

**MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM
JULY 1, 2003 THROUGH JUNE 30, 2004**

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Issued on December 13, 2004

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



November 10, 2004

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Mr. Stanley Carpenter, Executive Director
Nebraska State College System
Board of Trustees
P.O. Box 94605
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Deann Haeffner, CPA
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Dear Mr. Carpenter:

Don Dunlap, CPA
Asst. Deputy Auditor
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We have audited the basic financial statements of the Nebraska State College System (NSC) for the fiscal year ending June 30, 2004, and have issued our report thereon dated November 10, 2004. We have also audited the NSC's compliance with requirements applicable to major federal award programs and have issued our report thereon dated November 10, 2004. 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.

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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 NSC 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 increased operational efficiencies.

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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 into the comments presented for the current year. All other prior year comments and recommendations have been satisfactorily resolved.

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.

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

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.

This was a prior audit comment in the NSC fiscal year ended June 30, 2003, management letter. At that time, the Board disagreed with our findings and stated the following:

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.

The Auditor of Public Accounts position is that the NSC does not have documentation to support they are in compliance with the above statute and recommends the Board establish a policy requiring all NSC employees maintain adequate supporting documentation, such as timesheets, to ensure all staff render not less than forty hours of labor each week as required by Statute.

NSC's Response: The NSC is reviewing ways to satisfy the requirement of the statute without violating the Fair Labor Standards Act.

Athletic Department Receipt Procedures

Good internal control requires procedures to ensure all receipts are properly recorded and reconciled to the amount that was received. Good internal control also requires maintaining documentation to support all revenues that are received are properly recorded.

A review of the WSC Athletic Department procedures by WSC staff and by a private firm hired by WSC noted poor controls and lack of documentation to support receipts recorded and payments made in the following areas: summer camp registrations, athletic guarantees, and employee payments. The review noted a complete detailed list of camp registrants was not being maintained by the Athletic Department or the Administration and Finance Department and that registrations were not being maintained for a reasonable period of time after the camps were completed.

Lack of adequate controls and documentation could result in the loss or misuse of WSC assets.

We recommend WSC implement procedures to maintain a complete listing of camp participants and/or registrations received. We also recommend WSC implement procedures to reconcile money received to the number of participants to ensure all revenues received are being recorded and accounted for properly. We further recommend WSC implement procedures to ensure athletic guarantees are properly recorded.

NSC's Response: WSC is developing and implementing new policies and procedures related to the Athletic Department. A representative of Business Services will be present at all camp check-in's. Administration and Finance will record all mail receipts for athletic camps. Receipts for camps will be reconciled to the number of campers at each camp. The Athletic Department will maintain all registration forms, medical waivers, and related databases on file

for three years. All contracts for athletic guarantees will be signed by the President of the College or the Vice President for Administration and Finance. The Wayne State College Foundation will not accept guarantees for deposit.

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.

This was a prior audit comment in the NSC fiscal year ended June 30, 2003, management letter.

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

We again 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 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. Given reduced staffing levels and tight budgets, the cost of implementing the suggested segregation of duties would be prohibitive at this time.

Inadequate Pledged Collateral

Neb. Rev. Stat. Section 77-2388 R.R.S. 2003, 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.R.S. 2003, 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, the adequacy of public funds deposit coverage was reviewed for three selected months, with the following exceptions noted:

- One daily balance at the depository used by CSC for its “agency” account, exceeded coverage by \$14,348.
- Seven daily balances at the depository used by CSC for its “credit card” account as well as certain certificates of deposit, exceeded coverage in amounts ranging from \$3,878 to \$160,754.

This was a prior audit comment in the NSC fiscal year ended June 30, 2003, management letter.

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 was in violation of the pledged collateral rules as written in Nebraska Statute. On November 17, 2004 an additional \$100,000 of pledged collateral was added at the banking institution where one day deposits were in excess of FDIC coverage by approximately \$14,000. The other instance where the pledged collateral rules were violated occurred in CSC’s Credit Card Account where charges were allowed to settle prior to writing a check to the State Treasurer. CSC has worked with the State Treasurer’s office and First National Bank of Omaha to have all credit card charges settle at the State Treasurer’s office so that FDIC insurance limits at the bank in question would not be exceeded.

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.

This was a prior audit comment in the NSC fiscal year ended June 30, 2003, management letter.

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. It is the opinion of WSC that compensating controls are in place to protect against the possible loss or misuse of State assets. Fixed asset reporting at the State has undergone major changes in the last several years and is growing in scope and difficulty. WSC has hired a part-time staff person to do physical inventory counts. The college is considering further realignment of duties in this area.

Calculation of Initial Grace Periods – Federal Perkins Loans

34 C.F.R. Section 674.32 and the Federal Student Aid Handbook, Volume 5 (Perkins Loans) both indicate that a grace period is always day specific with the initial grace period beginning the day after the day the borrower drops below half-time enrollment.

During testing of students at CSC entering repayment status on their Federal Perkins Loans, it was determined that for those students who, without notifying the College, either reduced their enrolled hours below half time or withdrew completely, the College typically determined the status changes of these students at semester end and would then calculate initial grace periods beginning with that determination date. As such, during detailed testing of students entering repayment status on their Federal Perkins Loans, one of eight students entering repayment status had dropped below half time enrollment without notifying the College and, based on the College's above noted method of calculating the initial grace period, the student received a twelve month grace period as opposed to the nine month period provided in Federal regulations.

We recommend CSC calculate Federal Perkins Loan initial grace periods in compliance with all applicable Federal regulations.

NSC's Response: CSC acknowledges that one of its Perkins Loan borrowers, who had dropped below half-time, received twelve months grace, rather than the nine months grace provided for in Federal regulations. The borrower has been exited and measures have been put in place to correct the oversight.

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 in NIS.

Employee vacation, sick, and compensatory leave balances at PSC were not recorded in NIS. However, separate leave records are being maintained at this time.

This was a prior audit comment in the NSC fiscal year ended June 30, 2003, management letter.

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 PSC record all leave balances in 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.

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,

A handwritten signature in cursive that reads "Don Dunlap CPA".

Don Dunlap
Assistant State Auditor