

**MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM
JULY 1, 2004 THROUGH JUNE 30, 2005**

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STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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Mr. Stanley Carpenter, Chancellor
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Dear Mr. Carpenter:

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We have audited the basic financial statements of the Nebraska State College System (NSCS) for the fiscal year ending June 30, 2005, and have issued our report thereon dated November 23, 2005. We have also audited the NSCS's compliance with requirements applicable to major federal award programs and have issued our report thereon dated November 23, 2005. In planning and performing our audits, we considered the NSCS's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the NSCS and to report on internal control in accordance with Office 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.

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 NSCS 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.

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.

1. Live Data Access

Good internal control includes a proper segregation of duties so no one individual is capable of accessing and making direct modifications to computerized production files.

As part of each programmer's assigned duties for providing technical end-user support, programmers at all three Colleges had update access to production files of the Student Information System.

As a result, there is an increased risk that unauthorized production file changes could occur and go undetected.

This was a prior audit comment in NSCS's past two management letters.

We continue to recommend NSCS examine its programmer responsibilities in an effort 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.

NSCS's Response: Programmers do have access to production files; however, we believe there are compensating controls that help to mitigate internal control issues. The staff in the offices responsible for the functions supported by computer center all receive and review reports, view information on-line, and create reports from the system, thus providing a check of the accuracy of the data. The cost of implementing the suggested segregation of duties is prohibitive for the NSCS at this time. We will continue to review alternatives we might consider to help address this concern.

2. 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 NSCS 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

These employees record only the leave they use during the month, otherwise known as “exception” reporting. As a result, there was no support that these employees 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 NSCS’s past two management letters.

The Auditor of Public Accounts position is that the NSCS does not have documentation to support they are in compliance with the above statute and recommends the Board establish a policy requiring all NSCS employees maintain adequate supporting documentation, such as timesheets or the simple addition of signed certification added to their existing “exception” reporting to include; for example, wording such as “I certify that I have worked or been on approved leave for at least 40 hours each week of this pay period or in accordance with separate employment contract and/or agreement.”

NSCS’s Response: We appreciate the suggestion of wording that can be added to exception reporting. The wording is being reviewed by legal counsel, in consultation with academic leaders.

3. Leave Not Recorded on the Nebraska Information System (Peru State)

Nebraska State Accounting Manual AM-005 Unused Leave Recorded in NIS Policy, Section 34 states, in part, “. . . State Accounting has adopted the Nebraska Information System (NIS) to record all earned but not used sick and vacation leave and compensatory time. State Accounting needs this data in the system to be able to verify the dollar amount of the earned but unpaid days when the employee leaves State employment If an agency does not input such leave data into NIS, it is State policy to consider such liability NOT to exist. Therefore, when any employee of such agency leaves State government, NO payment will be allowed for any claimed unused vacation or sick leave or compensatory time until proper accounting for such leave or time is provided.”

Employee vacation, sick, and compensatory leave activity at PSC was not recorded in NIS. PSC does maintain separate, comprehensive leave records using an in-house computer program.

Employee leave balances should be maintained in the State’s official accounting records for efficient, accurate, consistent, and complete reporting of leave transactions. Furthermore, Paul Carlson, State of Nebraska Accounting Administrator, has stated if employee leave is not being

recorded on the NIS system by January 1, 2006, the Department of Administrative Services Accounting Division will not make any leave payouts for the College's retiring employees after that date without being provided extensive documentation.

This was a prior audit comment in NSCS's past two management letters.

We continue to strongly recommend PSC work with DAS in order to resolve this issue by having all leave activity recorded in NIS.

NSCS's Response: PSC is working to assign its employees to the correct benefit groups to allow vacation and sick leave to accrue accurately and will record leave balances in NIS by January 1, 2006.

4. Inactive Employees

Good internal control requires the timely and accurate recording of employee pay status in the Nebraska Information System (NIS). Additionally, NIS guidance for Human Resources/Payroll states, in part, ". . . It is important that agencies use the appropriate codes in NIS. This ensures accurate information is available for reporting purposes and also provides historical data. Various entities (Legislature, Governor's Office, etc.) rely on this information to assist them in establishing policies, procedures, and standards for the State of Nebraska."

- Of the 2,387 employees listed on NIS for WSC at the time of audit fieldwork, 922 had an inactive pay status. Six of 10 of these inactive employees tested had not received a paycheck in at least the past 6 months.
- Of the 1,752 employees listed on NIS for CSC at the time of audit fieldwork, 538 had an inactive pay status. Of 15 inactive employees tested, all 15 had not received a paycheck in at least the previous 12 months.
- Of the 1,122 employees listed on NIS for PSC at the time of audit fieldwork, 259 had an inactive pay status. Of 10 inactive employees tested, all 10 had not received a paycheck since at least the implementation of NIS in January 2003.

When the pay status of employees is not timely and accurately recorded in NIS, there is an increased risk of unauthorized payroll expenditures.

We recommend the Colleges implement periodic review procedures of employee's pay status. Additionally, we would expect when it is determined by the Colleges that retaining an employee's inactive status is no longer justified, the Colleges would promptly change the employee's pay status to that of a terminated employee.

NSCS's Response: The colleges have reviewed the employees classified in the NIS system as inactive, and the employees who are not reasonably expected to return to employment have been changed to the status of a terminated employee. The employees remaining on inactive status are either current students who have been on Work Study and who may return to active employment or are adjunct faculty who are not currently teaching but who may return to teach again another semester. The colleges will continue to monitor employees classified as inactive, so that only those who reasonably can be expected to return to employment are maintained in inactive status.

5. Payroll Register Review (System Office)

Good internal control requires a thorough, documented review of all accounting records, including payroll registers, to ensure the completeness and accuracy of all recorded transactions.

The NSCS Office visually reviews and/or compares its pre-payroll and final payroll registers; however, this review and/or comparative process is not documented, for example, by the initial and dating of the registers at the time of comparison, so that the procedure can be relied upon as a functioning internal control.

Without documentation to support timely payroll reviews and/or comparisons performed by the NSCS Office, the underlying internal control cannot be relied upon. Therefore, there is an increased risk that errors or irregularities could occur and go undetected by the NSCS Office.

We recommend the NSCS Office document its review and/or comparison of the Office's pre-payroll and final payroll registers in order for the procedure to be relied upon as a functioning internal control. This documentation can simply be achieved by the consistent initial and dating of the registers at the time of review and/or comparison.

NSCS's Response: The NSCS Office has implemented the recommended procedure of documenting and dating the registers at the time of review.

6. Student Status Changes (Wayne State)

34 C.F.R. Section 682.610 (c)(1) and (2) states, in part, "...A school shall upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days."

Notification for two of 32 student status changes tested were not provided to the guaranty agency or lender within 30 days. Both exceptions related to Spring 2005 student withdrawals processed by Wayne State College (the College) after its regularly scheduled May 2005 student status

confirmation report response had been submitted. The College 1) did not have a subsequent submission scheduled which would have included these students until September 2005; and 2) independent of the College's regularly scheduled submissions, the College did not have procedures in place to timely notify guaranty or lender agencies of the changes in the status of these students.

When student status changes are not reported to guaranty agencies or lenders in a timely manner, those guaranty agencies or lenders are unaware of such changes and, as a result, are delayed in commencing collection procedures.

We recommend Wayne State College implement procedures to ensure timely notification of all student status changes as required by federal regulations. As such, the College may want to consider changes to its scheduled student status confirmation reports since the scheduling of these reports is at the discretion of the College. The College may also want to consider the option of web-direct entry of such student status changes to National Student Loan Data System (NSLDS).

NSCS's Response: Wayne State College will employ the option of web-direct entry of such student status changes to the NSLDS.

This letter is intended solely for the information and use of the Nebraska State College System, management, and Federal awarding agencies and pass-through entities 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