misleading to their users.

> We recommend the NSCS implement procedures to ensure all expenses are classified correctly and accurately for financial statement presentation.

NSCS's Response: The NSCS has implemented procedures to help improve consistency of financial statement presentation and to ensure expenses are properly classified. See NSCS Response to Comment No. 2018-001 for specifics.

Contracts Not Obtained
Two contracts were not obtained, one each at CSC and WSC. The details of both issues are outlined below:

1. A $60,376 payment by WSC for TV, radio, and digital advertising was not supported by a contract. Per discussion with staff, WSC plans to execute a contract for similar purchases in the future. NSCS Board Policy 7015 states, "A contract is necessary whenever a legal relationship is established consisting of rights and duties that go beyond the sale transaction details." Additionally, this same policy notes that a contract is not required for advertising purchases less than $50,000, which would appear to indicate that a contract should be obtained for advertising purchases over $50,000.

2. A $10,460 payment by CSC for outside legal counsel was not supported by a contract for the ongoing relationship with the firm. NSCS Board Policy 7016 states, "[T]he Board will therefore contract from time to time, as appropriate, with individuals or groups for special consulting services." Additionally, that policy provides the following:

> *The hiring and retention of personnel not regularly employed by the Colleges and the System Office to act as a legal counsel . . . for durations greater than five (5) days for any College or the System Office, shall be approved by the Chancellor. The Chancellor is delegated the responsibility for selecting and negotiating these contracts on behalf of the Board. A competitive process is not required for these contracts.*

This wording appears to indicate that a contract should be obtained for the NSCS's ongoing relationship with outside legal counsel.

When contracts are not obtained in accordance with Board Policy, there is an increased risk for the loss or misuse of State funds and other possible legal complications.

We recommend the NSCS implement procedures to ensure contracts are properly obtained for services in accordance with NSCS Board Policy.

NSCS's Response: The Board of Trustees has approved revisions to Board Policy 7015 and 7016 to clarify contract requirements related to these two comments.

Lack of Legal Review of Contracts

For five contracts tested at WSC and one at PSC, there was no documentation that a legal review had been performed by an individual with legal expertise, such as the NSCS legal counsel. WSC did provide documentation to show the contracts were reviewed by the Vice President of Administration and Finance or the Vice Chancellor for Facilities and Information Technology, which is the only review required by the Board Policy; however, these individuals might not have the expertise needed to recognize and properly address potential legal issues. The six contracts are outlined below:

College	Project/Contract Description	Contract Value
WSC	Memorial Stadium Press Box Renovation	$ 3,360,458
WSC	Humanities Window Replacement Project	$ 547,079
WSC	Criminal Justice Training Facility Project	$ 273,841
PSC	Software Maintenance	$ 265,000
WSC	Admission Software License	$ 85,000
WSC	Public Art Display for Carhart Science Building	$ 36,700

Sound business practice and good internal controls require procedures to ensure that contracts are reviewed by legal counsel, and that review is documented. Without such procedures, there is an increased risk for the loss of State funds and other possible legal complications.

A similar finding was noted in the prior year report.

We recommend the NSCS implement procedures to ensure all contracts are reviewed by legal counsel.

NSCS's Response: The NSCS has standard contract forms reviewed by legal counsel for many contracts. College staff have been provided training on standard contract language. The Vice Chancellor for Facilities and IT reviews major construction contracts in accordance with standard language templates. The NSCS is not staffed to allow a legal review for every contract executed.

APA Response: Legal reviews of contracts are necessary to ensure risk and legal implications are mitigated to a low level.

Missing Contract Termination Clause
One contract tested at CSC was for a construction project to pave a 15,000 square foot parking lot at the Rangeland Center for a total cost of $99,130. CSC used the NSCS standard short form contract for this project, which does not contain a termination clause or any liability insurance information. The APA believes such a large paving project would be beyond the scope of a "simple construction task" referenced in the NSCS contract instructions and, therefore, the long form, including the termination clause and liability insurance, should have been used.

Sound business practice requires including a termination clause in any contract for continuing services. The NSCS *Contract for Services Guidance and Instructions* states the following:

> *The Short Form Contract for Services may be used when the contractor is an individual providing a one-time service, services of a short duration, or occasional services, with payment in full upon completion. Some examples of circumstances in which the Short Form Contract for Services could be used are a guest lecture, or a simple construction task (e.g., painting a room, pouring a concrete slab, or replacing a window or door).*

Without such procedures, there is an increased risk for the loss of State Funds and other possible legal complications.

A similar finding was noted in the prior year report.

> We recommend the NSCS implement procedures to ensure contracts include termination clauses.

NSCS's Response: The contract identified was a short term contract with payment based on services rendered. Given its short-term nature, a termination clause was not included.

<u>Comment No. 2018-003: Revenue Issues</u>

The APA's testing of various revenue transactions revealed numerous concerns, including a lack of adequate supporting documentation, receipts that were not deposited timely, receipts that were not coded correctly, and receipts that did not agree to the required and documented rate. All of these errors are described in more detail below.

Lack of Adequate Support
At CSC, 1 of 12 revenue transactions tested lacked adequate support. The receipt was for $993 of concession sales during two women's basketball games. For one of three cash counts included in the receipt, the cashier did not initial the cash count to document that two individuals were involved in the cash count of $132 for a deposit of $12 (as $120 is kept on hand). For two of three cash counts, the register report did not agree to the cash count. The Box #3 cash count for November 10, 2017, showed $580 while the register report showed $1,121. The Box #3 cash count for November 11, 2017, showed $401 while the register report showed $1,524. CSC noted this was due to running the wrong register report.

At PSC, 1 of 10 revenue transactions tested lacked adequate support. The receipt for t-shirts sold during an athletics fundraiser did not include supporting documentation for the number of t-shirts sold or the rate charged per t-shirt in order to verify that the amount deposited agreed to the total receipt for the t-shirt sales. The total receipt entered into the accounting system was $714.

Additionally, during other testing, it was noted adequate documentation was not available for a PSC golf tournament fundraiser to support that the individuals and teams registered, sponsors, donations, and auction collections agreed to the receipts recorded in SAP. A total of $2,725 was record in SAP; however, other support provided by PSC indicated $2,820 should have been collected. The APA was unable to determine the actual amount collected, as two different lists of registrants provided by PSC did not agree.

At WSC, 4 of 15 revenue transactions tested lacked adequate support. The details of those four transactions are provided below:

1. One receipt for projects completed by the Instructional Resources Center did not include supporting documentation for $30 of orders.

2. One receipt for $4,115 of vendor payments to participate in the Spring 2018 Career Fair lacked adequate support as registration forms were not maintained to support amounts received. After inquiry by the APA, WSC was able to obtain the registration forms directly from the registered vendors for two of three vendors selected by the APA for testing.

3. One receipt for $1,523 was for items sold to several individuals at a surplus property auction. A spreadsheet provided by WSC, supporting the auction results, showed that one individual owed $84, but only remitted $50 to WSC. Per discussion with campus staff, two items purchased by this individual were not picked up, as one item was destroyed and one item was kept by the WSC. However, no documentation could be provided to support this explanation.

4. One $2,195 receipt tested was for Honor Choir entry fees. Schools registering students for Honor Choir submitted a registration form or completed an online registration. However, there were no documented procedures to review the students who attended Honor Choir and to compare them to the registration forms to ensure the amount collected was correct.

A good internal control plan requires procedures to ensure documentation is on file to verify that revenue transactions are complete and accurate. Without such procedures, there is an increased risk of loss or misuse of public funds.

A similar finding was noted in the prior year report.

> We recommend the NSCS establish procedures for maintaining adequate documentation to ensure all revenue transactions are verified as complete and accurate deposits.

NSCS's Response: The NSCS will continue to look for ways to improve the documentation associated with revenue collections. Some of the items noted are minimal and the risk of lost revenue does not warrant the cost of additional staff. The Colleges will review each area, as well as procedures for long and short amounts that occur to document identification of such. The Colleges will work with the departments that handle receipts to document reconciliation of all money received.

Untimely Deposits

At CSC, 5 of 11 revenue transactions tested either were not deposited timely or lacked documentation to verify the receipt was deposited timely. For four of these deposits, the check date or receipt date was used to determine that the receipt was not deposited timely. The table below summarizes these receipts.

Deposit No.	Description	Amount	Check or Receipt Date		Deposit Date	Business Days to Deposit
1	Basketball Game Guarantee	$ 6,000	10/24/2017	*	11/16/2017	16
2	Child Development Center	$ 2,263	9/29/2017 – 10/4/2017		10/10/2017	4 – 7
3	Wrestling Camp Registrations	$ 4,445	7/31/2017		8/7/2017	5
4	Corporate Sponsorship	$ 26,250	7/12/2017		7/18/2017	4
	Total	**$ 38,958**				

**For this deposit, the check date was used to calculate the number of business days from receipt to deposit, as the receipt date was not available. The number of business days was calculated based on the number of weekdays, excluding holidays.*

For the fifth CSC deposit, there was not adequate documentation on file to determine when receipts of $5,669 for an athletics apparel fundraiser were received. The funds were provided to the Athletics Accountant on August 14, 2017, and deposited on August 17, 2017.

At PSC, four of seven revenue transactions tested either were not deposited timely or lacked documentation to verify the receipt was deposited timely. For three of these deposits, there was not adequate documentation on file to determine when the funds were actually received; however, based on other documentation obtained, these receipts do not appear to have been deposited timely. The table below summarizes these receipts.

Deposit No.	Description	Amount	Receipt Date Note 1	Deposit Date	Business Days to Deposit
1	History Day Registration Fees	$ 1,610	1/25/2018 – 2/8/2018	3/1/2018	14 – 24
2	Corporate Athletic Sponsorships	$ 10,550	7/13/2017 – 7/27/2017	8/8/2017	8 – 18
3	Basketball Game Guarantee	$ 2,000	11/24/2017	12/6/2017	7
	Total	**$ 14,160**			

Note 1*: Documentation was not available for the receipt date of these receipts. The APA calculated the number of business days to deposit using check dates for the History Day Registration Fees, the date the Athletic Director signed the Corporate Sponsorship/Athletic Partnership agreement, and the date of the game for the Basketball Game Guarantee. The number of business days was calculated based on the number of weekdays, excluding holidays.*

For the other PSC deposit, there was no documentation on file to determine when receipts of $714 for an athletics apparel fundraiser were received. An internal cash transmittal was completed on September 5, 2017, and a deposit was completed on September 6, 2017.

At WSC, 7 of 10 revenue transactions tested either were not deposited timely or lacked documentation to verify the receipt was deposited timely. For four of these deposits, the check date or receipt date was used to determine that the receipt was not deposited timely. The table below summarizes these receipts.

Deposit No.	Description	Amount	Check or Receipt Date		Deposit Date	Business/ Calendar Days to Deposit
1	Instructional Resources Center	$ 86	8/2/2017 – 8/9/2017		8/17/2017	8 – 15**
2	Season Tickets	$ 180	8/23/2017	*	9/6/2017	14***
3	Surplus Property Auction	$ 1,595	10/12/2017 – 10/13/2017		10/24/2017	7 – 8
4	Building Space Rental	$ 30,000	7/5/2017	*	7/14/2017	7
	Total	**$ 31,861**				

**For this deposit, the check date was used to calculate the number of business days or calendar days (whichever was applicable) from receipt to deposit, as the receipt date was not available. The number of business days was calculated based on the number of weekdays, excluding holidays.*

***As this receipt was below $500, the number of days to deposit was calculated as the number of calendar days. In addition to the $86 noted in the table, $30 of receipts lacked order forms to determine if the receipts were deposited in a timely manner.*

****As this receipt was below $500, the number of days to deposit was calculated as the number of calendar days.*

For three of the seven receipts not deposited timely, there was not adequate documentation on file to determine when the funds were actually received; however, based on the due dates, these receipts appear not to have been deposited timely.

Deposit No.	Description	Amount	Due Date	Deposit Date
5	Athletics Apparel Fundraiser	$ 2,843	9/28/17	10/4/17
6	Honor Choir Registrations	$ 2,195	1/15/2018	1/24/2018
7	High School Track Meet Fees	$ 2,150	3/10/2018	3/15/2018
	Total	**$ 7,188**		

Neb. Rev. Stat. § 84-710 (Reissue 2014) provides 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.*

When receipts are not deposited timely, the NSCS is noncompliant with State statute, and there is also an increased risk of loss or misuse of public funds.

A similar finding was noted in the prior year report.

> We recommend the NSCS implement procedures to ensure receipts are deposited timely in compliance with State statute.

NSCS's Response: The NSCS believes using the check date is not an adequate depiction of when the checks were actually received by the colleges and therefore, should not be used to determine if the deposit was timely or not. The NSCS began implementing procedures to document the date that money is received subsequent to the receipt of a similar finding in January 2018. Only two such issues were noted after implementation began.

APA Response: As the NSCS did not have documentation to show when checks were received, they could not ensure compliance with State statute and therefore the APA used the only date available to demonstrate likely non-compliance.

Improper Coding on the Financial Statements

At PSC, 1 of 10 revenue transactions was not coded correctly. The receipt for a purchasing card rebate of $3,300 should have been included as Other Non-Operating Revenue but was recorded as Private Grants and Contracts on the financial statements.

At WSC, 2 of 15 revenue transactions were not coded correctly or lacked adequate documentation to support the coding. The first receipt for an interlocal agreement between WSC and the Wayne Community School District to use various WSC facilities was split between Other Operating Revenue for $28,000 and Auxiliary Revenue for $2,000. There was no documentation on file to support that $150 of the $2,000 coded to Auxiliary Revenue was correctly classified as Auxiliary Revenue rather than Other Operating Revenue. The second receipt, for $3,299, was for a reimbursement of travel expenses for an NCAA championship event, and it was coded to Private Grants and Contracts Revenue but would have been more appropriately recorded to Other Operating Revenue.

A good internal control plan requires procedures to ensure that all revenues are correctly and accurately classified for financial statement presentation. Without such procedures, there is an increased risk the financial statements will be incorrect or misleading to its users.

A similar finding was noted in the prior year report.

> We recommend the NSCS implement procedures to ensure all revenues are classified correctly and accurately for financial statement presentation.

NSCS's Response: The NSCS has implemented procedures to help improve consistency of financial statement presentation and to ensure revenues are properly classified. See NSCS Response to Comment No. 2018-001 for specifics.

Incorrect Receipt Amounts

At CSC, 1 of 11 revenue transactions was not received for the correct amount. Per review of the athletics department season tickets, one season ticket purchase of four seats was $40 less than the proper rate, as the individual was given a $10 per seat discount. There was no documentation to support the approval of this discount.

At PSC, one of nine revenue transactions tested was not received for the correct amount per the required and documented rate. The transaction was for gate receipts at a football game and included receipts for four gates. The APA recalculated the amount of ticket sales using the number of tickets sold and the ticket rates and noted that one Gate Attendance Form's receipts were understated by $20. PSC did not have support documenting the cause of this understatement.

At WSC, 2 of 15 revenue transactions were not received for the correct amount per the required and documented rate. The detail of the two transactions is outlined below:

1. One transaction for $2,091 was for Perkins student loan interest received from the campus loan processor. Per discussion with campus personnel, there were no procedures to ensure the amount received from the processor was correct.

2. A total of $2,346 was deposited for gate receipts during one football game tested. However, the amount of ticket sales per the Athletic Department ticket sales system, UniversityTickets, was $2,291. This appeared to be an over-collection of receipts by $55. Individuals working at the gates do not have unique log-in credentials for UniversityTickets and per discussion with athletics staff, they were unsure what caused the $55 variance. Additionally, there was no written policy documenting a variance threshold for investigating further.

A good internal control plan requires procedures to ensure that the funds receipted are for the correct amounts. Without such procedures, there is an increased risk for the loss or misuse of public funds.

> We recommend the NSCS implement procedures to ensure revenue amounts are accurate and the rate charged agrees to support. Additionally, we recommend individuals entering and printing tickets in UniversityTickets have unique log-in credentials and only use their ID when printing tickets.

NSCS's Response: The NSCS will review procedures and will work with staff to verify revenue received is for the correct amount.

<u>Comment No. 2018-004: Lack of Secondary Review and Controls</u>

While reviewing the control procedures in place among various departments, we noted a lack of adequate secondary reviews related to processing payroll at PSC and SO and classification of purchase card transactions at PSC. During testing, we also noted unauthorized pay increases for five PSC employees.

Payroll Processing
During payroll testing, we noted the following:

- There was no supervisory approval of exempt SO and PSC employees' time worked if no leave was used. The SAP system required a supervisor's approval of leave used for exempt employees; however, if no leave was used, an approval was not required.

- One employee at PSC received an unauthorized wage increase on July 1, 2018, due to a wage upload error. The employee was overpaid by $66. After the APA brought this to the attention of the NSCS, PSC found four more employees with similar unauthorized increases.

Purchase Card Transactions
We also noted that, while an adequate segregation of duties exists for the payment of purchase card transactions to US Bank, there is not an adequate review of the account classification of purchase card expenses at PSC. The entries to record purchase card transactions were not entered and approved by at least two separate individuals. This increases the risk that expense coding will be incorrect for financial statement presentation.

A good internal control plan requires adequate controls to ensure no one person is in a position both to perpetrate and to conceal errors or irregularities. Such plan should include the following procedures:

- A documented review of time worked to ensure hours are appropriate.

- A documented review performed by separate individuals reviewing documents in SAP and verifying that the correct accounts, cost centers, etc., were used.

Without adequate secondary reviews or comparable controls, there is an increased risk that errors or irregularities will occur and go undetected.

A similar finding was noted in the prior year report.

> We recommend the NSCS implement procedures to ensure secondary reviews for payroll and purchase card transactions account coding are performed and documented.

NSCS's Response: The NSCS uses Employee Self Service (ESS), which allows supervisors to approve and track leave on a daily basis (as opposed to waiting until the end of the month with leave sheets). Manager's Self-Service (MSS) provides an additional tool to easily see what leave has been approved and confirm that an individual's leave has been approved if they are absent. As the employees referred to by the APA are FLSA exempt, and the employees are certifying their 40 hours work week in accordance with state statute, we believe that there are proper controls in place. Also, as supervisors have access to do an ongoing review of individual's time and/or leave, this gives them adequate oversite and controls to ensure leave is appropriately recorded if used.

PSC has implemented procedures to provide a secondary review of pay changes and purchase card transactions.

APA Response: If an employee did not request leave during the pay period, there was no documented supervisory review of hours worked to ensure the hours paid were proper.

Comment No. 2018-005: Wayne State College Athletic Department Issues

During testing of WSC Athletic Department (Department) receipts, issues were noted with complimentary (comp) tickets issued and athletic camp registrations.

Complimentary Ticket Procedures

The Department issues hundreds of free comp tickets through each athletic season to potential recruits, their families, players' families, employees, and others, as deemed necessary by the Department. Therefore, given the potential loss of revenue, it is paramount that strong controls be in place to prevent unauthorized comp tickets from being issued.

The Department's procedures require signatures on pre-printed lists for all comp tickets claimed. However, there were no procedures to review signatures obtained and compare them to actual comp tickets issued. The APA obtained a report of comp tickets issued for the October 12, 2017, football game against the University of Sioux Falls and compared the ticket listing to the signatures obtained. A total of 380 tickets were issued, but only 132 signatures were obtained. Per review of the UniversityTickets report and discussion with Department staff, some of the variance may be due to comp tickets incorrectly issued to students; however, no documentation was available to verify the number of comp tickets issued to students. Ticket prices for paid tickets at WSC football games ranged from $5 to $15.

Good internal control requires procedures to prevent unauthorized comp tickets from being issued. Without such procedures over comp tickets, there is an increased risk comp tickets will be issued to unauthorized individuals and an increased risk of loss or theft of revenues.

A similar finding was noted in the prior year report.

> We recommend the Department establish procedures to review signatures obtained to actual comp tickets issued to ensure comp tickets are only issued to authorized individuals.

NSCS's Response: WSC is working to improve the procedures for complimentary tickets issued.

Athletic Camp Procedures

Each coach determines the types, dates, and prices for the annual athletic camps that are offered and approved by the Athletic Director. During review of athletic camp receipts, it was noted that there is no documentation of two individuals involved in collecting receipts for camp participants who paid the day of the camp to reduce the risk of theft. WSC had $147,754 of athletic camp receipts during fiscal year 2018.

Additionally, during athletic camp testing it was noted that adequate supporting documentation was not on file for two waived registration fees. Department policy was to allow free camp registrations for children of Department staff who are under recruitable age per National Collegiate Athletic Association (NCAA) guidelines. However, there is no written documentation for an approval of these waived fees. During testing of two camps, $180 of camp registration fees were noted as waived.

Good internal control requires procedures to establish control over money collected and minimize the opportunity for theft of NSCS funds. Such procedures should also ensure that waived fees are appropriate and approval is documented. Without these procedures, there is an increased risk for the theft or loss of NSCS funds.

A similar finding was noted in the prior year report.

> We recommend the Department implement procedures to have two individuals involved in the collection of athletic camp money and document their involvement through signatures or initials. We also recommend the Department implement procedures to ensure all waived camp fees are appropriate and approval is documented.

NSCS's Response: WSC will work on a solution that addresses these concerns. To reduce the risk, cash is no longer accepted as a form of payment, only online payment or checks. Effective during FY2019, WSC no longer permits camp fee waivers.

<u>Comment No. 2018-006: State Claims Board</u>

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 2018, the NSCS has written off a total of $2,037,219. This amounts to an average annual write-off for all three Colleges of approximately $291,031.

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

> *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 as follows:

> *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, June 30, 2015, and June 30, 2016, comments, "The NSCS continues its response from prior fiscal years which is noted above." Likewise, the NSCS responded to our fiscal year ended June 30, 2017, comment, "The NSCS continues its response from prior fiscal years." Based on discussions with NSCS management, the Board does not plan to change its write-off policy.

Though identifying the policy related to current NSCS write-off procedures, these prior responses have provided no legal basis or reasoning for superseding the requirements of State law with a Board policy. Consequently, we reiterate our previous findings.

> 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.

Comment No. 2018-007: NSCS Password Settings

The State College's Identity Management system, known as SailPoint, is used for setting a global password policy. In addition, the State Colleges also establish password settings and authenticate to the NSCS accounting system (SAP) through a central active directory. CSC and PSC also use this central active directory to authenticate to the Nebraska Student Information System (NeSIS). WSC uses a separate active directory to authenticate to NeSIS.

During our review of the State College's password settings in SailPoint and the central active directory, we noted the following settings were noncompliant with the National Institute of Standards and Technology (NIST) Digital Identity Guidelines:

- Users are allowed to select prompts from a set of six questions and to reset their password by providing answers to two of those questions, which are generated randomly.
- Both SailPoint and the central active directory do not compare user passwords against a list of values known to be commonly used, expected, or compromised.
- The State Colleges passwords that are stored in SailPoint were not salted and hashed, which is a method of encryption.

During our review of WSC's password settings in its active directory, we noted the following settings were noncompliant with NIST Digital Identity Guidelines:

- The active directory does not compare user passwords against a list of values know to be commonly used, expected, or compromised.
- The passwords that are stored at the eDirectory were not salted and hashed, which is a method of encryption.

University of Nebraska (University) staff manage the SAP and NeSIS applications on behalf of both the University and the State Colleges. 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 has since issued Special Publication (SP) 800-63-3 in June 2017, which supersedes NIST SP 800-63-2. Along with SP 800-63-3, SP 800-63A, SP800-63B, and SP 800-63C provide technical guidance to agencies for the implementation of digital authentication.

NIST Special Publication 800-63B (June 2017), § 5.1.1.2, states, in relevant part, the following:

> *Memorized secret validators SHALL NOT permit the subscriber to store a "hint" that is accessible to an unauthenticated claimant. Verifiers SHALL NOT prompt subscribers to use specific types of information (e.g., "What was the name of your first pet?") when choosing memorized secrets. When processing requests to establish and change memorized secrets, verifiers SHALL compare the prospective secrets against a list that contains values known to be commonly-used, expected, or compromised . . . . Verifiers SHALL store memorized secrets in a form that is resistant to offline attacks. Memorized secrets SHALL be salted and hashed using a suitable one-way key derivation function. Key derivation functions take a password, a salt, and a cost factor as inputs then generate a password hash. Their purpose is to make each password guessing trial by an attacker who has obtained a password has file expensive and therefore the cost of a guessing attack high or prohibitive.*

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

A similar finding has been noted since the fiscal year 2011 audit.

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 strengthen its password parameters to achieve compliance with NIST standards.

NSCS's Response: The University is reevaluating the IDM (SailPoint) solution to address this comment. If necessary, custom programming will be developed. The University and NSCS have continued roll outs of a two-factor authentication solution for the SAP and end user communities that further reduce the risk of potential security incidents.

In July of 2018, Wayne State College implemented a vendor based password reset function, disabling password changing in Windows. In the near future, the College will also be abandoning eDirectory and implementing Federation within PeopleSoft to start addressing this comment.

Comment No. 2018-008: General Ledger Transactions in SAP

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 could complete 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 27 users with the ability to prepare and post GL entries in SAP without a secondary, system-required review or approval. The 27 users are noted by location below, along with the GL document types they could prepare and post:

Location	# of Users
WSC	8
PSC	8
CSC	7
NSCS System Office	3
UNCA (University)	1

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

A secondary role allowed 26 of those users to prepare and post additional GL document types. The 26 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	8
CSC	6
NSCS System Office	3
UNCA (University)	1

(Document Types: CN – ACH Receipt, ND – NIS Journal Entry*, UU – University Only Journal Entry**, UA – Accrual Journal Entry, PJ – Payroll Journal Entry, TC – Interstate Billing Transaction)

**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 has been noted since the fiscal year 2014 audit.

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, such as the development of reports, which will further diminish risk while being cost-effective.

Comment No. 2018-009: Accounts Payable (A/P) Transactions

During our audit of the A/P security roles in SAP, the NSCS's accounting system, we noted that 13 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, 4 of the 13 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, 8 of the 13 users could set up a vendor in SAP.

The 13 users who could prepare invoices and post them in SAP and E1 are noted by location below:

Location	# of Users
CSC	2
PSC	8
WSC	0
NSCS System Office	3

Four of 13 users identified above could also prepare a purchase order, as noted by location below:

Location	# of Users
CSC	1
PSC	0
WSC	0
NSCS System Office	3

Eight of the 13 users identified above could also set up a vendor in SAP, as noted by location below:

Location	# of Users
CSC	2
PSC	3
WSC	0
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 has been noted since the fiscal year 2014 audit.

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.

* * * * * *

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 of 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,

Stephanie Todd

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