



University of Nebraska

*Letter of Recommendations for the
Year Ended June 30, 2003*

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November 17, 2003

Board of Regents of the University of Nebraska and the
State of Nebraska Auditor of Public Accounts
Lincoln, Nebraska

Dear Members of the Board of Regents and Auditor of Public Accounts:

In planning and performing our audit of the financial statements of the University of Nebraska (the "University") for the year ended June 30, 2003 (on which we have issued our report dated November 17, 2003), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the University's internal control. Such consideration would not necessarily disclose all matters in the University's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A description of the responsibility of management for establishing and maintaining internal control, and of the objectives and inherent limitations of internal control, is set forth in Exhibit II, and should be read in conjunction with this letter. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control and its operations that we consider to be material weaknesses as defined above.

We did note other matters related to the University's internal control and certain other accounting and administrative matters. Our principal observations and recommendations are presented in Exhibit I.

This report is intended solely for the information and use of the State of Nebraska Auditor of Public Accounts, Board of Regents of the University of Nebraska, and management of the University, and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the suggestions.

Yours truly,

A handwritten signature in dark ink that reads "Deloitte & Touche LLP".

UNIVERSITY OF NEBRASKA MEDICAL CENTER (UNMC)

Timely Reimbursement Requests

UNMC typically requests reimbursements for allowable grant expenditures on a quarterly basis. However, reimbursement for Merging Research and Practice project expenditures was not requested until ten months after the expenditures were incurred. If billings are not submitted on a timely basis, UNMC will be incurring expenses but not receiving reimbursements from the Grantor for an extended period of time which could potentially affect cash flow. UNMC should compare allowable expenditures under grant agreements with request reimbursements regularly to ensure that reimbursements are received on a timely basis.

Determination of Withdrawal Dates

OMB Circular A-133 requires that institutions must determine the withdrawal date of students receiving federal student financial aid that do not provide formal notification to the institution no later than 30 days after the end of the earlier of (1) the payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew. UNK did not complete their determination of withdrawal dates during the 2002-2003 academic year in a timely manner, which led to late notification to lenders and the Federal Clearinghouse of students withdrawing. UNK should implement procedures to obtain the necessary information from the registrar's office and professors shortly after the end of each semester and submit the students withdrawing within the time lines required by federal regulations.

Allowance for Doubtful Student Accounts

UNL allocates the total allowance for student-related doubtful accounts among its departments. The allocation is based on a study of three year write-offs by department that was completed in 1997. UNL's receivables and write-offs by department changes annually, however, the study has not been updated in several years. An updated study would ensure the accuracy of the financial statements issued for components of UNL such as the Housing and Parking operations, which are included in the Master Trust Indenture.

Accounting Department Workpaper Preparation and Review

The Accounting Department has historically prepared the audit workpapers for the Housing and Parking operations which are separately audited as part of the Master Trust Indenture audit. In order for the audit to progress smoothly, UNL should consider shifting the workpaper preparation process to the applicable auxiliary enterprise. The workpapers can then be consolidated with the Trustee information as necessary to prepare financial statements in compliance with Governmental Accounting Standards Board standards. This will allow for management review of Housing and Parking workpapers as well as provide additional time needed to review workpapers prepared by Accounting Department staff for both the bond and general purpose audits.

Adjustment Recorded to the General Ledger

UNL makes numerous adjustments to the general ledger balances to generate financial statements. UNL should review their general ledger on a regular basis to determine where adjusting entries need to be posted and ensure that those entries are posted prior to year end. This will allow for more time to complete the financial statements on a timely basis.

Student Information System (SIS)

The University of Nebraska policies and practices related to the Student Information System (SIS) result in duplication of maintenance, system modification, potential unauthorized program changes in the production environment by programmers and inconsistent reconciliation processes between SIS and SAP. Specifically, we noted the following:

- The SIS is modified extensively among the four campuses (UNL, UNO, UNK and UNMC), creating a duplication of effort when implementing SIS supplied maintenance modifications which can number hundreds per year.
- Some programmers on certain campuses have the ability to migrate program changes from the development environment into production. The potential for unauthorized changes to production programs and data could threaten the integrity of data processed through the SIS application.

While we understand the SIS contains a wide degree of functionality not addressed in the specific comments above, we recommend the University investigate the possibility of overall SIS consolidation among campuses. Consolidation may reduce duplication of effort in maintenance, limit required system updates, enhance data comparability and standardize reconciliation processes among campuses. Regardless of whether the University determines SIS consolidation to be beneficial and attainable, a change control process should be implemented to restrict programmer access to production environments where they do not already exist. This change control function should contain the ability to ensure all changes are approved by the business function, appropriately tested, provide for synchronization of source and object code, and allow for the backout of changes that adversely impact production data processing. Management should also review access permissions to production data to ensure that only a limited number of authorized personnel can make direct changes to production data.

We also recommend the University of Nebraska consider standardizing the SIS to SAP reconciliation process among campuses which would standardize internal controls and make management of the reconciliation process easier.

SAP Customization

The University has performed some significant customization of the SAP application. Continued customization of SAP may result in increased time and costs associated with system conversions, upgrades, testing and support.

We recommend management continue to evaluate proposed changes to the SAP system not only on an individual campus basis but also on a University-wide basis in parallel with the Technical Development and Approval Policy. University-wide management evaluation would provide an analysis and comparison of the standard practices and processes built into the SAP system and the cost/benefit obtained by further customization before development begins.

Formal Information Security Policies and Procedures

The University has not developed a formal set of information security policies and procedures. Without documented formal information security policies and/or procedures, management's perceived commitment toward protecting information assets among users of the systems may be jeopardized. We recognize the steps management has taken within the past year to improve its information security, which include the implementation of a network firewall that protects sensitive information from outside intrusion and the use of Virtual Private Network (VPN) to encrypt information throughout the network. The University has also hired an information security officer with the goal of implementing University-wide information security policies and procedures; risk assessments and protection measures; and communicate and educate the University on security related issues.

We recommend management develop and implement a formal security policy that is approved by management and distributed to all users so they are aware of the policies and procedures regarding the University's commitment to the integrity of its environments. These University-wide policies and procedures should include at a minimum a:

- Policy for data security and ownership;
- Policy for adding and removing users;
- Policy for amending user access privileges as job functions change;
- Policy for passwords and other logical security measures;
- Policy and procedures for single sign-on across the University campuses;
- Policy for monitoring system security; and
- Business impact assessment.

A business process impact analysis has not been developed within the Disaster Recovery Plan including pertinent recovery test plans. We noted that management has made progress in identifying and developing strategies regarding hot-site possibilities; however, the University should continue its efforts to develop a business process impact analysis in its Disaster Recovery Plan. This impact analysis helps to define the critical business processes and the impact an unexpected outage or natural disaster could have to these critical functions by identifying recovery time objectives. A completed impact assessment directs resources allocated by management to the areas deemed most important.

We recommend that a business impact analysis be developed for all areas of the business considered critical including human resources, information services, facilities and support services, student services, and administrative services, as well as other areas determined to be appropriate. In addition, disaster recovery tests should be performed for critical areas of the business as identified in the business impact analysis.

Management's Responsibility for, and the Objectives and Limitations of, Internal Control

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

Objectives

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and that federal financial assistance programs are managed in compliance with applicable laws and regulations.

Limitations

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

November 17, 2003

Board of Regents of the University of Nebraska
Lincoln, Nebraska

Dear Board Members:

We have received the management letter of recommendations dated November 17, 2003 from Deloitte & Touche LLP, our independent certified public accountants. The responses below are designed to address the observations included in that letter.

UNIVERSITY OF NEBRASKA MEDICAL CENTER

Timely Reimbursement Requests

In this observation the auditor cited expenditures relating to a specific grant where reimbursement was not sought on a timely basis.

University policy is to seek reimbursements due from grantors on a timely basis. The Sponsored Programs Accounting Office generates between 250 and 300 quarterly invoices for reimbursement. The late billing for this grant, in the opinion of Medical Center staff, was an isolated event attributable to a combination of factors including a delay by the sponsor in approving unspent carry forward funds and clerical oversight in one quarter. The department has re-emphasized the high degree of importance it places on generating timely and accurate grant billings. Management believes sufficient internal review checks are in place to make the billing process a solid and dependable workflow operating with very few irregularities.

UNIVERSITY OF NEBRASKA AT KEARNEY

Determination of Withdrawal Dates

In this recommendation the auditor observed that the Kearney campus had not determined withdrawal dates on a timely basis.

We agree the University must determine the withdrawal date of students receiving Federal student financial aid that do not provide formal notification to the institution no later than 30 days after the end of the earlier of (1) the payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew. The University of Nebraska-Kearney Financial Aid Office has implemented policies and procedures to insure that all types of withdrawals will be identified within the appropriate time frame. In response to the observation, a written copy of the policies and procedures has been shared with and acknowledged by the auditor.

UNIVERSITY OF NEBRASKA-LINCOLN

Allowance for Doubtful Student Accounts

We agree with the auditor's comment that an updated study of the cost allocation methodology for doubtful student accounts should be considered. A proper allocation of the cost of student-related doubtful accounts, while perhaps not material to the units such as housing and parking that issue separate financial statements, would provide better data to refine charges to specific units and aid in determination of net income from separate revenue sources. Current information will be used to allocate the allowance for uncollectible accounts and the Student Financial Services Office is committed to updating the methodology.

Accounting Department Workpaper Preparation and Review

We appreciate the concern cited by the auditor in this recommendation which suggested preparation of audit workpapers be pushed down to operating units. Based upon further input from the audit team, the structure of these audit workpapers will be redefined. Members of the accounting staff will meet with both the Parking and Housing offices to review the format of the information provided to ensure the Accounting Office can complete audit workpapers on a timely basis.

Adjustment Recorded to the General Ledger

This audit finding suggested a regular review of certain general ledger accounts (e.g. fixed asset accounts) could lead to fewer adjustments in the year-end closing process. We agree the general ledger should be reviewed regularly to determine where adjusting entries need to be posted and corrections are recorded on a timely basis. A comprehensive examination has been undertaken of the fixed asset and plant fund accounts. Procedures will be written that provide for reviewing fixed asset accounts and recording necessary adjustments during the year.

UNIVERSITY OF NEBRASKA CENTRAL ADMINISTRATION

Under the heading of "Central Administration," the auditor made several recommendations for university-wide consideration including common student information system (SIS) processes and procedures, decreased SAP customization, and improved security policies and procedures. Management's response to each is detailed below.

Student Information System (SIS)

A University wide SIS task force has been created and is currently evaluating options for the University Student Information Systems for the University. A report of the task force findings and recommendations will be presented to the President's Council and a follow-on report to the Board of Regents.

Detailed production data access lists have been developed and shared with UNL and UNO campuses. The campuses are actively reviewing these access lists and making changes accordingly. Change control procedures will also be reviewed and changed as needed to conform where possible to these recommendations.

SAP Customization

We agree the customization of licensed software may be a concern during the testing, support, and conversions associated with a migration to future upgrades. Requests for modifications to the delivered SAP software will be evaluated according to the Technical Development and Approval Policy on consistent university-wide basis. The evaluation process will support efforts to follow standard practices and processes across the University, with the goal of reducing the number of modifications made to the system and facilitating future upgrades.

Formal Information Security Policies and Procedures

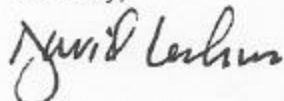
The University has devoted efforts during the past year to complete and formalize security policies and procedures. The University has recently hired an information security officer with a charge to implement university-wide security policies and procedures, to perform risk assessments and protection measures, and to communicate and educate the University community on security issues. The plan to bolster efforts in this important area was shared with the Board of Regents at the January 2004 meeting.

As part of this plan, business impact assessments will be completed and a disaster recovery plan addressed as personnel time and budget resources permit. The University will continue to identify the most critical business processes that may interrupted due to an unexpected outage or natural disaster. Recovery plans will be developed and implemented within the resources available to provide for a disaster recovery of the most critical functions. Additional funding and human resources would be required to fully implement a disaster recovery plan including hot-site possibilities.

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Regents, please feel free to contact this office with any questions or desired clarifications.

Sincerely,



David E. Lechner
Vice President for Business & Finance