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November 27, 2007

The Board of Regents  
University of Nebraska

Ladies and Gentlemen:

We have audited the financial statements of the University of Nebraska (the University) for the year ended June 30, 2007, and have issued our report thereon dated November 27, 2007. In planning and performing our audit of the financial statements of the University of Nebraska, in accordance with auditing standards generally accepted in the United States of America, we considered the University's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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:

#### **IT General Controls**

During our testing of the Information Technology (IT) general controls over the University's financial and administrative system (SAP software), we noted the following:

- Management was unable to provide documentation showing there have been periodic reviews of active users, groups, and roles to identify incompatible access rights. The lack of periodic reviews of access authorities could result in inappropriate personnel having access to the operating systems, applications, and data files, resulting in errors or fraud going undetected by management. It is common practice to review user access authorities on a periodic basis to ensure the authorities are commensurate with the employee current job responsibilities. We recommend the IT Department print a list of employees and the access that each has to the various IT systems approximately every six months and confirm that access with the manager of the different areas for validation.

#### **Related-Party Transactions**

The University of Nebraska Medical Center (UNMC) has significant transactions with the Nebraska Medical Center and UNMC Physicians every year. Several of these transactions have been recorded as adjusting entries between the entities at the time of statement preparation. Statement preparation is



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facilitated when entries are recognized and posted to the general ledger for each of the entities at the time the transaction occurs. We recommend the parties involved develop a communication process to ensure such transactions are recorded properly and timely throughout the year.

### **New Standards**

In November 2006, the Governmental Accounting Standards Board (GASB) issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

Once any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention-related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented.

In addition, we identified a deficiency in internal control that we consider to be a significant deficiency, and communicated it in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim,



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however, to use our knowledge of the University's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, Board of Regents, State of Nebraska Auditor of Public Accounts, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

January 8, 2008

Board of Regents of the University of Nebraska  
Lincoln, Nebraska

Dear Board Members:

We have received the management letter of recommendations dated November 27, 2007 from KPMG LLP, our independent certified public accountants. This letter is designed to address the observations included in that letter. The format of this response is to repeat the comment made by the auditors with the response of the University following immediately thereafter.

### **IT General Controls**

Comment. During our testing of the Information Technology (IT) general controls over the University's financial and administrative system (SAP software), we noted the following:

Management was unable to provide documentation showing there have been periodic reviews of active users, groups, and roles to identify incompatible access rights. The lack of periodic reviews of access authorities could result in inappropriate personnel having access to the operating systems, applications and data files, resulting in errors or fraud going undetected by management. It is common practice to review user access authorities on a periodic basis to ensure the authorities are commensurate with the employee current job responsibilities. We recommend the IT Department print a list of employees and the access that each has to the various IT systems approximately every six months and confirm that access with the manager of the different areas for validation.

Response. The University agrees personnel should only have access rights to the administrative system that are compatible with their current job responsibilities. A security review policy has adopted by the University campuses and Central Administration to insure end users access authorizations to SAP administrative system are appropriate. The policy includes monthly reviews by campus security personnel and an annual review by the University's Administrative System Group and the campus business office professionals. Documentation of the reviews will be filed for reference and made available as required.

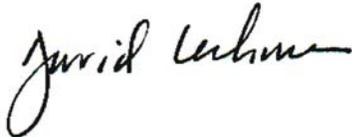
### **Related Party Transactions**

Comment. UNMC has significant transactions with the Nebraska Medical Center and UNMC Physicians every year. Several of these transactions have been recorded as adjusting entries between the entities at the time of statement preparation. Statement preparation is facilitated when entries are recognized and posted to the general ledger for each of the entities at the time the transaction occurs. We recommend the parties involved develop a communication process to ensure such transactions are recorded properly and timely throughout the year.

Response. We understand the auditor's comment. However, it should be observed that many of these transactions revolve around recordation of UNMC's equity in earnings of the joint venture. As such, the entries are "balance sheet" entries and do not impact accounts other than equity and investment in joint venture. An additional mitigating factor is that the University's primary financial focus is not periodic net income. Regardless, UNMC will take initiatives to improve communications with the Nebraska Medical Center (NMC) and UNMC Physicians (UNMC P) to ensure entries are recorded on a timely basis. Efforts will be made to post adjusting entries as the NMC and UNMC P audits progress and as the entries are identified. Additional meetings and information sharing will be scheduled to facilitate a communication flow between the entities.

Regents, please feel free to contact this office with any questions or desired clarifications.

Sincerely,

A handwritten signature in black ink, appearing to read "David Lechner". The signature is written in a cursive, flowing style.

David E. Lechner  
Vice President for Business and Finance