

The University of Nebraska

Management Letter

For the Year Ended June 30, 2018

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Issued on January 28, 2019



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 17, 2018

The Board of Regents
University of Nebraska

We have audited the financial statements of the University of Nebraska (University), a component unit of the State of Nebraska, for the year ended June 30, 2018, and have issued our report thereon dated December 17, 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 University'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 a summary of 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*. Our complete report can be found with our report on the financial statements of the University dated December 17, 2018.

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 unit of the University as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 17, 2018. Our report includes a reference to other auditors who audited the financial statements of the University of Nebraska Foundation (Foundation), a discretely presented component unit of the University; the University of Nebraska Facilities Corporation, the University Technology Development Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation, blended component units of the University (collectively identified as the Blended Component Units); and the activity relating to the Members of the Obligated Group Under the Master Trust Indenture, as described in our report on the University's financial statements. The financial statements of the Foundation, the University of Nebraska Facilities Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation 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 University'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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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*.

We did note certain other matters that we reported to management included in the following Schedule of Findings and Responses.

University's Response to Findings

The University's responses to our findings are described below. The University'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.

SCHEDULE OF FINDINGS AND RESPONSES

1. Audit Differences

A good internal control plan and sound accounting practices require financial information to be complete and accurate. This includes procedures to ensure the financial statements are correct, and adjustments are made to rectify all known significant (\$1,000,000 or more) misstatements.

During our audit of the financial statements, we noted errors that resulted in significant misstatements. We proposed the University adjust its statements to correct all of these errors. The University did adjust the statements for all corrections proposed.

The following are significant misstatements the University corrected:

- The University of Nebraska-Lincoln (UNL) did not properly account for the service concession agreement (SCA) it entered into with an outside vendor to manage and operate a bookstore on the UNL campus. We noted the following:
 - As of June 30, 2018, UNL had received all revenue stipulated in the original version of the SCA, and thus, it should not have recorded any accounts receivable (A/R) entries under this SCA. However, it made an entry increasing current A/R and decreasing non-current A/R, both in the amount of \$1,490,616. Accordingly, both categories were misstated by this amount.
 - UNL executed a three-year extension to the SCA that went into effect during the fiscal year ended June 30, 2018; however, it failed to record A/R and deferred inflows related to this extension. This resulted in A/R being understated by \$4,751,552 (split \$1,583,851 current and \$3,167,701 non-current) and deferred inflows being understated by the same amount.
- UNL improperly classified investments of Nebraska Utility Corporation (NuCorp), a blended component unit of the University, as cash on its financial statements. NuCorp's Balance Sheet include lines for current and non-current "restricted cash and investments," of which the following amounts are disclosed as investments:

As of June 30, 2018: \$4,508,200

As of June 30, 2017: \$3,834,317

However, UNL improperly classified these amounts as cash when it blended NuCorp into its financial statements, resulting in cash being overstated and investments being understated by the above amounts. The APA does note that UNL's initial presentation of the investments as cash was consistent with the presentation in the University's prior-year audit report.

- The University of Nebraska Omaha (UNO) improperly reported Federal revenue that passes through non-Federal (State, local, and private) sources on its financial statements as State, local, and private revenue. Because the revenue is Federal in nature and is merely passing through non-Federal sources, the campus should have reported this revenue as Federal revenue. Additionally, UNO's presentation was inconsistent with that of other University campuses, all of which reported Federal pass-through revenue as Federal revenue. This resulted in the following misstatements to revenue amounts on the campus's Statement of Revenues, Expenses, and Changes in Net Position:

Line Item	FY2018	FY2017
Federal Grants & Contracts	Understated by \$4,544,693	Understated by \$4,476,682
State and Local Grants & Contracts	Overstated by \$2,408,728	Overstated by \$2,064,187
Private Grants & Contracts	Overstated by \$2,135,965	Overstated by \$2,412,495

- UNO failed to post an entry recognizing its share of Computing Services Network (CSN) expenditures and offsetting capital appropriations revenue. CSN expenditures and offsetting capital appropriations revenue is initially recorded on the books of the University of Nebraska Central Administration Office (UNCA). This activity is then removed from UNCA’s book, and the campuses are responsible for recording their share of this activity, as determined by UNCA accounting personnel. By not recording its share of the activity, UNO understated both its expenditures and capital appropriations revenue by \$2,041,150.

Without strong internal control procedures and accounting practices to ensure financial information is complete, accurate, and in accordance with accounting standards, there is a greater risk material misstatements may occur and remain undetected.

A similar finding was noted in our prior audits.

We recommend the University implement procedures to ensure financial information is complete, accurate, and in accordance with accounting standards.

Management Response: *The University will examine the practicality of a secondary review process of all financial statements prior to providing to the Auditor of Public Accounts. In addition, Central Administration will continue to work with the Controller’s from each campus to ensure statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).*

2. 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 University had the capability of completing GL transactions from beginning to end without a documented secondary review and approval in SAP. The University did have a policy in place to review any journal entries (JE), payroll journal entries (PJ), NIS (refers to E1) journal entries (ND), University-only journal entries (UU), and non-Federal ACH receipt (CN) transactions over \$49,999, or \$499 when involving Federal funds, to address this inherent system weakness.

During our audit of the GL security roles in SAP, we identified 563 users with the ability to prepare and post GL entries in SAP without a system required secondary review or approval. The 563 users are noted by location below, along with the GL document types they could prepare and post:

Campus	# of Users
UNK	5
UNL	285
UNMC	212
UNO	37
UNCA	24

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

A secondary role allowed 73 of those users to prepare and post additional GL document types. The 73 are noted by location below, along with the GL document types they could prepare and post:

Campus	# of Users
UNK	5
UNL	30
UNMC	21
UNO	13
UNCA	4

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

**NIS refers to the State’s EnterpriseOne accounting system.*

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

When individuals are able to complete GL transactions without a system required secondary review or approval prior to posting the transaction to the GL, there is a greater risk for error and 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.

A similar finding was noted in our prior audits.

We recognize that the University has a policy to review higher-risk general ledger transactions to mitigate risks related to the SAP system not having an established workflow, which would automatically require a segregation of duties in the preparation and posting of general ledger entries. Nevertheless, we continue to recommend that the University modify its role configuration for the 563 users identified, so that those users will not have the ability to post any GL transaction types in SAP without a system required secondary review or approval.

Management Response: *The University will explore the cost/benefit of implementing workflow within the SAP system to require approval of general ledger entries by a secondary approver. In the interim, we will continue our policy to review higher-risk general ledger transactions as a mitigating control.*

3. Contracts Not on the State Contracts Database

During testing of 38 expenditures governed by contracts, 12 contracts and/or amendments were not included on the State Contracts Database, as required by State statute. The contracts and/or amendments not included on the State Contracts Database were four at UNCA, five at UNL, one at UNMC, and two at UNO.

Neb. Rev. Stat. § 84-602.04(4)(a)(i) (Cum. Supp. 2016) requires the Department of Administrative Services’ web site to contain the following:

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. For purposes of this subdivision, amendment means an agreement to modify a contract which has been reduced to writing and signed by each party to the contract, an agreement to extend the duration of a contract, or an agreement to renew a contract. The data base shall be accessible by the public and searchable by vendor, by state entity, and by dollar amount. All state entities 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

A similar finding was noted in our prior audit.

We recommend the University include all of its contracts on the State Contracts Database in a timely manner to comply with State statute.

Management Response: *The University will strive to continue filing contracts in the State Contracts Database on a timely basis. In addition, Audit & Advisory Services will begin randomly selecting a specified number of vendor payments quarterly to verify any applicable contracts are filed appropriately.*

4. University Password Settings

The University's Identity Management system, known as SailPoint, is used for setting a global password policy. In addition, the University also establishes password settings and authenticates to SAP through a central active directory. UNK, UNL, and UNO also use the central active directory to authenticate to NeSIS. UNMC uses a separate active directory to authenticate to NeSIS.

During our review of the University's password settings in SailPoint and the central active directory, we noted the following settings were not in compliance 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; generated randomly.
- Both SailPoint and the active directory do not compare user passwords against a list of values known to be commonly-used, expected, or compromised.
- The University passwords that are stored in SailPoint were not salted and hashed, which is a method of encryption.

During our review of UNMC's password settings in its active directory, we noted the active directory does not compare user passwords against a list of values known to be commonly-used, expected, or compromised.

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

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

NIST 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:

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 hash 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 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 University strengthen its password parameters to achieve compliance with NIST standards.

Management Response: *The TrueYou Identity Management team will review options to address each recommendation within this finding. While the first sub-bullet recommendation was identified in past audits, a complication in our chosen solution was identified this past year that limited our ability to address it. As a result, we withdrew the change until we could assess the longer-term impact and a more comprehensive review could be completed on this finding. While we do not anticipate any technical limitations within our IDM solution (Sailpoint) to limit our ability to address any of these findings, we may need to engage an outside contractor to assist with some custom development work. We will be able to assess the need for this assistance over the next six months. The University has continued its roll out of a two-factor authentication solution (Duo) for the SAP administrative and end-user communities. Over 10,000 end-users are now required to use two factor to access the system. Introducing this requirement for two-factor authentication has strengthened the university’s security posture and reduced the risk of potential future security incidents.*

5. **Inconsistent Fee Coding Between Campuses**

The campuses did not consistently code fees charged to students for financial statement presentation purposes. Late fees, academic success fees, registration fees, distance education fees, multicultural fees, and ID card fees were not coded consistently by the campuses. The following table provides a summary of how various fees tested by the APA were coded at each campus:

Late Fees		
Campus	Total FY18 Amount	Financial Statement Line
UNK	\$ 141,184	Tuition & Fees
UNO	\$ 657,906	Tuition & Fees
UNL	\$ 22,628	Auxiliary Operations
UNL	\$ 183,008	Auxiliary Segments
UNL	\$ 272,300	Tuition & Fees
UNL	\$ 160,000	Educational Activities
UNL	\$ 16,024	Supplies & Materials
UNL	\$ 174,308	Contractual Services

Academic Success Fee/Student Access & Success Fee		
Campus	Total FY18 Amount	Financial Statement Line
UNK	\$ 392,804	Educational Activities
UNO	\$ 3,530,436	Tuition & Fees
New Student Enrollment Fee/Registration Fee		
Campus	Total FY18 Amount	Financial Statement Line
UNK	\$ 82,172	Educational Activities
UNL	\$ 1,141,000	Tuition & Fees
Distance Education Fee		
Campus	Total FY18 Amount	Financial Statement Line
UNK	\$ 1,666,303	Tuition & Fees
UNO	\$ 3,379,915	Tuition & Fees
UNL	\$ 3,112,698	Educational Activities
Multicultural Fee/Cultural Enrichment Fee		
Campus	Total FY18 Amount	Financial Statement Line
UNK	\$ 17,759	Educational Activities
UNO	\$ 236,395	Tuition & Fees
ID Card Fee		
Campus	Total FY18 Amount	Financial Statement Line
UNK	\$ 37,782	Auxiliary Operations
UNO	\$ 293,448	Tuition & Fees
UNL	\$ 156,310	Tuition & Fees

Sound accounting practice requires consistent coding of fees to ensure the financial statements are reported accurately.

Because the campuses did not record them consistently, the fees are not reflected consistently on the University's financial statements.

A similar finding was noted in our prior audits.

We recommend the campuses work together to ensure fees are reflected consistently on the financial statements.

Management Response: *The University will seek the development of a master report to identify the coding of all fees to ensure consistent classification between campuses.*

6. Unclaimed Federal Financial Aid Refund Warrants

UNO lacked adequate procedures for ensuring compliance with Federal regulations related to returning unclaimed (uncashed) Federal student financial aid refund warrants (State-issued checks) to the Secretary of Education within the required timeframe.

Per 34 CFR § 668.164(1)(3) (July 1, 2017), if a school attempts to disburse the credit balance due to a student for Federal financial assistance by a check that is not cashed, the school must return the funds to the Secretary of Education no later than 240 days after the date the school issued the check.

A good internal control plan requires procedures for remitting unclaimed Federal financial aid refund warrants to the Secretary of Education within the required timeframe.

We identified 73 UNO-issued Federal financial aid refund warrants, totaling \$71,881, that the campus did not properly return to the Secretary of Education within the required timeframe.

Additionally, although UNO now has a document outlining its procedures to track outstanding Federal financial aid refund warrants, the procedures were ineffective during our audit period to return such warrants to the Secretary of Education within the required timeframe.

A similar finding was noted in our prior audit.

We recommend UNO implement adequate procedures to remit unclaimed Federal student financial aid refund warrants to the Secretary of Education within the required timeframe.

Management Response: *During FY18, UNO developed a process which ensures Federal student financial aid from uncashed warrants is returned to the Secretary of Education within this required timeframe. This process began in April 2018.*

* * * * *

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 University.

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

This letter is intended solely for the information and use of management, the Board of Regents of the University of Nebraska, others within the University, 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,



Mark Avery, CPA
Assistant Deputy Auditor