

University of Nebraska

*Letter of Recommendations for the
Year Ended June 30, 2004*



Deloitte & Touche LLP
First National Tower
1601 Dodge Street, Suite 3100
Omaha, NE 68102-9706
United States

Tel: (402) 346-7788
Fax: (402) 346-0711
www.deloitte.com

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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, 2004 (on which we have issued our report dated November 30, 2004), 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 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,

University of Nebraska - Lincoln (UNL)

Depositing Checks in a Timely Manner

Observation: We noted the Lied Center did not deposit, or record in the books and records, any checks it received for tickets purchased, but not issued, prior to June 30, 2004. This resulted in an understatement of cash and deferred revenue. An adjustment was made to the fiscal year 2004 financial statements of the University of Nebraska (the “University”) for this error.

Recommendation: Implement procedures to monitor the cash receipts of the individual departments to ensure checks are being deposited on a timely basis and the appropriate accounting entries are reflected in the University’s financial statements.

Review of Transactions on a Departmental Level

Observation: Several departments of the University were recording transactions to deferred revenue accounts which were not related to deferred revenue transactions.

Recommendation: Revenue recognition training should be provided to personnel with authorization to record entries to the general ledger. In addition, monitoring procedures should be implemented to ensure that the journal entries being recorded at the departmental level are appropriate.

Accounts Payable Cut-off (related to the Bond financial statements)

Observation: We noted that the parking and housing departments are not accruing for purchases which were received prior to June 30, 2004, but the invoices were received subsequent to that date. As a result, audit adjustments were required to the bond financial statements to correct for this error.

Recommendation: Accounts payable cut-off training should be provided to personnel with authorization to record entries to the general ledger. In addition, monitoring procedures should be implemented to ensure that the entries being recorded at the departmental level are appropriate.

Documentation in TRIO-Talent Search File

Observation: A disabled student, eligible for services, had no documentation of the disability included in student’s file in the TRIO-Talent Search department. Without this documentation readily available in the file, the TRIO department can not prove they have performed the due diligence to determine the student was eligible for services.

Recommendation: Documentation of disabilities should be maintained within the TRIO-Talent Search department files in order to ensure their completeness. Additionally, monitoring procedures should be established in order to verify all required documentation is included the students’ files.

Nebraska College of Technical Agriculture (NCTA)

Last Day of Attendance Procedures

Observation: Last Day of Attendance Forms are to be completed by instructors when a student has stopped attending class and then submitted to the Financial Aid Office. Regulations require that lenders be notified of a student's withdrawal within 30 days of their withdrawal date. These forms were completed; however, they were not signed by the instructor and returned to Financial Aid Office until several months after the student's last day of attendance.

Recommendation: Last Day of Attendance Forms should be completed by instructors in a timely fashion in order for the Financial Aid Office to determine if financial aid refunds are required. Further, the campus should create a formal schedule detailing specific dates that information must be submitted to the Financial Aid Office.

Return of Title IV Funds Notification

Observation: A student had stopped attending college before 60% of the semester was complete and consequently owed money on a Pell Grant based on the Title IV funds calculation. A letter was sent to the student, however, it did not clearly state that funds needed to be returned for the Pell Grant.

Recommendation: The Student Financial Aid Handbook states that the written notice to a student related to repayment owed on a Pell Grant must state that, if the student fails to make satisfactory repayment arrangements to the holder of the overpayment, the student will be ineligible for additional Title IV funds until final resolution of the overpayment. The letter sent to students regarding Title IV repayments should clearly state what procedures need to be completed by the student in order for the student to be in compliance with Title IV and to be eligible for future Title IV funds. NCTA needs to ensure the letters sent to students regarding repayments meet the requirements specified by the Student Financial Aid Handbook.

University of Nebraska at Kearney (UNK)

No Review of Random Audit of Purchasing Cards

Observation: Reconciliations for purchase cards are completed each week by departments. The department reconciler reviews charges in SAP, assigns a general ledger account, enters a description of the good or service purchased, changes the cost object if necessary and then agrees to documentation (receipts, etc.) on file. Once the department reconciler completes their review, the accounts payable clerk goes into SAP, reviews the general ledger account for appropriateness and determines whether the charges are allowable based on the description entered by the department. In addition, on a monthly basis, the accounts payable clerk randomly reviews purchases made with the Purchasing Cards to ensure the documentation (receipts, etc.) are being maintained by the department and that the documentation agrees to the data entered into SAP. This process consists of randomly selecting one credit card payment and sub-selecting every 10th item on the bill and all items over \$500. For each sub-selection, the amount per the credit card bill is agreed to applicable supporting documentation (receipts, etc.) on file for validity, propriety, and authorization. Per review of the binder documenting the random reviews, we noted the last review was performed in July, 2003. It appears procedures are documented to perform reviews but monthly reviews are not being done in a timely manner. Purchases could be made for items that are not allowed per the guidelines in the Procurement Card Handbook.

Recommendation: Procedures should be implemented to ensure that checks are being completed on a monthly basis and in a timely manner even in the absence of personnel.

No Documentation of SBA-590 Financial Aid Report Review

Observation: The SBA-590 (Financial Aid Program Report) is a report which posts the students credits directly to student accounts in the Student Information System (SIS). Errors that occur (such as document required, BR Holds, anticipated hours, etc.) are researched and corrected by the Assistant Director of Financial Aid. At the beginning of the semester these reports are reviewed either daily or every other day so that errors can be corrected in a timely manner. After the first billing cycle, when the volume slows down, the reports are reviewed weekly. Effective November 6, 2002, the SBA 590 reports are no longer printed as they can be reviewed online (www.eprint.unk.edu) with a user ID and password which is tied to the SIS password and user ID. As reports are not printed every time they are run and copies are no longer kept by Financial Aid Office, we noted per review of report online, there is not a process in place to indicate that the review process is occurring. If there is no documentation of the review process, it is possible a report may not get reviewed and a errors may not be corrected on a timely basis.

Recommendation: Financial Aid should maintain a log indicating the date the SBA-590 report is reviewed and the initials or sign off of the individual performing the review should be documented. In addition, Financial Aid should consider including documentation of errors that occurred and how the error was corrected.

University of Nebraska Medical Center (UNMC)

Support for Year End Inventory

Observation: UNMC completed a bookstore physical inventory count on May 26, 2004. UNMC maintained line-item detail for this physical count. However, UNMC did not complete a physical inventory count as of June 30, 2004, and did not maintain a line-item detail of bookstore inventory as of June 30, 2004 or a rollforward from the May 26, 2004 count to the June 30, 2004 balance to support the June 30, 2004 bookstore inventory balance. As a result, there was no support tied to the physical inventory balance to support the amount recorded in the financial statements.

Recommendation: Appropriate supporting documentation should exist for bookstore physical inventory balances. When UNMC performs a physical inventory count prior to fiscal year end, they should maintain a line-item detail listing of the balance or a rollforward of the inventory balance from the count date to year-end.

Nebraska Department of Health and Human Services Progress Reports

Observation: The terms of the Health and Human Services (HHS) Centers for Disease Control grant program require that a written progress report be submitted to the Nebraska Department of Health and Human Services. UNMC has not been submitting such reports, rather it was represented that verbal updates have been occurring.

Recommendation: UNMC should either submit a written progress report to the Nebraska Department of Health and Human Services or have the requirement waived.

SFA 269A Report

Observation: The grant agreement for HHS Centers for Disease Control requires UNMC to submit a SF-269A report to the pass-through entity no more than 90 days following the close of the period. UNMC has not been preparing this report; however, provides financial information through other means.

Recommendation: UNMC should prepare the report for submission to the pass-through entity or have the requirement waived.

Building Urban MCH Monthly Invoices

Observation: The grant agreement indicates UNMC is to submit monthly invoices for reimbursement no later than 10 days following the end of the month. The program regularly sends reports for periods greater than one month and seldom sends the invoice out within 10 days of month end.

Recommendation: UNMC should prepare monthly invoices to be mailed out within 10 days of month end.

University of Nebraska System (the University)

Annual Review of Accounts Receivable Write-offs

Observation: The UNK, UNMC, and UNO campuses have not updated the historical write-off percentages used to calculate the allowance for uncollectible accounts (for both accounts receivable and loans to students) for several years.

Recommendation: On an annual basis each campus should perform a current historical analysis of their write-offs in order to increase the accuracy of their estimated allowance for uncollectible accounts. Consistent procedures should be implemented at each campus.

Technical Change Management

Observation: Technical change control processes and related standards at the University of Nebraska Computing Services Network UNCSN vary among general computing areas such as database implementation and operating system software support. Consequently our testing indicated the technical change management practices for these general computing areas were informal in nature, and changes are moved into production with varying degrees of testing, results of testing and approval documentation. Specifically, we identified the following:

- Formal test plans for changes to operating systems and databases are not prepared to document tests performed and the results of such testing;
- Results of testing are not summarized to provide objective information; and
- Testing is conducted at the staff's discretion.
- Informal technical change control processes permit varied practices and increase the risk and likelihood of unauthorized changes with poor or non-existent documentation of changes and associated criteria and approvals.

Recommendation: UNCSN first should consider implementing consistent change management procedures (e.g. documentation standards) across areas (e.g. database, operating system software) until a comprehensive change management process is developed that can be implemented on an enterprise-wide basis. These procedures should be developed and implemented to ensure that adequate testing is performed, evaluated, and documented prior to implementing changes into production. Procedures should include at a minimum:

- Formal test plans are prepared for both unit testing and integration testing;
- Consistent testing standards, tools, and procedures should be implemented by management across the entire organization;
- Test matrices are prepared to record statistics on testing successes and failures. Minimum standards should be established to log successful changes and unsuccessful changes that are returned for modification; and
- A quality assurance review is performed by an independent group separate from testing to ensure all changes are approved, tested, and test results are evaluated.

Security Policies

Observation: UNCSN has limited documented security policies and procedures. The lack of specific security policies and/or procedures may jeopardize the administration's perceived commitment toward protecting information assets among users of the computer systems.

Recommendation: UNCSN should develop and document a formal, comprehensive security policy, and after approval by the administration, should distribute the policy to all users to build awareness of the policies and procedures regarding the University's commitment to the integrity of the computing environment. These policies and procedures should include at a minimum:

- General University-wide policy for data security
- Data ownership
- Documented naming conventions
- Adding new users
- Deleting terminated employees
- Amending access privileges when job functions change
- Password parameters
- Resetting passwords
- Confidentiality of passwords
- Logging off when terminals are unattended
- Reviewing access violations
- System auditing
- A confidentiality statement

Periodic Review of Access Privileges

Observation: Periodic reviews of access for sensitive privileges in the production environment are not consistently performed. Consequently, our testing indicated that several users had inappropriate access to sensitive privileges based on job function. Users with access that is not commensurate with their job responsibilities may impact the confidentiality and integrity of data.

Recommendation: To ensure that access to system resources and data is in accordance with management's intentions, we recommend that standard procedures be developed and implemented for designated personnel to conduct periodic reviews of access privileges. In addition, audit reports should be created and reviewed to monitor the activity of users that have been assigned sensitive privileges.

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 financial statements in conformity 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.