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November 11, 2005

The Board of Regents
University of Nebraska

We have audited the basic financial statements of the University of Nebraska (the University) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 11, 2005. In planning and performing our audit of the basic financial statements of the University, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Calculation of Net Assets

Equity of the University is display in three components: Invested in Capital Assets, Net of Related Debt; Restricted and Unrestricted. Invested in Capital Assets, Net of Related Debt consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds—for example, restricted for capital projects. The University's calculation did not include certain debt elements. The University adjusted the calculation based on our recommendation. We encourage the University to continue developing a method to ensure the calculation of net assets is accurately reported across all campuses in the future.

Library Books

At June 30, 2005, the University has recorded approximately $4.5 million in library books on the financial statements. Library books do not meet the capitalization threshold in accordance with University policy; however, for tracking purposes, the University records each book at $1. Generally accepted accounting principles require that the University record library books at original cost and depreciate or, if not material, expense the cost as incurred. We recommend the University record each book at 1 cent or develop another tracking procedure that does not capitalize a portion of the cost of the books.

Capitalized Interest

Generally accepted accounting principles require that interest costs be capitalized as part of the historical cost of the asset and depreciated over the life of the asset. During the past two years, a significant amount of debt was issued for the construction of capital assets; however, related interest was not capitalized as part of the cost of the asset. The University should establish policies and procedures to ensure interest is capitalized in the future.

Capitalization Thresholds

Generally accepted accounting principles require the University to capitalize material fixed assets purchased or constructed. The University has a capitalization threshold of $500,000 for buildings and improvements. Therefore, the University could have many additions that are less than $500,000 that are expensed. We recommend the University consider lowering the threshold or analyzing the improvements under $500,000 to ensure in total they are not material.

Compensated Absences

Each campus develops an accrual for compensated absences however, the methodology used at each campus is not consistent resulting in some campuses recording a lower accrual. For example, some campuses do not include an estimate for payroll taxes and benefits. In addition, campuses apply different policies related to floating holidays. We recommend the University develop a University-wide compensated absences policy for all campuses to adhere to.

Management's Discussion and Analysis

Governmental Accounting Standards Board Statement 34 Implementation Guide, question 7.484 requires that MD&A associated with comparative financial statements should provide condensed financial statements for the current year, the prior year, and two years ago so that each of the two years presented in the comparative financial statements can be compared to its prior year. The University elected not to present comparative information for the prior year as required. We suggest that the University present comparative information in the MD&A.

Terminated Users—IT Controls

During our testing of the Information Technology (IT) general controls over SAP, we obtained a listing of terminated employees. Six of thirty terminated employees selected for testing still had access to the system (three had both application and employee self-service (ESS) access and three had only ESS access). Terminated employees with access to the system or applications could lead to potential system abuse or sabotage. We recommend that the University establish a formal termination policy and procedures to require that system access of terminated employees be removed on or before the employee's last day. In addition, we recommend the IT Security department periodically review system access to identify accounts that have not been accessed in over 90 days or never accessed to determine if such users should have access to the system or application.

IT Data Center Access

Currently, the University has 274 active access cards to the data center, of which only 66 are held by IT personnel. An excessive number of individuals with access to critical computing resources may lead to intentional and/or unintentional damage of system resources. We recommend the University establish a formal access policy that provides only IT personnel with access cards and others needing access can be escorted into the data center as needed.

We would be pleased to discuss these comments and recommendations with you at any time. We appreciate and thank the University's employees for the courtesy and cooperation extended to us during the audit. This report is intended solely for the information and use of the State of Nebraska Auditor of Public Accounts, the University's management and others within the organization.

Very truly yours,

KPMG LLP