

**MANAGEMENT LETTER  
OF THE  
NEBRASKA STATE COLLEGE SYSTEM  
JULY 1, 2002 THROUGH JUNE 30, 2003**

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# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, NE 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

November 21, 2003

**Kate Witek**  
State Auditor  
[kwitek@mail.state.ne.us](mailto:kwitek@mail.state.ne.us)

Mr. Stanley Carpenter, Executive Director  
Nebraska State College System  
Board of Trustees  
P.O. Box 94605  
Lincoln, NE 68509-4605

**Deann Haeffner, CPA**  
Deputy State Auditor  
[haeffner@mail.state.ne.us](mailto:haeffner@mail.state.ne.us)

Dear Mr. Carpenter

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
[ddunlap@mail.state.ne.us](mailto:ddunlap@mail.state.ne.us)

We have audited the basic financial statements of the Nebraska State College System (NSC) for the fiscal year ending June 30, 2003, and have issued our report thereon dated November 21, 2003. We have also audited the NSC's compliance with requirements applicable to major federal award programs and have issued our report thereon dated November 21, 2003. In planning and performing our audits, we considered the NSC's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the NSC and on the NSC's compliance with requirements applicable to major programs, and to report on internal control in accordance with Office of Management and Budget (OMB) Circular A-133 and not to provide assurance on internal control. We have not considered internal control since the date of our report.

**Pat Reding, CPA**  
Asst. Deputy Auditor  
[reding@mail.state.ne.us](mailto:reding@mail.state.ne.us)

**Tim Channer, CPA**  
Asst. Deputy Auditor  
[channer@mail.state.ne.us](mailto:channer@mail.state.ne.us)

**Mary Avery**  
SAE/Finance Manager  
[marya@mail.state.ne.us](mailto:marya@mail.state.ne.us)

In connection with our audits described above, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented below for your consideration. These comments and recommendations, which have been discussed with appropriate individuals at the System Office, Chadron State College (CSC), Peru State College (PSC), and Wayne State College (WSC), are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

**Dennis Meyer, CGFM**  
Subdivision Budget  
Coordinator  
[dmeyer@mail.state.ne.us](mailto:dmeyer@mail.state.ne.us)

**Mark Avery, CPA**  
Subdivision Audit  
Review Coordinator  
[mavery@mail.state.ne.us](mailto:mavery@mail.state.ne.us)

Our consideration of internal controls and compliance included a review of prior year comments and recommendations. To the extent the situations which prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations have been satisfactorily resolved.

**Robert Hotz, JD**  
Legal Counsel  
[robhotz@mail.state.ne.us](mailto:robhotz@mail.state.ne.us)

More detailed information on our comments and recommendations is provided hereafter. It should be noted this letter is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

### **Leave Balances Not Recorded on the Nebraska Information System**

The Nebraska Information System (NIS) is the new official accounting and payroll system of the State of Nebraska. As the official accounting system, all accounting and payroll transactions should be recorded on NIS.

Employee vacation, sick, and compensatory leave balances at all three Colleges were not recorded on NIS. However, separate leave records are being maintained at this time, because there have been problems with NIS in processing and recording the Colleges' leave. In addition, NIS did not handle some of the unique leave reporting requirements of the Colleges.

Employee leave balances should be maintained in the State's official accounting records for efficient, accurate, consistent, and complete reporting of leave transactions.

We recommend the Colleges work with the Department of Administrative Services - Accounting Division, to work out issues and concerns regarding the recording of leave on NIS. Once these issues have been resolved the Colleges should enter all leave balances on NIS.

*NSC's Response: Historically, because of the unique leave reporting requirements of the NSC, separate leave records have been maintained, as they are today. There is no requirement in statute that leave records must be maintained on the State's accounting system. Problems still exist with the NIS system for the function of recording leave for employees whose FTE is less than 1.0 and recording split leave time between business units. The NSC will continue to work with DAS-Accounting to facilitate the efficient use of the NIS system for recording leave for the NSC.*

### **Timesheets**

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." In addition, sound business practices, as well as good internal control, requires hours actually worked be adequately documented, for example, via timesheets, time logs, etc., and such documentation kept on file to provide evidence of compliance with the requirements of Section 84-1001. Furthermore, good internal control also requires that whenever employees accrue vacation and sick leave, adequate documentation should be maintained to support the employees' having "earned" the amounts recorded in the leave records by documenting not less than forty hours of work each week.

During our audit, we noted timesheets and/or similar supporting documentation was not completed for the following employees:

- All System Office staff
- All professional staff and faculty at WSC
- All professional staff, except maintenance employees and faculty at CSC

As a result, there was no support all staff rendered not less than forty hours of labor each week as required by Statute. All of these employees accrued vacation and sick leave.

We recommend the Board review the statute cited and determine whether adequate supporting documentation, such as timesheets, is being retained for all employees.

*NSC's Response: The "basic workweek" statute was intended to insure that full-time employees work full time. There are methods other than a time clock to make certain that occurs, principally through supervision and oversight. Requiring time records of an exempt person may not only be demeaning but arguably it is inconsistent with the Fair Labor Standards Act. For there to be an exemption, the individual must be paid on a salary basis; that is, the person must receive the full weekly salary for any week in which work is performed, subject to a few very explicit exceptions. There is no record-keeping requirement. Although it is not unlawful to do so, and even though they do not receive overtime, tracking actual hours worked may cause professional and other exempt staff to believe they are being treated like hourly employees. Faculty and staff who are absent from work at any time have absenteeism documented. The expectation is that employees will be at work during assigned hours unless there has been a properly signed and approved documentation of absence. The NSC does not anticipate requiring timesheets in the future for system office staff, professional staff, or faculty.*

**APA's Response: The APA believes all employees should have documentation to support the number of hours worked each week. When such records are not maintained, we believe the NSC does not have evidence of compliance with Section 84-1001(1) and will not have adequate records to support vacation and sick leave earnings for those employees.**

### **Status Changes Exceeded 30 Days**

34 C.F.R. Section 682.610 requires changes in a student's status to be reported to the lender within 30 days.

At WSC, notification for 9 of 12 students' status changes tested were not provided to the lender within 30 days. The status changes for these students were delayed due to a review performed by the Registrar to ensure all requirements for graduation had been met.

We recommend WSC implement procedures to ensure all status change notifications are provided to the lender within 30 days.

*NSC's Response: WSC has reviewed the C.F.R. Section regarding the 30-day reporting requirement. In the past, reporting was done every 30 days or less, but the specific students noted were not cleared for graduation requirements within 30 days of graduation. Once all students were officially cleared that they had met the requirements for graduation, they were reported to the clearinghouse. WSC is now providing all status changes within 30 days.*

### **Live Data Access**

Good internal control includes a proper segregation of functions so no one individual is capable of accessing production files, making modifications to the production files, and placing the modifications back into production.

At all three Colleges, as part of each programmer's assigned duties as related to providing technical support to users, the programmers had update access to production files of the Student Information System.

As a result, unauthorized changes could have been made to the production files that would go undetected.

We recommend all the Colleges examine functions performed by the computer center staff in order to provide a proper segregation of duties. As always, we recognize the cost of providing a segregation of functions must be balanced with the benefits gained.

*NSC's Response: While it is true the programmers have access to production files, we believe there are sufficient compensating controls to mitigate any internal control issues. The offices that are responsible for the functions the computer center staff support all receive and review reports, view information on-line, and create reports from the system that provide a check of the accuracy of the data. This provides checks and controls on the computer center staff's data access. The cost of implementing the suggested segregation of duties during the current economic climate would be prohibitive.*

### **Inadequate Pledged Collateral**

Neb. Rev. Stat. Section 77-2388 R.S.Supp., 2002, states any bank may furnish securities to secure deposits of public money in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Section 77-2395 R.S.Supp., 2002, states, the custodial official shall not have on deposit more than the amount insured by the FDIC until the bank has furnished securities with a market value of not less than 102 percent of the amount on deposit in excess of the amount insured.

At CSC, we noted the Community First National Bank held pledged collateral of \$600,000 in addition to the \$100,000 of FDIC insurance during the fiscal year ended June 30, 2003. This would secure deposits up to \$688,235. However, for the two months tested, CSC's deposits exceeded the amount secured for two days, with the largest balance being \$788,446.

As a result, there was an increased risk of the loss of State funds had the bank been closed when CSC's balance was high.

We recommend CSC implement procedures to ensure bank accounts are adequately collateralized at all times.

*NSC's Response: CSC recognizes the shortage of pledged collateral on the two days in question. CSC has a signed contract with the Community First Bank now that will pledge collateral at 110% of the previous year's highest cash balance. Through this mechanism, this issue had been dealt with prior to audit fieldwork commencing.*

### **Segregation of Duties**

Good internal control requires an adequate segregation of duties so no one individual is able to handle all aspects of a transaction or process. If a segregation of duties is not possible, a compensating control such as an independent review of transactions should be in place.

At WSC, one individual was responsible for maintaining capital asset records, ensuring all items were properly added, and comparing the physical inventory with the capital asset records. WSC did not have an established compensating control such as an independent review.

As a result, there was an increased risk for loss or errors to occur.

We recommend WSC either reassign some of these duties in order to create a proper segregation of duties or institute an adequate compensating control.

*NSC's Response: One person is responsible for fixed asset accounting but is not responsible for purchasing, receiving, tagging, surplus property, or the disposal of fixed assets. We feel these are compensating controls in order to protect the possible loss or misuse of State assets. Fixed asset reporting has undergone major changes in the last two years and is growing in scope and difficulty. WSC has requested additional funding for staffing to assist with fixed assets, but given the current budget climate of the State, additional funding may not be available to staff a new position to take over these duties. WSC is in the process of hiring an hourly, part-time worker to do physical inventory counts.*

This letter is intended solely for the information and use of the Nebraska State College System, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and thank all of the Nebraska State College System employees for the cooperation and courtesy extended to us during the course of the audit.

Sincerely,



Don Dunlap  
Assistant State Auditor