NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 17, 2010

The Board of Regents
University of Nebraska

Gentlemen:

We have audited the financial statements of the University of Nebraska (the University) (a component unit of the State of Nebraska) for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements and the schedule of expenditures of Federal awards. Our audit procedures were also designed to enable us to report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 and therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the University's organization gained during our work, and we make the following comments and suggestions that we hope will be useful to you.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting: Comment Number 1 (Transaction Review and Approval), Comment Number 2 (Capital Assets), Comment Number 3 (Electronic Personnel Action Form (E-PAF) Approval), and Comment Number 4 (Cooperative Extension Bank Accounts). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. These comments will also be reported in the Schedule of Findings and Questioned Costs in our separately issued "Financial Statements and Reports Required by *Government Auditing Standards* and OMB Circular A-133," commonly called the Single Audit report.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that we reported as Comment Numbers 6 through 17.

COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the University's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major Federal programs for the year ended June 30, 2010. The University's major Federal programs are identified in the summary of auditor's results section of the schedule of findings and responses in our separately issued Financial Statements and Reports Required by *Government Auditing Standards* and OMB Circular A-133 for the Year Ended June 30, 2010.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and

OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

Our opinion on the University's compliance with the requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010, can be found in our separately issued Financial Statements and Reports Required by *Government Auditing Standards* and OMB Circular A-133 for the Year Ended June 30, 2010.

The results of our auditing procedures disclosed instances of noncompliance with the above requirements, which are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying schedule of findings and responses as Comment Number 2 (Capital Assets), Comment Number 5 (Matching - UNL), and Comment Number 12 (Allowability of Health Insurance Expenditures).

Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and responses as Comment Number 1 (Transaction Review and Approval), Comment Number 2 (Capital Assets), and Comment Number 5 (Matching - UNL). A *significant deficiency* in internal control over compliance is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the University's responses and, accordingly, we express no opinion on the responses.

SCHEDULE OF FINDINGS AND RESPONSES

A. BASIC FINANCIAL STATEMENTS AND A-133 SINGLE AUDIT REPORTABLE COMMENTS CONSIDERED TO BE SIGNIFICANT DEFICIENCIES

1. Transaction Review and Approval

Program: CFDA 47.081 – Office of Experimental Program to Stimulate Competitive Research; CFDA 93.389 – National Center for Research Resources; and CFDA 81.049 – Office of Science Financial Assistance Program; due to the cross-cutting nature of this finding all Research and Development (R & D) including ARRA R&D CFDAs are also impacted - Allowability

Grant Number & Year: #701892, 7/4/2009; #2P20RR016469-09, 5/1/2009; #DE-FG02-08ER64579, 7/15/2008

Federal Grantor Agency: National Science Foundation, U.S. Department of Health & Human Services and U.S. Department of Energy

Criteria: A good internal control plan requires proper segregation of duties to ensure no one individual can process a transaction from beginning to end. A good internal control plan also requires a documented review and approval of all transactions before they are posted to the General Ledger. A good internal control plan further requires access to process journal entries be given only to those individuals who routinely need to post journal entries. A good internal control plan also requires an adequate segregation of duties ensuring individuals processing payments on SAP are not able to also perform the receiving function on SAP.

OMB Circular A-133, § 300 Auditee responsibilities, states "The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

OMB Circular A-133 June 2010 Compliance Supplement Part 6 states "This Part 6 describes characteristics of internal control relating to each of the five components of internal control that should reasonably assure compliance with the requirements of Federal laws, regulations, and program compliance requirements." Control Activities are one of the five components of internal control and Part 6 states "Control Activities are the policies and procedures that help ensure that management's directives are carried out." Examples of Control Activities noted in Part 6 is "Adequate segregation of duties provided between performance, review, and recordkeeping of a task." Part 6 further notes that Control Activities for the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements include "Adequate segregation of duties in review and authorization of costs."

Condition: Four of sixty transactions tested for the University-wide A-133 Single Audit of Federal Funds did not have supporting documentation of approval by someone other than the person preparing the transaction. One of those transactions was a journal entry.

We also noted the following during our testing for the University's Basic Financial Statements:

- The MM_AP_MAINTAIN Role in SAP, the University's accounting system, allows an individual to process an expenditure transaction from beginning to end on SAP.
- For 1 of 25 operating expenditures tested and for 1 of 5 capital expenditures tested at the University of Nebraska-Lincoln (UNL), we noted the same individual performed the purchasing, receiving, and approval functions for a transaction. In addition for 1 of 5 capital expenditures tested, we noted the same individual performed both the receiving and approval functions for the transaction.
- For 6 of 33 transactions tested at the University of Nebraska Medical Center (UNMC), we noted payments were made based solely on the parking of an invoice by a department or the receipt of an invoice from a vendor. We also noted that the payables staff at UNMC will perform both the receiving and payment functions on SAP for some transactions. In addition, we noted a negative approval process is used for framework purchases.
- For 6 of 25 transactions tested at the University of Nebraska at Omaha (UNO), we noted payments were made based on the campus' undocumented procedure that payables under $5,000 from four departments do not require documented departmental approval for payment. We also noted on 1 of 25 documents tested the invoice was not properly approved. We further noted a negative approval process was used for framework purchases.

Questioned Costs: None

Context: Our prior two audits of the Basic Financial Statements, noted all campuses of the University had a large number of individuals with the ability to prepare and post journal entries on SAP, the University's accounting system, without a review or approval by anyone else. Although the University had taken corrective action to review and reduce the overall number of individuals who can perform this function, we again noted for the fiscal year ended June 30, 2010, the University had 653 individuals University-wide, with 535 individuals processing over 40,331 journal entries. In the prior two years we had recommended the University establish a policy that all journal entries be reviewed and approved by someone other than the person preparing the journal entry prior to it being posted in SAP. This approval should be done by an individual with the knowledge to understand the journal entry, to ensure it is properly supported, and to determine it is a proper journal entry for the University. We also recommended the University review the need for such a large number of individuals having access to process journal entries on SAP.

The process of allowing one individual to prepare and post journal entry transactions without a review or approval by another individual is the same process used for journal entry transactions posted to the Research and Development Cluster. The one journal entry transaction without documentation of approval noted during the audit of the Research and Development Cluster was processed at UNL. The amount of the journal entry was $339.

The University responded to this comment in our fiscal year ended June 30, 2009, management letter by noting they had deployed functionality of its administrative system to end users in departments and colleges, granting them authorization to charge expenses to sub-cost centers by journal entry and credit primary cost centers. The University agreed an ideal practice would be to have real time sign off, but the practicality of the ideal, in a decentralized, end-user empowered environment, with limited staffing in some areas, will not always be possible. The University has employed detective, budgetary, and other compensating controls to mitigate the risk of incorrect charges. Mitigating detective controls include the review of expenses by principal investigators and departmental staff through on-line real-time access to the system. Similar controls are present through review of transactions by campus sponsored programs office staff during the preparation and filing of Federal financial status reports.

University management again indicated to us that most individuals who prepare and post journal entries are accounting clerks within the various departments. University management believes these individuals need the ability to perform this function. In addition, University management indicated an after the fact review of journal entries is made at various levels; however, this review is generally not required or documented.

The University's Corrective Action Plan in the fiscal year ended June 30, 2009, management letter noted the following: The University will continue to scrutinize its practices in this area to achieve separation of end user duties in areas, where possible, and to maintain and enhance detective and budgetary controls in department research offices and the campus sponsored program finance offices.

For the current year, compared to the prior year, there has been no significant change in the University's policies or procedure or in the number of individuals who can prepare and post a journal entry.

The other three transactions from the A-133 audit without documentation of approval noted during the audit of the Research and Development Cluster were direct or purchase order payments processed at UNMC. For document #44261414 in the amount of $3,850, we noted the payment was for a scholarship for participation in the Biomedical Research Infrastructure Network (BRIN) program. The "Recommendation for Fellowship or Scholarship" was not approved by the department chair or college dean. For documents #44235242 for $88 and #44274519 for $108, we noted payments were made for tank rental and gases to be ordered as needed. Invoices are received monthly. The Purchase Orders were framework purchase orders. A framework purchase order is an open-ended or blanket purchase order and no approval is required in SAP. Per the Accounts Payable (A/P) manager, a negative approval process is followed for framework purchase orders. The A/P department processes the invoice for a framework purchase order and then sends the ordering department a copy of the payment voucher and invoice processed. Negative approval operates on the basis that the transaction is authorized and correct as processed. If there is an issue with the receipt and/or payment noted after processing, the department is to notify the A/P department and the vendor.

The MM_AP_MAINTAIN function allows an employee to enter an Invoice/Payable, modify an Invoice/Payable, and Post/Approve an Invoice/Payable. Each campus and Central Administration has employees set up in SAP in this manner. On a University-wide basis, there were 72 employees that had this capability as of June 2010. It was also noted each campus and Central Administration had a total of 22 employees who could also post and approve documents in EnterpriseOne, the State of Nebraska Accounting System, that also had access in SAP to the above role. The University must use EnterpriseOne to make all cash payments out of the State Treasury. Thus 22 employees have the ability to process a transaction from beginning to end. We also noted there were several instances in which one individual performed multiple functions for a transaction.

We noted the University processes some direct payment items based solely on the parking of an invoice by a department or the receipt of an invoice from a vendor. Parking of an invoice is when an invoice is entered by an individual having access to enter documents in SAP, the University's Accounting System, but that individual does not have access to approve documents for payment.

The total dollar amount of the three transactions at UNL was $21,599.

The six transactions processed at UNMC totaled $11,108.

The total dollar amount of the six transactions from the four departments at UNO was $2,310. The one transaction was for $672.

Cause: The University has indicated that a policy for review and approval of all transactions prior to posting to the general ledger in SAP is not practical due to decentralized processing and limited staffing.

Effect: When a large number of individuals can prepare and post transactions to the general ledger in SAP without a documented review and approval, there is a greater risk erroneous or inappropriate journal entries could be posted and go undetected. There is also an increased risk of loss or misuse of University funds when there is not an adequate segregation of duties.

Recommendation: We again recommend the University establish a policy that all journal entries be reviewed and approved by someone other than the person preparing the journal entry prior to it being posted in SAP. This approval should be done by an individual with the knowledge to understand the journal entry, to ensure it is properly supported, and to determine it is a proper journal entry for the University. We believe a proactive model with a real-time, work-flow review and approval process prior to journal entries being posted in SAP is reasonable and practicable. A proactive control is more likely to detect an erroneous or inappropriate journal entry than a detective control.

We also recommend the University review roles for processing Invoice/Payables in SAP and revise those roles to include a work flow approval system to provide an adequate segregation of duties. We further recommend that an adequate segregation of duties be implemented to ensure no one individual can perform all three phases of the purchasing cycle: ordering, receiving, and payment.

Management Response: The University respectfully disagrees that this finding is a significant deficiency. The Auditor states a good internal control plan requires segregation of duties. The University believes an internal control plan encompasses a framework of all five standards for Internal Control, those being control environment, risk assessment, control activities, information and communication, and monitoring. Segregation is but one part of one element of this framework. Elements of all five standards determine both preventative and detective controls placed into practice. The absence of a second approval of journal entries does not mean adequate controls are not present.

Part 6 of the OMB Circular A-133 compliance supplement for 2010 indicates an entity must exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements. The University has employed detective, budgetary, and compensating controls to address control activities and the spirit of a good internal control plan. The University agrees a second approval of all journal and accounts payable entries would be ideal if unlimited resources were available and we continue to seek improvement in this area. However with other controls present, this is not always cost-effective.

Corrective Action Plan: The University will continue to assess transactional risks and mitigating controls relating to processing journal entries and accounts payable and introduce additional controls where practicable and cost/beneficial.

Contact: Keith Lauber, Director of University Accounting

Anticipated Completion Date: On-going.

APA Response: AICPA Audit Standard AU Section 325.07 states "A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance." We believe this finding merits attention by the Board of Regents and is appropriately identified as a significant deficiency in compliance with auditing standards.

We continue to recommend preventative controls, such as a workflow approval process in SAP, be incorporated into the University's internal control framework for journal entries and payable transactions. Reliance on the detective controls as noted in management's response, without the incorporation of some preventative controls, may result in an increased risk of inappropriate or erroneous transactions being processed and not detected.

2. Capital Assets

Program: Research and Development (R & D) Cluster including ARRA R & D - Equipment and Real Property Management

Grant Number & Year: All Research and Development grants with capital asset expenditures over various years

Federal Grantor Agency: Various, including the U.S. Department of Health and Human Services and the U.S. Department of Defense

Criteria:

Federal Regulations and Internal Control
2 C.F.R. § 215.34 (January 1, 2009) states:

"(f) The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

(1) Equipment records shall be maintained accurately and shall include the following information.

(i) A description of the equipment.

(ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.

(iii) Source of the equipment, including the award number.

(iv) Whether title vests in the recipient or the Federal Government.

(v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.

(vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).

(vii) Location and condition of the equipment and the date the information was reported.

(viii) Unit acquisition cost.

(ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

(2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.

(5) Adequate maintenance procedures shall be implemented to keep the equipment in good condition.

(6) Where the recipient is authorized or required to sell the equipment, proper sales procedures shall be established which provide for competition to the extent practicable and result in the highest possible return.

(g) When the recipient no longer needs the equipment, the equipment may be used for other activities in accordance with the following standards. For equipment with a current per unit fair market value of $5,000 or more, the recipient may retain the equipment for other uses provided that compensation is made to the original Federal awarding agency or its successor. The amount of compensation shall be computed by applying the percentage of Federal participation in the cost of the original project or program to the current fair market value of the equipment. If the recipient has no need for the equipment, the recipient shall request disposition instructions from the Federal awarding agency."

OMB Circular A-133, § 300 Auditee responsibilities, states "The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

A good internal control plan requires procedures to ensure certain types of equipment are monitored to help ensure the equipment is not lost or misappropriated. In addition, a good internal control plan would include procedures to complete a physical inventory of all capital assets in the possession of the campus. Additionally, adequate documentation should be maintained to support the equipment disposals recorded.

State Statute
Neb. Rev. Stat. § 81-1118.02(1) (Reissue 2008) states, "Each executive, department, commission, or other state agency, including the Supreme Court, the Board of Regents of the University of Nebraska, the State Board of Community Colleges, and the Board of Trustees of the Nebraska State Colleges, shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission, or other state agency as of June 30 and shall be completed and filed with the materiel administrator by August 31 of each year."

Neb. Rev. Stat. § 81-1118.02(3) (Reissue 2008) states, "Each such executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska. In the inventory required by subsection (1) of this section, each such executive, department, commission, or other state agency shall state positively that each item of such property has been so tagged, marked, or stamped."

Accounting Standards
GASB Codification section 1400 states "Capital Assets should be reported at historical cost."

Sound accounting practice requires the disposal of capital assets on the accounting system to be based on when a capital asset is no longer in the possession of the campus and not when an item is fully depreciated.

Condition and Context: During our previous two audits, we noted several areas where control over University capital assets could be improved. During our current audit, we noted the University took some corrective action based on our prior recommendation, but we again noted the following in our review of the capital asset records at the various campuses:

The University does not require equipment costing less than $5,000 to be marked as "Property of the State of Nebraska."

The University did not have University-wide procedures to control access to certain types of equipment under $5,000—such as laptop computers, cameras, and other electronic equipment. When this issue was first brought up two years ago, the University of Nebraska-Lincoln (UNL) had begun implementing a procedure to inventory such items on SAP (the University's accounting system) using the "Objects on Loan" feature in the Human Resources module. This process is still not fully implemented at UNL. All other campuses of the University have begun using this module in SAP as well, but have not yet fully implemented this process.

The University's policy is to take an inventory of their capital assets every two years. However, State statute requires an inventory be taken annually.

At the campus level we noted the following in our testing of capital asset processes and controls during our audit:

University of Nebraska-Lincoln (UNL)

- We noted UNL is the only campus that does not enter a last inventoried date on SAP. Because this information was not recorded on SAP, we were unable to determine how many, if any, items had not been inventoried in the last two years.

- In our detailed test of capital assets purchased with Federal funds, we noted the following:
  1. For 3 of 25 assets tested, the asset either could not be located or the location could not be verified as the asset was not tagged and did not contain alternate identifying information. (One asset could not be located and two were not properly tagged).
  2. For 3 of 24 assets tested, it appeared there was no physical inventory review completed during the two year period under review (July 1, 2008 – June 30, 2010). (Each of these assets were inventoried during the 2010 annual departmental review; however, that review was not completed until October 5, 2010, (due April 2010) and the department did not complete their fiscal year 2009 inventory review at all; therefore, it appears no inventory was completed from July 1, 2008, through June 30, 2010.)
  3. For 2 of 24 assets tested, there was no approval of the annual department inventory review, nor any other indication that the inventory listing was reviewed and verified.
  4. UNL requires each department to review their entire inventory each year by confirming the room number for each asset and having the department chair sign and date the inventory listing. During testing it was noted that not all departments appeared to follow this policy as some sent back emails with the listing. In addition, of those returned with the department chair's signature, it was not always clear the room number had indeed been verified for each asset. Therefore, the auditors believe UNL could improve on these procedures by requiring departments to either expressly state that each asset was reviewed or have a notation (such as a checkmark) on the listing indicating that the room number was verified for each asset.
  5. The auditor noted that UNL's policy for the transfer of Federal equipment from one research institution to another (following the Principal Investigator) is not in compliance with Federal requirements as it does not require proper notification to the Federal awarding agency of the transfer in order to ensure the asset is accounted for properly in the future.
  6. During our review of the disposal listing, we noted one asset was disposed of for $6,000, however, the proceeds were not remitted to the Federal awarding agency.

University of Nebraska at Omaha (UNO)

- We noted UNO had 98 items which had not been marked as having been counted in the inventory process in the last two years.

- In our detailed test of capital assets purchased with Federal funds we noted the following:
  1. For three of nine Federal assets tested, documentation was not available to verify that a physical inventory review was completed within the last two years in accordance with Federal requirements.
  2. For three of ten Federal assets tested, the asset was not properly tagged. Two of these three assets could not be verified as the correct asset through alternate means.
  3. For one of four Federal asset purchases tested, the asset was purchased with Federal funds but was not properly noted as a federally funded asset on the asset record in the accounting system.

University Nebraska Medical Center (UNMC)

- As of May 2010 UNMC reported to us they had 97 items with a net book value of approximately $174,000 that had not been inventoried in over two years. We also noted they had 183 items with a net book value of approximately $4 million that had been received but did not have a tag number after six months. There were also 456 items with a book value of approximately $11.1 million that had been assigned to a location or person, but not issued a tag number. During our final fieldwork conducted in October 2010, we noted UNMC had made progress in inventorying and tagging items.

- Certain capital asset items were not inventoried and were not tagged and there was no supporting documentation for one of one equipment disposal tested. The disposal was made because the item was fully depreciated and had a zero book value. Specifically, we noted no physical inventory was completed for capital assets that are included in the category "assigned." Certain capital assets are not tagged but are assigned a tag number. According to discussion with UNMC staff these are items that are located in restricted access areas where the tag may interfere with research. These items are identified with a code "A" in SAP (the University's accounting system). The disposal tested was an "assigned" item with a purchase cost of $228,754 and accumulated depreciation of $228,754. No support was available to document the disposal. We were unable to physically observe the asset and verify UNMC still had possession of it because it was in a restricted area. Per discussion with UNMC management, the item was disposed of on SAP only because it was fully depreciated, not because the campus no longer had possession of the item. There were 498 "assigned" items in SAP at June 30, 2010, with a historical cost of $26,152,761 and accumulated depreciation of $14,121,890. Forty-five of these "assigned" items with a historical cost of 2,024,201 and accumulated depreciation of $1,123,324 had been purchased with Federal grant money. Total "assigned" items disposed of in the fiscal year ended June 30, 2010, were $3,542,960. Total "assigned" items disposed of in the fiscal year ended June 30, 2009, were $3,328,489. It is unknown how many of the fiscal year ended June 30, 2010, or fiscal year ended June 30, 2009, "assigned" items disposed of were still in the possession of the campus. The financial statement impact of this process is that the financial statements of UNMC are correctly stated as the amount reported for capital assets is reported at net book values-original cost less depreciation expense. However, the amounts disclosed in the footnotes of the financial statements for UNMC's equipment would be understated and amounts disclosed as depreciation on their equipment would also be understated.

- In our detailed test of capital assets purchased with Federal funds, we noted the following:
  1. For 1 of 25 assets tested, it appeared the asset had not been physically inventoried since acquisition, as no inventory date was noted in the accounting system as of June 30, 2010. This asset was acquired in October 2003.
  2. For 4 of 25 assets tested, no documentation could be obtained to support the last inventory date noted in SAP (as of June 30, 2010).
  3. For 8 of 25 assets tested, adequate documentation could not be obtained to verify the asset was actually observed and the location verified via the annual departmental inventory review.
  4. For 3 of 25 assets tested, the asset could not be located. Two of the three assets were determined to not be available as they had been disposed of without the department properly notifying General Accounting of the disposal.
  5. For 4 of 25 Federal assets tested, the asset was not properly tagged. A portion of these assets were able to be verified through alternate means and for one of these four, the auditor observed the asset was subsequently tagged.
  6. UNMC annually performs an inventory review by sending out lists of assets to each department for them to locate and verify. These lists are then sent back to UNMC's, accountant with any changes noted. During our testing it was noted that these lists were not consistent in noting whether or not the assets had actually been located. Therefore, the auditor believes UNMC could improve on these procedures by requiring departments to either expressly state that each asset was reviewed or have a notation (such as a checkmark) on the listing indicating that the room number was verified for each asset.
  7. In addition, the auditor noted UNMC's policy for the transfer of Federal equipment from one research institution to another (following the Principal Investigator) was not in compliance with Federal requirements as it does not require proper notification to the Federal awarding agency of the transfer in order to ensure the asset is accounted for properly in the future.

University-wide capital asset issues

In addition, the following findings were noted for the University as a whole.

1. The auditor noted the University did not have adequate information within the asset records to enable certain assets purchased prior to the implementation of the current accounting system (prior to 7/1/1999) to be efficiently identified by grant or major program. Specifically, it was noted that 354 assets or 18% of all Federal equipment on the University's capital asset listing were not able to be identified as Federal Research & Development assets or not based on the information available in the asset record.

2. It appears the disposal process at each campus could be improved as detailed disposal information was not sent back to each campus' accounting department upon the disposal of assets. As such, adequate disposal information including selling price and/or recipient of disposed asset was not available in the accounting system.

Questioned Costs: $6,000

Cause: Lack of University-wide policies, procedures, and controls. Policies related to "assigned" equipment appear to have been made because the equipment is in restricted areas and is not accessible to accounting staff.

Effect: When statutory requirements and accountability standards are not being followed, the University assumes additional risks assets will be misused or stolen. When fully depreciated capital assets that are still in the possession of the University are disposed of on SAP, capital assets, acquisition cost, and accumulated depreciation will be understated. In addition, when adequate controls over Federally funded equipment are not in place or not working there is an increased risk of loss or misuse of Federal funds. Also, the University is not in compliance with Federal requirements.

Recommendation:
1. Property belonging to the State of Nebraska be marked "Property of the State of Nebraska" as required by State statute.

2. The University establish University-wide policies and procedures to ensure accountability over items more susceptible to theft. Those controls might include requiring a listing of such items, which indentifies the item and to whom it is assigned.

3. The University take an annual inventory as required by State statute.

4. For capital assets purchased with Federal funds we recommend the following:
   - The University work with the cognizant, Federal agency to determine an appropriate corrective action plan in order to address the Federal program identification of assets purchased prior to the implementation of the current accounting system.
   - The University improve control procedures over Federally funded equipment to ensure assets are properly tagged, noted as Federal equipment, and properly inventoried on at least a biennial basis in accordance with Federal requirements.
   - The University improve policies such as developing a consistent policy for annual inventory reviews by each department.
   - UNMC revise their transfer of Federal equipment policy to ensure it is in compliance with Federal requirements.
   - The University enhance procedures over the disposal of Federal equipment including adding information regarding proceeds from sales of equipment in the asset records, as well as procedures to ensure all proceeds from the sale of Federal equipment over $5,000 are remitted back to the Federal awarding agency in accordance with Federal regulations.

5. As relates to procedures related to capital assets identified by UNMC as "assigned," we recommend policies and procedures be developed and put in place which ensure all disposals are supported by documentation. Disposals of capital assets should not be based on when an item is fully depreciated, but on when a capital asset is no longer in the possession of the campus.

   Management Response: The University respectfully disagrees that this finding is a significant deficiency. The University's capitalization policy provides for equipment costing $5,000 or more to be capitalized and depreciated over its expected life. Capital equipment is tagged and added to the capital assets file in the SAP administrative system and inventoried every two years which is compliant with OMB Circular A-110. While a state statute dating back to the 1930's and 1940's provides for an annual equipment inventory, the University is working with DAS to streamline state statutes to call for a physical inventory every two years, congruent with Federal expectations.

   Items susceptible to theft are assigned to a responsible person or department in the Objects on Loan module of the SAP system or through an equipment tracking database. The responsible persons are accountable for the whereabouts and use of those items. The University continues to work toward final implementation of the objects on loan module.

   UNL agrees that the $6,000 of funds realized from sale of federally funded equipment should be remitted to the funding agency. Additional emphasis will be placed on documenting cash proceeds realized from the disposal of Federal equipment.

   The University of Nebraska Medical Center has discontinued its practice of removing certain equipment from the capital assets file when fully depreciated and will only remove equipment when it is disposed of or can not be located by the user department.

   Corrective Action Plan: The University will complete the implementation of the Objects on Loan Module at the UNL campus and remit the sales proceeds of $6,000 to the funding agency.

   Contact: Mary W. LaGrange, UNL Controller, and Jeanne M. Wicks, UNL Director of Sponsored Programs

   Anticipated Completion Date: June 30, 2011

APA Response: AICPA Audit Standard AU Section 325.07 states "A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance." We believe this finding merits attention by the Board of Regents and is appropriately identified as a significant deficiency in compliance with auditing standards.

The date a state statute was enacted does not alleviate the University's responsibility to comply with the statute. We continue to recommend the University comply with all relevant state statutes, including those regarding assets.

B. BASIC FINANCIAL STATEMENTS REPORTABLE COMMENTS CONSIDERED TO BE SIGNIFICANT DEFICIENCIES – UNIVERSITY-WIDE

3. Electronic Personnel Action Form (E-PAF) Approval

E-PAF forms are used to process most personnel actions including processing new hires and pay changes. During our fiscal year ended June 30, 2009, audit we noted some University departments do not document approval of the E-PAF process in SAP, the University's accounting system. During our fiscal year ended June 30, 2010, audit, we noted no change in the University's approval process over E-PAFs as SAP has not been modified to incorporate a workflow approval process for all E-PAFs.

When a new employee is hired, an email is sent to the approving official to notify them that a new hire E-PAF has been "parked" in SAP. "Parking" of an E-PAF is when an E-PAF is entered by an individual having access to enter E-PAFs in SAP but that individual does not have access to approve documents for payment. E-PAFs are not required to be approved. They are normally processed on a negative approval basis. This means the new hire E-PAF will be processed by the HR department unless the HR department receives some information from the department head that the information submitted is incorrect. E-PAFs processed for pay changes are also generally processed on a negative approval basis. They are processed at the departmental level and do not go through the HR department first since the employee is already in SAP.

During our new hire testing for the fiscal year ended June 30, 2010, audit, we noted 1 of 40 E-PAFs tested at the University of Nebraska at Omaha had no documentation on file indicating the approval of the pay change.

A good internal control plan requires adequate documentation to support whether a supervisor/manager has approved the E-PAFs.

Given the fact that it is a negative approval process, if the supervisor/manager's emails are not checked on a regular basis for E-PAFs an employee might be hired or have a pay change without approval.

> We again recommend SAP be modified to incorporate a workflow approval process for all E-PAFs.

Management Response: The University respectfully disagrees that this finding is a significant deficiency. The E-PAF function is used at the University's four campuses in addition to paper PAF's. The E-PAF functions as an electronic notice to administrators a personnel action will occur unless they object. Copies of E-PAF's were printed and signed at certain locations during the year to document the action in the employee's personnel file. This practice was implemented at all University locations in October, 2010. The person signing the E-PAF must be someone other than the preparer of the E-PAF. We believe these procedures adequately document personnel actions initiated by an E-PAF.

APA Response: AICPA Audit Standard AU Section 325.07 states "A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance." We believe this finding merits attention by the Board of Regents and is appropriately identified as a significant deficiency in compliance with auditing standards.

We continue to recommend that a workflow approval process in SAP would be a more effective corrective action than the management's manual processes.

4. Cooperative Extension Bank Accounts

The University of Nebraska-Lincoln (UNL) has University employees working in County Extension offices throughout the State. It was determined these County Extension offices had 70 University bank accounts that the UNL accounting office was not aware existed. These bank accounts had the University's Federal Tax Identification Number (FTIN) and were established by the UNL Cooperative Extension Department many years ago. It was also determined the bank activity and cash balances of these bank accounts were not and have never been accounted for in SAP, the University's accounting system, and in UNL's financial statements. We noted these 70 bank accounts had a cash balance of $1,266,810 as of June 30, 2009, with activity of $1,443,191 in deposits, and $1,413,032 in withdrawals for the fiscal year ended June 30, 2010, resulting in a June 30, 2010, balance of $1,296,969. UNL provided no documentation to support specific statutory authority for these bank accounts.

Upon bringing this issue to the attention of UNL, they have indicated to us, that based on their preliminary research, they do not believe these bank accounts are University bank accounts because the County Extension offices operate under an Interlocal Agreement between the State of Nebraska, the various counties, and the University. As such, they are separate entities and the activity of these accounts is not activity of the University.

A good internal control plan and policies and procedures would require the UNL accounting department be made aware of all bank accounts with the University's FTIN, controls over those bank accounts be established, and if it is determined the activity of these bank accounts is activity of the University, that activity and fiscal year end balances should be recorded in SAP and fiscal year end financial statements.

When internal controls and policies and procedures are not in place to identify all bank accounts with the University's FTIN, there is a greater risk that controls over such bank accounts may not be in place to ensure they are being used in accordance with overall University policies, and the activity and cash balances may not be recorded in SAP resulting in the revenues, expenses, and cash balances of UNL's financial statements to be understated by these amounts.

> We first recommend UNL determine if these bank accounts should be University bank accounts. If it is determined they are not, then UNL should work with appropriate county and State officials to determine the proper accounting for these bank accounts. If they are determined to be University bank accounts, we recommend

UNL work with the State Treasurer to determine all banking relationships at UNL are authorized, policies and procedures be established to ensure all UNL bank accounts are identified, and the activity and balances of these bank accounts be recorded in SAP and reported in the financial statements.

Management Response: The University respectfully disagrees that this is significant deficiency. The Auditor, in fact, states "***if*** it is determined the activity of these accounts is the activity of the University." As explained to the Auditor, the extension division is controlled by a Board that is, in essence, the County Commissioners, and not the Board of Regents. Governance is one of the primary criterions in deciding what accounting entity should record activity of the extension units in its financial statements. It is unlikely that the University could redirect cash amounts in question to University purposes, making their inclusion as University assets even more questionable.

Regardless, the University will work to clarify the nature of the cooperative extension accounts in conjunction with the county extension boards.

APA Response: AICPA Audit Standard AU Section 325.07 states "A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance." We believe this finding merits attention by the Board of Regents and is appropriately identified as a significant deficiency in compliance with auditing standards.

We continue to recommend that all funds and transactions in bank accounts opened under the University's FTIN be included in the preparation of the University's financial statements. If the University determines these funds are not the University's, then these accounts should be closed as soon as practical.

C. A-133 SINGLE AUDIT REPORTABLE COMMENTS CONSIDERED TO BE SIGNIFICANT DEFICIENCIES FOR THE RESEARCH AND DEVELOPMENT (R&D) MAJOR PROGRAM

5. Matching - UNL

Program: CFDA 10.001 – Agricultural Research – Basic and Applied Research; CFDA 12.300 – Basic and Applied Scientific Research; CFDA Unassigned – National Aeronautics and Space Administration (NASA) – Matching

Grant Number & Year: #58-5440-4-371, 7/20/2004; #2005-081-04-SC26 pass through from #NNG05GJ03H, 1/1/2009; and #SDSM&T-UNL 06-24 pass through from #N00014-06-1-0616, 4/6/2006

Federal Grantor Agency: U.S. Department of Agriculture, U.S. Department of Defense, and NASA

Condition: University of Nebraska-Lincoln (UNL) does not have effective internal controls to ensure compliance with matching requirements.

For 3 of 6 grants tested, the cost share reported included amounts that were not allowable. In addition, one of these did not meet the match requirement as stated in the grant agreement or contract.

Questioned Costs: None

Criteria: OMB Circular A-133 § 300 states, "The auditee shall:… (b) maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

2 C.F.R. § 215.23(a) (January 1, 2009) states, "All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria. (1) Are verifiable from the recipient's records…"

Per grant number SDSM&T-UNL 06-24, UNL must provide match funds of $160,728 for the project.

Cause: We noted Personnel Activity Reports (PARs) were not received prior to the submission of final reports, manual PARs were not recertified after subsequent changes were made to the PARs, and calculation errors.

Context:

	Effect of Transgened from Sorghum on the Fitness of Shattercane X Sorghum Hybrids See #1 and #2 below	**Modeling and Experimental Studies of Spin Transport for Multifunctional Semiconductor Devices See #2, #3 and # 4 below**	**Modeling and Simulation in Electrical and Computer Engineering See #3 below**
Grant Number	58-5440-4-371	SDSM&T-UNL 06-24	2005-081-04-SC26
Project Period	7/20/04-7/19/09	4/6/06-5/31/10	1/1/09-3/31/10
Federal Funds Awarded	$ 100,000	$ 143,795	$ 2,000
Match Required	$ 59,182	$ 160,728	$ 4,078
Match Reported	$ 66,035	$ 160,728	$ 4,881
Unallowable Match Reported	$ 1,817	$ 49,093	$ 411
Allowable Match Reported	$ 64,218	$ 111,635	$ 4,470
Match Requirement Met	Yes	No	Yes

Reasons for Unallowable Costs:

1. Salaries used to calculate cost share could not be traced to SAP (Grant: #58-5440-4-371).
2. The percent of effort reported on the project did not agree to PARs or no support could be provided (Grants: #58-5440-4-371; #SDSM&T-UNL 06-24).
3. Employees' work period on the project could not be supported, as no PARs were available (Grants: #SDSM&T-UNL 06-24; #2005-081-04-SC26).
4. Personnel costs reported as cost share included employees that were not working on the project (Grant: #SDSM&T-UNL 06-24).

Effect: The University was not in compliance with matching requirements.

Recommendation: We recommend internal controls be implemented to ensure matching compliance requirements are met. Cost share should be accounted for in SAP and match amounts compiled should be reviewed to ensure match expenditures are appropriate.

> **Management Response:** The University respectfully disagrees that this finding is a significant deficiency. While it is acknowledged that the matching requirement was mis-calculated for one grant tested, we do not believe this rises to the reporting level assigned by the auditor.
>
> **Corrective Action Plan:** Internal controls at UNL will be strengthened to ensure matching requirements are met. This will include additional training of both Sponsored Programs staff and Departmental liaisons. Monthly Cost Share reports will continue to be monitored by the Project Specialists. Cost share is currently accounted for in SAP and companion cost objects will be used if the project warrants. A new Retroactive Payroll Form requires and strengthens review of any PAR form affected. On a semi-annual basis an additional, second review of all projects with matching requirements will be conducted by the Effort Coordinator position to ensure that match amounts compiled are correct and projections for the life of the project are made to help ensure match expenditures are appropriate and in compliance with award amounts.
>
> **Contact:** Jeanne M. Wicks, UNL Director of Sponsored Programs
>
> **Anticipated Completion Date:** June 30, 2011

APA Response: AICPA Audit Standard AU Section 325.07 states "A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance." We believe this finding merits attention by the Board of Regents and is appropriately identified as a significant deficiency in compliance with auditing standards.

We believe an error rate of 50% of grants tested (three of six) reporting unallowable expenditures for Federal matching grant compliance requirements, resulting in an error rate of 17% of grants tested (one of six) not meeting these requirements, is very significant to the University's internal control over these requirements. This deficiency places the University's Federal grant funds with matching requirements at an increased risk of being subject to sanctions, including the return of funds to Federal agencies or pass through entities.

D. BASIC FINANCIAL STATEMENTS MANAGEMENT LETTER COMMENTS-UNIVERSITY-WIDE

6. University Bank Accounts

The University maintains a total of 28 checking accounts established under statutory authority. Total deposits and withdrawals for these accounts were $142,852,983 and $143,150,930 respectively, with a June 30, 2010, balance of $1,977,296. These bank accounts were used for various purposes throughout the University. Of these accounts, 22 were for the University of Nebraska-Lincoln (UNL), three were for the University of Nebraska at Kearney (UNK), two were for the University Nebraska Medical Center (UNMC), and one was for the University of Nebraska at Omaha (UNO).

For the 28 University bank accounts we noted the following statutory authority and Nebraska Attorney General's opinion:

Statutory Authorities for University Bank Accounts:
Neb. Rev. Stat. § 85-125 (Reissue 2008) states in relation to the University Cash Fund, "The board shall cause all money belonging to this fund, which is received by its authority at the university, to be paid over from time to time, as the same is received, to the State Treasurer, to be placed to the credit of this fund, except that the board may retain in its possession a sum, not to exceed four hundred seventy-five thousand dollars, out of which money at least fifty thousand dollars shall be available during the first two weeks of each term to make advances to students who have financial aid in excess of tuition and fees, and the remainder of which money shall be available to make settlement and equitable adjustments with students entitled thereto, to carry on university activities contributing to this fund, and to provide for contingencies."

Neb. Rev. Stat. § 85-192 (Reissue 2008) states, "There is hereby created a University of Nebraska at Omaha Cash Fund… There may be retained at the University of Nebraska at Omaha a sum not to exceed one hundred seventy-five thousand dollars out of such money to make settlement and equitable adjustments to students entitled thereto, to carry on university activities contributing to the fund, and to provide for contingencies. The fund shall be in the custody of the State Treasurer."

Neb. Rev. Stat. § 85-1,123 (Reissue 2008) states, "(1) There is hereby created the University of Nebraska at Kearney Cash Fund…There may be retained at the University of Nebraska at Kearney a sum not to exceed one hundred seventy-five thousand dollars out of the fund to make settlement and equitable adjustments to students entitled thereto, to carry on university activities contributing to the fund, and to provide for contingencies. The University of Nebraska at Kearney Cash Fund shall be in the custody of the State Treasurer."

Other relevant State statutes regarding depositing of State funds, the custodian of University funds and credit card banking relationships.
Neb. Rev. Stat. § 84-710 (Reissue 2008) outlines the timing monies received by a State agency must be deposited into the State treasury. It states: "It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state, including the State Racing Commission, to receive any fees, proceeds from the sale

of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars."

Neb. Rev. Stat. § 85-128 (Reissue 2008) notes the State Treasurer is the custodian of all funds of the University. It states: "The State Treasurer shall be the custodian of all the funds of the university. Disbursements from the funds named in sections 85-124 to 85-127 shall be made in accordance with the provisions of law relating to the disbursement of university funds in the hands of the State Treasurer as provided by law."

Neb. Rev. Stat. § 81-118.01(3) (Reissue 2008) grants, "any state official or state agency operating a facility in a proprietary capacity" similar authority to accept credit cards as a means of cash payment. Neb. Rev. Stat. § 81-118.01(5) then goes on to provide, in pertinent part: "The types of credit cards, charge cards, or debit cards accepted and the payment services provided for any state official or state agency shall be determined by the State Treasurer and the Director of Administrative Services with the advice of the committee convened pursuant to subsection (5) of section 13-609. The State Treasurer and the director shall contract with one or more credit card, charge card, or debit card companies or third-party merchant banks for services on behalf of the state and those counties, cities, and political subdivisions that choose to participate in the state contract for such services."

A 1998 Nebraska Attorney General's opinion addresses who has authority to establish a banking relationship on behalf of the State.

In Nebraska Attorney General's Opinion number 98006, dated January 21, 1998, regarding the issue of **1997 Neb. Laws LB 70, Application of State Credit Card Requirements to the University of Nebraska, Authority of the University to Establish Banking Relationships** the Attorney General was asked the following question by the State Treasurer: "In reviewing the above statutes and related statutes, does any state official or state agency, other than the State Treasurer, have the authority to establish a banking relationship on behalf of the State?" The Attorney General's analysis and conclusion was:

> *"Two of the Nebraska statutes which you cited to us in regard to this question are Neb. Rev. Stat. § 77-2301 (1996) and Neb. Rev. Stat. § 77-2309 (1996). Section 77-2301, provides, as is pertinent: The State Treasurer shall deposit, and at all times keep on deposit for safekeeping, in the state or national banks, or some of them doing business in this state and of approved standing and responsibility, the amount of money in his hands belonging to the several current funds in the state treasury.*
>
> *Section 77-2309 states: It is made the duty of the State Treasurer to use all reasonable and proper means to secure to the state the best terms for the depositing of the money belonging to the state, consistent with the safekeeping and prompt payment of the funds of the state when demanded.*

We are unaware, generally, of any other statutes which specifically give other state officials or state agencies the authority to deposit the state's funds in a bank. As a result, to the extent that "establishing a banking relationship" in your question is synonymous with depositing funds in the state treasury in a bank, we believe that your office is the only agency with such authority.”

During our review of the University’s 28 bank accounts, we noted the following:

- Daily balances exceeded the statutorily authorized amounts.
- Some bank activity appears to be more indicative of depository accounts versus emergency expenditure accounts and some banking relationships may not have been authorized by the State Treasurer.
- Funds were not always deposited with the State Treasurer in a timely manner as required by Neb. Rev. Stat. § 84-710.
- Daily balances may not be fully covered by Federal Deposit Insurance Corporation (FDIC) or pledged collateral.

Following is a summary of our review of the 28 bank accounts activity by campus, including our understanding of the purpose for each of the bank accounts.

UNL

A detailed summary of activity for UNL’s 22 bank accounts for the fiscal year ended June 30, 2010, can be found as Exhibit A in this management letter. Total deposits and checks written were $73,231,583 and $73,627,211, respectively, and the balance of the bank accounts as of June 30, 2010, was $917,310.

Our review of these bank accounts noted the following:

A. **Daily balances exceeded the statutorily authorized amounts.** The 22 bank accounts have been established by UNL under the authority of Neb. Rev. Stat. § 85-125 (Reissue 2008) as noted above. State Statute 85-125 authorized the University to retain $475,000 and thus, the University established an authorized revolving fund amount of $300,000 at UNL and $175,000 at UNMC, for a total of $475,000. Exhibit A clearly shows that as of June 30, 2010, UNL’s combined bank balance of $917,310 exceeded the statutorily authorized amount of $300,000 at UNL. Our review of the bank activity for the fiscal year ended June 30, 2010, indicates the bank balances as of June 30, 2010, is typical of the balances throughout the year.

B. **Some bank activity appears to be more indicative of depository accounts versus emergency expenditure accounts and some banking relationships may not have been authorized by the State Treasurer.** As noted above State statute 85-125 specifies how UNL’s $300,000 authorized amount can be used. It notes……“out of which money at least fifty thousand dollars shall be available during the first two weeks of each term to make advances to students who have financial aid in excess of tuition and fees, and the remainder of which money shall be available to make settlement and equitable adjustments with students entitled thereto, to carry on university activities contributing to this fund, and to provide for contingencies.”

UNL's usage of their 22 bank accounts as noted on Exhibit A can be categorized into three main categories. One bank account was established to process credit card transactions. Three bank accounts identified on Exhibit A as "Revolving Funds" were authorized and established by State statute 85-125. These accounts were used to make expenditures as authorized by State statute 85-125 as noted above. However, as can be seen by the deposits and withdrawals of $73,231,583 and $73,627,211, respectively, on Exhibit A, these accounts are also being used as depository accounts where UNL processes wire and electronic funds transfers, credit card receipts, grant receipts, and other receipt transactions. The remaining 18 bank accounts are generally used as depository accounts for various campus locations.

As noted in State statute 85-128 above, the State Treasurer shall be the custodian of all the funds of the University. The State Treasurer, as the custodian of all State funds including all University funds, establishes depository accounts in which State agencies, including the University, should deposit all cash receipts into those accounts. As can be seen on Exhibit A, UNL has established numerous depository accounts which we understand were not established as State depository accounts by the State Treasurer. Through discussion with State Treasurer's office and UNL officials, the State Treasurer officials were aware of some of the bank accounts but did not appear to have a clear understanding of the type and volume of receipts deposited in some of the UNL bank accounts nor was there any documentation provided to us by UNL or the State Treasurer's officials to support that these depository accounts were authorized by the State Treasurer.

C. **Funds were not always deposited with the State Treasurer in a timely manner as required by State statute 84-710.** State statute 84-710, as noted above, requires paying all monies into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars. Our review of the UNL bank accounts for compliance with this statute was limited to the Wells Fargo Bank revolving fund. In addition, our review was not detailed but we noted daily deposits being made to this account and amounts were cleared to a State Treasurer's account only once or twice a month. It is clear UNL was not in compliance with State statute 84-710 for certain deposits during the fiscal year ended June 30, 2010.

D. **Daily balances may not be fully covered by FDIC or pledged collateral.** Although no detail testing was performed, UNL procedures were not adequate to ensure all of their bank accounts were adequately covered by FDIC or pledged collateral during the fiscal year ended June 30, 2010, and at times during the fiscal year were not properly covered.

UNMC

A detailed summary of activity for UNMC's two bank accounts for the fiscal year ended June 30, 2010, can be found as Exhibit B in this management letter. The total deposits and checks written were $56,370,850 and $56,356,045, respectively, and the balance of the bank accounts as of June 30, 2010, was $725,740.

Our review of these bank accounts noted the following:

A. **Daily balances exceeded the statutorily authorized amounts.** The two bank accounts were established by UNMC under the authority of Neb. Rev. Stat. § 85-125 (Reissue 2008) as noted above. State statute 85-125 authorized the University to retain $475,000 and thus, the University established a revolving fund amount of $300,000 at UNL and $175,000 at UNMC for a total of $475,000. UNMC also has a $3,000 petty cash fund authorized by the Department of Administrative Services for expenditures related to University Psychiatric Services. Exhibit B clearly shows that as of June 30, 2010, UNMC bank balances of $725,740 exceeded the authorized amount of $178,000 established for UNMC. Our review of the bank activity for the fiscal year ended June 30, 2010, indicates that the bank balances as of June 30, 2010, are typical of the balances throughout the year.

B. **Some bank activity appears to be more indicative of depository accounts versus emergency expenditure accounts and some banking relationships may not have been authorized by the State Treasurer.** As noted above State statute 85-125 specifies how UNMC's $175,000 authorized amount can be used. It notes….."out of which money at least fifty thousand dollars shall be available during the first two weeks of each term to make advances to students who have financial aid in excess of tuition and fees, and the remainder of which money shall be available to make settlement and equitable adjustments with students entitled thereto, to carry on university activities contributing to this fund, and to provide for contingencies."

   UNMC's usage of their two bank accounts as noted on Exhibit B were both established by UNMC under State statute 85-125. The "Revolving Fund" account was used to make expenditures as authorized by State Statute 85-125 as noted above. The "Sweep" account was simply used to sweep monies from the revolving fund account to the State Treasurer depository accounts. However, as can be seen by the deposits and withdrawals of $56,370,850 and $56,356,045, respectively, on Exhibit B, these accounts are also being used as depository accounts where UNMC processes wire and electronic funds transfers, credit card receipts, grant receipts, and other receipt transactions.

   As noted in State statute 85-128 above, the State Treasurer shall be the custodian of all the funds of the University. The State Treasurer, as the custodian of all State funds including all University funds, establishes depository accounts in which State agencies, including the University should deposit all cash receipts into those accounts. UNMC's "Revolving Fund" was being used as a depository account which we understand was not established as a State depository account by the State Treasurer nor was there any documentation provided to us by UNMC or the State Treasurer's officials to support that these depository accounts were authorized by the State Treasurer.

C. **Funds were not always deposited with the State Treasurer in a timely manner as required by State statute 84-710.** State statute 84-710, as noted above, requires paying all monies into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars. Our review of the

UNMC bank accounts for compliance with this statute was limited to the revolving account. In addition, our review was not detailed but we noted daily deposits being made to this account and amounts were cleared to a State Treasurer's account only once or twice a month. So it is clear for this account that UNMC was not in compliance with State statute 84-710.

D. **Daily balances may not be fully covered by FDIC or pledged collateral.** Although no detailed testing was performed, UNMC procedures were not adequate to ensure all of their bank accounts were adequately covered by FDIC or pledged collateral during fiscal year ended June 30, 2010, and at times during the fiscal year were not properly covered.

UNO

A detailed summary of activity for UNO's single bank account for the fiscal year ended June 30, 2010, can be found as Exhibit C in this management letter. The total deposits and checks written were $11,078,549 and $11,083,560, respectively, and the balance of the bank account as of June 30, 2010, was $94,067.

Our review of this bank account noted the following:

A. **Daily balances exceeded the statutorily authorized amounts.** The bank account had been established by UNO under the authority of Neb. Rev. Stat. § 85-192 (Reissue 2008) as noted above. State statute 85-192 authorized UNO to retain $175,000, and thus UNO established a revolving fund amount of $175,000. Exhibit C shows that as of June 30, 2010, the UNO bank balance of $94,067 did not exceed the statutory authority of $175,000 established by UNO. However, our review of the bank activity for the fiscal year ended June 30, 2010, indicates that the bank balances throughout the year often exceeded this authorized amount.

B. **Some bank activity appears to be more indicative of depository accounts versus emergency expenditure accounts and some banking relationships may not have been authorized by the State Treasurer.** As noted above State statute 85-192 specifies how UNO's $175,000 authorized amount can be used. It notes "...a sum not to exceed one hundred seventy-five thousand dollars out of such money to make settlement and equitable adjustments to students entitled thereto, to carry on university activities contributing to the fund, and to provide for contingencies."

   UNO's single bank account as noted on Exhibit C was established by UNO under State statute 85-192. The "Revolving Fund" account was used to make expenditures as authorized by State statute 85-192 as noted above. However, as can be seen by the deposits and withdrawals of $11,078,549 and $11,083,560, respectively, on Exhibit C, this account is also being used as a depository account where UNO processes wire and electronic funds transfers, credit card receipts, grant receipts, and other receipt transactions.

   As noted in State statute 85-128 above, the State Treasurer shall be the custodian of all the funds of the University. The State Treasurer, as the custodian of all State funds including all University funds, establishes depository accounts in which State agencies, including the University should deposit all cash receipts into those accounts. UNO's

"Revolving Fund" is being used as a depository account which we understand was not established as a State depository account by the State Treasurer nor was there any documentation provided to us by UNO or the State Treasurer's officials to support that this depository account was authorized by the State Treasurer.

C. **Funds may not always have deposited with the State Treasurer in a timely manner as required by State statute 84-710.** State statute 84-710, as noted above, requires paying all monies into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars. Our review of the UNO revolving fund account noted daily deposits being made to this account and amounts were cleared to a State Treasurer's account generally the following day. There may have been some deposits to this account that were not in compliance with State statute 84-710 due to timing issues of determining which department the funds should be credited to.

D. **Daily balances may not be fully covered by FDIC or pledged collateral.** Although no detail testing was performed, UNO procedures were not adequate to ensure all of their bank accounts were adequately covered by FDIC or pledged collateral during the fiscal year ended June 30, 2010, and at times during the fiscal year were not properly covered. This issue was brought to the Controller's attention during our interim fieldwork in May 2010 and proof of pledged collateral was presented to us in October 2010, during our final fieldwork.

UNK

A detail summary of the activity of UNK's three bank accounts for the fiscal year ended June 30, 2010, can be found on Exhibit D in this management letter. The Exhibit shows the deposits and checks written for these three accounts were $2,172,001 and $2,084,114, respectively, and the June 30, 2010, balance of the bank accounts was $240,179.

Our review of these three bank accounts noted the following:

A. **Daily balances exceeded the statutorily authorized amounts.** The three bank accounts have been established by UNK under the authority of Neb. Rev. Stat. § 85-1,123 (Reissue 2008) as noted above. State statute 85-1,123 authorized UNK to retain $175,000 and thus, UNK established a revolving fund of $125,000. Exhibit D shows that as of June 30, 2010, the UNK bank balance of $240,179, which did exceed the statutory authority of $175,000 for UNK. Our review of the bank activity for the fiscal year ended June 30, 2010, indicates that the bank balances during the fiscal year ended June 30, 2010, often exceeded this authorized amount.

B. **Some bank activity appears to be more indicative of depository accounts versus emergency expenditure accounts and some banking relationships may not have been authorized by the State Treasurer.** As noted above State statute 85-1,123 specifies how UNK's $175,000 amount can be used. It notes……"a sum not to exceed one hundred seventy-five thousand dollars out of the fund to make settlement and equitable adjustments to students entitled thereto, to carry on university activities contributing to the fund, and to provide for contingencies."

UNK's usage of these three bank accounts as noted on Exhibit D is as follows: The Cash Revolving account is used for travel advances, emergency payroll, change funds, and miscellaneous operating expenses and refunds; the Athletics Ticket account is used for PayPal settlement account for Athletic on-line ticket sales; and the Agency Checking is used for Credit card settlements, key deposits, international student program wire transfers, and student travel insurance. However, as noted above and as shown by the deposits and withdrawals for these three accounts of $2,172,001 and $2,084,114 per Exhibit D, these accounts are also being used as depository accounts. As noted in State statute 85-128 above, the State Treasurer shall be the custodian of all the funds of the University. The State Treasurer, as the custodian of all State funds including all University funds, establishes depository accounts in which State agencies, including the University should deposit all cash receipts into those accounts. Documentation was not provided to us by UNK or the State Treasurer's officials to support that these accounts should be used as depository accounts.

C. **Funds were not always deposited with the State Treasurer in a timely manner as required by State statute 84-710.** State statute 84-710, as noted above, requires paying all monies into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars. Our review of the three bank accounts established by State Statue 85-1,123 noted daily deposits being made primarily to UNK's Agency Checking account but amounts were cleared to a State Treasurer's account only once or twice a month. It is clear UNK was not in compliance with State statute 84-710 for certain deposits during the fiscal year ended June 30, 2010.

D. **Daily balances may not be fully covered by FDIC or pledged collateral.** Although no detail testing was performed, UNK procedures were not adequate to ensure all of their bank accounts were adequately covered by FDIC or pledged collateral during the fiscal year ended June 30, 2010.

The University is not in compliance with State statute and Nebraska Attorney General's opinion noted above as they have established depository accounts not authorized by the State Treasurer. Based on our review of the University's bank accounts, the University is not in compliance with State statute 84-710 as certain deposits would not be deposited timely in to the State Treasury. Given money may not be deposited in a timely manner we believe there are interest earnings lost to the University as the State's investment pool earns at a higher interest rate than current bank interest rates.

> We recommend the University work with the State Treasurer to determine all banking relationship at the University are in compliance with State statutes.

Management Response: The University has already informally consulted with the State Treasurer's Office regarding the use of bank accounts to receive and disburse funds on a timely and equitable basis with students, employees, and vendors. We are also seeking to change statutes that recognize that the mission and scope of the University has changed since many of these regulations were put into law. A solution will be sought that achieves a balance between the respective responsibilities of the Treasurer's office to carry out its duties while allowing the University to be responsive to its varied state-wide constituencies.

7. University Internal Audit Organization

Generally Accepted Government Auditing Standards (GAGAS) paragraph 3.16 states, "Certain federal, state, or local government entities employ auditors to work for management of the audited entities. These auditors may be subject to administrative direction from persons involved in the entity management process…Under GAGAS, a government internal audit function can be presumed to be free from organizational impairments to independence for reporting internally if the head of the audit organization meets all of the following criteria:

a. is accountable to the head or deputy head of the government entity or those charged with governance;
b. reports the audit results both to the head or deputy head of the government entity and to those charged with governance;
c. is located organizationally outside the staff or line-management function of the unit under audit;
d. has access to those charged with governance; and;
e. is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal."

GAGAS paragraph 3.17 states "The internal audit organization should report regularly to those charged with governance."

GAGAS paragraph 3.19 states "The internal audit organization should document the conditions that allow it to be considered free of organizational impairments to independence for internal reporting…"

During our fiscal year ended June 30, 2008, audit of the University, we noted employees performing an internal audit function were not part of a single internal audit organization and were not free from organizational impairments. At that time we recommended the University of Nebraska Board of Regents audit committee consider restructuring those individuals performing an internal audit function into a single internal audit organization. We also recommended the internal audit organization be free from organizational impairments by meeting the criteria in GAGAS and reporting directly to the Board of Regents. Further, we recommended the internal audit organization document the conditions allowing it to be considered free of organizational impairments.

During our current audit we noted the following:

A. The Board of Regents Audit Committee (Committee) has made changes to address several issues that we have brought to their attention regarding the University's internal audit function. For example, on December 2, 2010, the Committee approved a revision to their Charter which provided the following to the Assistant Vice President and

Director of Audit and Advisory Service (Director) duties: "The Director of Audit and Advisory Services shall review the audit plans and operating procedures of audit staff and provide any suggestions to the campus and to the Committee." This change does provide the Director and Committee with some coordinated effort of the internal audit work being performed on a University-wide basis. However, the University's internal audit function remains decentralized as those campuses having an internal audit function continue to operate independently.

B. For both the fiscal year ended June 30, 2008, and 2009 audits of the University, we also noted the Director had duties other than his duties as Director of Audit and Advisory Services that, in our opinion, may cause the Director to not be independent with GAGAS independent standards.

   Based on communications with the Director and the Vice President for Business and Finance (Vice President) the duties of the Director have not changed. According to the Vice President, the responsibilities of the Director, other than his duties as the Director of Audit and Advisory Services, entails oversight of the Administrative Service Group (ASG), which is a group responsible for making changes to SAP, the University's accounting system, performs significant work in tracking and evaluating legislation and provides assistance in analyzing benefit plans. According to the Vice President, these responsibilities were discussed with the Committee and they are comfortable that these responsibilities can be appropriately balanced with his internal audit duties.

The Director does not meet the GAGAS independent standards because of his non-internal audit responsibilities as noted above. Specifically, we reference GAGAS independent standard section 3.16c above which indicates: the head of the audit organization must be located organizationally outside the staff or line-management function of the unit under audit. It may be very difficult for the Director to balance his non-internal audit responsibilities with his internal audit responsibilities to ensure he has no actual or perceived lack of independence.

When an organization as large as the University of Nebraska has a decentralized internal audit function it may be more difficult for the Committee goals and objectives to be met. In addition, when the head of the internal audit function is not independent or may be perceived as having a lack of independence, he may be subject to pressures limiting the nature or type of internal audit work that may be performed.

> We continue to recommend the Committee consider restructuring the reporting relationship of those individuals performing an internal audit function for the University to provide for a single internal audit organization. In addition, we again recommend the Committee review the job responsibilities of the Assistant Vice President and Director of Audit and Advisory Services and restructure his responsibilities to ensure the position does not have an actual or perceived lack of independence.

Management Response: The Audit Committee of the Board of Regents has addressed and continues to address the roles and responsibilities of the internal auditing, operations analysis and compliance personnel. The Committee has established a clear reporting line that has been communicated to all parties. The Board, at this time, has elected a hybrid model that allows auditing personnel to be on the campus and a strong function at Central Administration, both supported by established lines of communication.

The Audit Committee is also comfortable that the Director of Internal Audit can operate independently and that the reporting relationship with the Board allows for open discernment and disclosure of any potential or perceived instances of lack of independence.

APA Response: In our opinion, the Director of Internal Audit's combined management and audit responsibilities over the University's accounting system continue to conflict and preclude him from being considered independent per GAGAS paragraph 3.16c. as noted above.

8. Payroll Process

Our previous two audits noted some variation in the University payroll process at each of the campuses, but generally the University's payroll process is best described as a negative reporting system. This means employees will be paid the same amount each pay period unless the Human Resource (HR) department receives information from the department head to change an employee's payroll. University departments generally do not document their review and approval that payroll is ready to be processed by central administration or their review of the "Payroll Expense Distribution Report by Cost Object" after payroll has been processed on SAP, the University's accounting system. There is an after the fact payroll report sent to some departments for their review which reports individual employees' payroll information. However, there is no requirement for the department to respond back to the HR department that the payroll processed was accurate and complete. We recommended a payroll report be sent to all departments and that this report be reviewed and approved by appropriate department management/supervisors having knowledge of the completeness and accuracy of the department's payroll before payroll is processed and that these supervisors be required to respond to HR with their documented approval of payroll.

The University has made no changes in the payroll process to address the above weakness and again responded to our prior year comment by indicating they understood our observation, but believed other controls present in the system provide many of the features sought in the recommendation. In addition, while the procedure suggested has merit, they believed it would require additional personnel and recordkeeping without providing a commensurate increase in controls.

A good internal control plan requires department management/supervisors review and approve payroll reports and document that approval with HR.

Given the fact timesheets are not kept by many employees and there is no documentation that payroll was actually reviewed by the employees' supervisor, there is a greater risk of errors or irregularities occurring in the payroll process and going undetected.

We again recommend a payroll report be sent to all departments and that this report be reviewed and approved by appropriate department management/supervisors having knowledge of the completeness and accuracy of the department's payroll before payroll is processed and that these supervisors be required to respond to HR with their documented approval of payroll.

Management Response: The University believes the detective and budgetary controls currently in place mitigate the risk of payroll errors. Deans, directors, departmental chairs and principal investigators review available reports and on-line comparisons of expense to budget during the year, to assure budgets are properly spent. Departments scrutinize salary and wage budgets closely. A projected over expenditure requires further review as does an anticipated savings that may not be realized. While the suggested procedure has merit, we believe it will require additional personnel and recordkeeping without a commensurate increase in controls.

E. A-133 SINGLE AUDIT MANAGEMENT LETTER COMMENTS – UNIVERSITY-WIDE

9. Suspension and Debarment

Program: Various including CFDA 93.855 – Allergy, Immunology, & Transplantation Research; CFDA 93.389 – National Center for Research Resources-Suspension and Debarment

Grant Number & Year: Various including #1 PO1 AI083211-01, 7/1/2009; #2P20RR016469-09, 5/1/2009

Federal Grantor Agency: Various including the Department of Health and Human Services

Condition: Based on review of internal controls and University policy, during part of the year, no procedures were in place at the University of Nebraska-Lincoln (UNL), the University of Nebraska at Omaha (UNO), and the University of Nebraska Medical Center (UNMC) to ensure parties awarded contracts for $25,000 to $99,999 were not listed on the EPLS (Excluded Parties List System). Also, no procedures were in place at the University of Nebraska at Kearney (UNK) to ensure parties awarded contracts over $25,000 were not listed on the EPLS. Our testing of nine transactions at UNMC noted three did not have the original review of the EPLS website to determine if the vendor was suspended or debarred on file. Two of the three exceptions noted above were on the same purchase order (PO).

Context: The University policy has been updated effective February 17, 2010, to verify contract purchases greater than $25,000 by one or more of the following methods: 1) cross check to the debarment list before a purchase is made, 2) collecting a certification from the entity, or 3) adding a clause or condition to the covered transaction with the entity. Specifically, we noted the following: document #5106547026 dated November 25, 2009, for $1,129 and document #5106562601 dated February 17, 2010, for

$3,607 at UNMC were both paid to Fluxion Biosciences, Inc. and included on the same PO #4500211868 dated September 11, 2009, totaling $144,950. The print screen from the EPLS website showing the vendor was not suspended or debarred was dated May 5, 2010. There was no documentation on file to show the review was performed before the purchase was made. Auditor's subsequent review of the EPLS website also showed the vendor was not suspended or debarred. Document #44269355 dated May 26, 2010, for $83,816 tested at UNMC was paid to AB Sciex LLC from PO #4500220427 dated March 30, 2010. There was no documentation on file to show a review of EPLS website for the vendor was performed.

Questioned Costs: None

Criteria: 2 C.F.R. § 215 App. A(8) (January 1, 2009) states, "A contract award with an amount expected to equal or exceed $25,000 … shall not be made to parties listed on the government-wide Excluded Parties List System."

A good internal control plan require procedures to be in place which ensure contracts are not awarded to parties that are disqualified.

OMB Circular A-133, § 300 Auditee responsibilities, states "The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Cause: University policy prior to February 17, 2010, was to review the EPLS for purchases of $100,000 or greater.

Effect: When procedures are not in place to verify parties of contract purchases of $25,000 or greater are not suspended or debarred, there is an increased risk suspended or debarred parties will be awarded a contract and the University will not be in compliance with Federal regulations.

Recommendation: We recommend the University implement procedures to ensure the University's policy dated February 17, 2010, is followed and no contract is awarded to suspended or debarred parties.

> **Management Response:** The remedy suggested by the Auditor was implemented on February 17, 2010, shortly after the delivery of their 2009 management letter. Therefore, we believe the inclusion of this item in the 2010 letter is unwarranted.
>
> **Correction Action Plan:** N/A – corrective action was completed before commencement of 2010 audit.
>
> **Contact:** Keith Lauber, Director of University Accounting
>
> **Anticipated Completion Date:** N/A

APA Response: This finding was communicated in the prior year management letter. The finding remained uncorrected for the majority of the current year and should continue to be reported this year.

10. Retro Payroll Cost Transfers – UNL, UNO, and UNMC

Program: CFDA 93.242 – Mental Health Research Grants; CFDA 12.420 – Military Medicaid Research and Development; CFDA 93.701 – Trans – ARRA NIH Recovery Act Research Support – Allowability

Grant Number & Year: #08RMH065668C – 8/26/2009; #W81XWH-05-1-0527 – 8/1/2005; and #08RLM009985Z – 8/1/2009

Federal Grantor Agency: Department of Health and Human Services and U.S. Department of Defense

Condition: Retroactive Payroll Cost Transfer transactions are processed through the payroll section of SAP, the University's Accounting System. The detail of the individual transactions is not posted directly to the General Ledger. In our prior audit, we reported that the population of this type of transaction could not be readily identified on a University-wide basis as there was no standard SAP report to generate this data. UNMC had a report they were using prior to and for all of the fiscal year ended June 30, 2010. In addition, each campus of the University had different procedures to review and recertify these retroactive payroll cost transfers. During the fiscal year ended June 30, 2010, the University developed a SAP report to generate this data that was used for our year end testing. In addition, each campus developed a procedure to run this report and to review these transactions on a regular basis. Our testing of these reports for each of the campuses noted the following:

1. The report developed by the University was not picking up action code 09 (Organization Changes) in addition to action codes 28 and EC (Funding Changes). Code 09 transactions were determined to be Retroactive Payroll Cost Transfers. The report is currently being revised in order to pick up these changes. We selected these transactions separately and they were subject to testing during our detail test of these transactions.
2. During testing at UNO, it was noted that one of two retroactive payroll cost transfers tested were not properly re-certified to indicate the change via the Personnel Activity Report (PAR).
3. During testing at UNMC, it was noted UNMC does not have a consistent policy for the documentation and approval of funding changes in SAP. As Personnel Action Forms (PAF's) are used for all other payroll changes, it appears that they should also be used for funding changes in order to obtain better documentation and control over the approval process for these payroll changes.
4. During testing at UNL, it was noted that two of seven retroactive payroll cost transfers tested were not properly re-certified to indicate the change via the PAR.

Question Costs: None

Criteria: A good internal control plan require Retroactive Payroll Cost Transfer transactions that directly impact the expenditures of Federal grants be identified, monitored, reviewed, and approved. A good internal control plan would include maintaining adequate supporting documentation of the Retroactive Payroll Cost Transfer transactions and their review and approval.

OMB Circular A-133, § 300 Auditee responsibilities, states “The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Cause: Inadequate design of controls in the accounting system (detail is not posted to the general ledger).

Effect: Without adequate identification and review of retroactive payroll cost transfers, there is an increased risk payroll costs will be incorrectly posted to a Federal grant.

Recommendation: We recommend the University continue working on implementing the procedures described above, which ensure retroactive payroll cost transfers are identified, monitored, reviewed, and approved. Adequate supporting documentation of the retroactive payroll cost transfer transactions and their review and approval should be maintained and available for subsequent review.

> **Management Response:** The University believes the existing system supporting retro payroll transfers provides an adequate level of control. Cost effective additional measures will be explored to enhance documentation.
>
> **Corrective Action Plan:** The University will continue implementing the use of the retro active payroll report to ensure salaries and wages are properly charged to grants and contracts. The report will be submitted to include action code “09 – Organizational Changes” to complete a full selection of transactions. The retro active payroll report will be used to verify grants and contracts properly charged for salaries and wages and that personal activity reports are accurately certified.
>
> **Contact:** Jeanne M. Wicks, UNL Director of Sponsored Programs, Janet Paap, UNO Grants Accounting Manager, and Carol A. Kirchner, UNMC Controller
>
> **Anticipated Completion Date:** June 30, 2011

11. Subrecipient Monitoring

Program: Research & Development (R & D) Cluster including ARRA R & D – Subrecipient Monitoring

Grant Number & Year: Various

Federal Grantor Agency: Various

Condition: At the time of disbursement of funds, ARRA subrecipients were not notified of the Federal award number, CFDA number, and the amount of ARRA funds. Although this issue was identified at the University of Nebraska-Lincoln (UNL) this condition is University-wide issue.

Questioned Costs: None

Criteria: 2 C.F.R. § 176.210(c) (January 1, 2010) states, "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds."

Cause: UNL was not aware of the part of the Federal requirement "and document…at the time of disbursement of funds." Upon bringing this requirement to the attention of the University they indicated it may be cost prohibitive to notify ARRA subrecipients at the time of disbursement of the Federal award number, CFDA number, and the amount of ARRA funds as the State's payment system does not appear to have the capability to provide this information at the time of payment and it would be very time consuming and cost prohibitive to perform some manual process to provide this information.

Effect: The University is not in compliance with Federal regulations when ARRA subrecipients are not notified at the time of disbursement of the Federal award number, CFDA number, and the amount of ARRA funds.

Recommendation: We recommend the ARRA subrecipients be notified at the time of the disbursement of the Federal award number, CFDA number, and amount of ARRA funds as required by Federal regulations.

> **Management Response:** Subrecipient payments are made via ACH through the State Treasurer. Ideally, the University would indicate that a payment contains ARRA funds via the remittance, but the system does not allow this because of ACH. While we understand the observation, the efficiencies gained through ACH will be lost by creating additional documentation to accompany the payment.
>
> **Corrective Action Plan:** The University will discuss practical solutions with granting agencies. Alternatively, when a payment is initiated requesting an ARRA subrecipient invoice be paid an email will be sent to the subrecipient financial contact and will include the Federal award number, CFDA number and the amount of ARRA funds. That email would be printed and attached to the warrant request.
>
> **Contact:** Jeanne M. Wicks, UNL Director of Sponsored Programs, Janet Paap, UNO Grants Accounting Manager, Carol A. Kirchner, UNMC Controller, and Larry Riessland, UNK Director of Finance
>
> **Anticipated Completion Date:** June 30, 2011

12. Allowability of Health Insurance Expenditures

Program: Research and Development (R & D) Cluster, including ARRA R & D; due to the cross-cutting nature of this finding, all CFDAs with employee health insurance expenditures are also impacted – Allowable Costs/Cost Principles

Grant Number & Year: Various, including all grants with employee health insurance expenditures

Federal Grantor Agency: Various, including U.S. Department of Agriculture, U.S. Department of Defense, U.S. National Science Foundation, U.S. Department of Education, and U.S. Department of Health and Human Services.

Criteria: OMB Circular A-21 Attachment § A.2.e states, "…the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements." Section C.1 states, "The cost of a sponsored agreement is comprised of the allowable direct costs incident to its performance…" Section C.2 states further, "The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items." Section C.4.d.1 states, "The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles."

Neb. Rev. Stat. § 84-305 (Reissue 2008) states, "The Auditor of Public Accounts shall have access to all records of any public entity, in whatever form or mode the records may be, unless the auditor's access to the records is specifically prohibited or limited by federal or state law. No provisions of state law shall be construed to change the nonpublic nature of the data obtained as a result of the access. When an audit or investigative finding emanates from nonpublic data which is nonpublic pursuant to federal or state law, all the nonpublic information shall not be made public."

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) is codified at 42 U.S.C. § 1320d et seq. The HIPAA Administrative Simplification Regulations are found at 45 CFR 160, 162, and 164. These include the Privacy Rule, which is located at 45 CFR Part 160 and Subparts A and E of Part 164. Though designed to protect the privacy of individually identifiable health information held by either a covered entity or a business associate thereof, HIPAA provides a number of important exceptions to that general rule.

According to 45 CFR § 160.203, "A standard, requirement or implementation specification adopted under . . . [HIPAA] that is contrary to a provision of State law preempts the provision of State law." However, that regulation sets out specific exceptions under which a covered entity is not required to comply with a contrary provision of HIPAA. Among those is one found at 45 CFR § 160.203(d), which says: "The provision of State law requires a health plan to report, or to provide access to, information for the purpose of management audits, financial audits, program monitoring and evaluation, or the licensure or certification of facilities or individuals." As explained at 42 U.S.C. § 1320d-7(c), "Nothing in this part shall limit the ability of a State to require a health plan to report, or to provide access to, information for management audits, financial audits, program monitoring and evaluation, facility licensure or certification, or individual licensure or certification."

Under 45 CFR § 164.512(d)(1),"A covered entity may disclose protected health information to a health oversight agency for oversight activities authorized by law, including audits…" 45 CFR § 164.501 defines a "health oversight agency" as "an agency or authority of the United States, a State, a territory, a political subdivision of a State or territory, or an Indian tribe, or a person or entity acting under a grant of authority from or contract with such public agency, including the employees or agents of such public agency or its contractors or persons or entities to whom it has granted authority, that is authorized by law to oversee the health care system (whether public or private) or government programs in which health information is necessary to determine eligibility or compliance, or to enforce civil rights laws for which health information is relevant."

To summarize, in conjunction with the authority granted under Neb. Rev. Stat. § 84-305, HIPAA provides specific exceptions under which the Auditor of Public Accounts (APA) may access protected health information, such as those referencing conflicting State law and pertaining to health oversight agencies.

Condition: The University of Nebraska (University) has not provided the APA with the detailed health insurance and prescription claims data from the insurance administrators, despite the APA's willingness to receive the claims data with the names redacted. These data files are needed to determine claims paid on behalf of the University are for eligible participants and services.

Questioned Costs: Unknown

Context: The University maintains a self-funded health and dental insurance program. For fiscal year 2010, the University received $98,924,366 in contributions for both the employer and employee portions of health and dental insurance premiums. The University paid $83,442,271 for the employer share of health and dental insurance premiums during fiscal year 2010. Of this total, $6,427,638 was paid with Federal funds.

Self-funded insurance programs generally require the services of a third party to assist in administering the program. The University entered into an administrative services agreement with Blue Cross Blue Shield of Nebraska (BCBSNE) for medical and dental services. Some of the services provided by BCBSNE include, among others: preparing the Benefit Plan Document; preparing enrollment cards and Schedule of Benefits for disbursement to employees; and processing of claims. During fiscal year 2010, the University paid BCBSNE $3,972,824 to administer the University's health and dental insurance program.

BCBSNE is considered a service organization and is required to receive a SAS 70 audit to assess its internal controls. BCBSNE received a SAS 70 audit from Eide Bailly LLP for the period August 1, 2009, through July 31, 2010. The SAS 70 report included an opinion on the design of controls at BCBSNE to provide reasonable assurance that specified control objectives would be achieved if the controls were complied with; however, it did not include substantive or compliance testing of eligibility and allowability of claims payments. Additionally, the APA was unable to obtain documentation to support that the SAS 70 audit tested controls relating specifically to the University's health and dental insurance program.

On behalf of the University, the Employers Health Purchasing Corporation of Ohio (EHPCO) entered into a prescription benefit services agreement with CaremarkPCS Health, L.P. (Caremark). Some of the services performed by Caremark include, among others, providing: a national network of participating retail and mail service pharmacies; generic substitutions; drug utilization reviews. The University is a member of EHPCO.

Despite utilizing BCBSNE and Caremark to process its health, dental, and prescription claims, the University is responsible for the payment of all such claims incurred by University employees or their dependents. During fiscal year 2010, $82,882,211 of health and dental insurance claims were paid by the University. In addition, the University also paid $22,372,554, during fiscal year 2010, to Caremark for the administration and payment of prescription insurance claims. However, since the detailed data was not provided, the APA could not specifically identify the amount spent for administration costs versus payments of prescription claims.

In April 2010, the APA obtained permission from the Legislative Performance Audit Committee to conduct a performance audit relating to the cost of health insurance for State employees, including the University. Audit fieldwork began shortly thereafter. As part of our testing, the APA requested the University's medical and prescription claims detail from BCBSNE and Caremark on June 23, 2010, and July 12, 2010, respectively. On July 7, 2010, the APA was notified by BCBSNE that this information was ready for delivery to the APA. However as of January 20, 2011, the APA has not been provided the detailed medical and prescription claims data, despite the APA's willingness to receive the data with the names redacted.

Cause: The University has not provided the APA with the documentation requested.

Effect: Without the detailed claims data, the APA cannot determine if the claims paid on behalf of the University were proper and for eligible participants and services in accordance with allowable cost principles.

Recommendation: We recommend the University provide the requested health insurance claims data to the APA in accordance with Federal requirements and State statutes.

Management Response: The University respectfully suggests that much of the basis of this finding is not accurate and as such, respectfully disagrees with the finding. The premise/inference that Federal grants and contracts are charged differing costs versus those charges to University activities is not true. All activities are charged a premium – claims and claims activity are used by the health plan in determining premiums, but claims are not the basis for charges to either grants or University cost centers.

The processing of claims data on behalf of the University's health plan is supported by a SAS 70 report that has been furnished to the Auditor. Plan management is comfortable with the scope of that report and believes the testing done reduces risk to an acceptable level.

The University has been advised by counsel that furnishing the claims data as requested by the Auditor could expose the University's plan to HIPAA violations.

Corrective Action Plan: The University will continue to seek a solution that is responsive to the varied needs and obligations of the Legislative Performance Audit Committee, our faculty and staff, and the Auditor, while recognizing our responsibilities under Federal law to guard protected health information.

Contact: Keith Lauber, Director of University Accounting

Anticipated Completion Date: Unknown.

APA Response: The APA feels the HIPAA requirements cited above allow our office complete and unfettered access to the information requested. The APA has contacted Federal authorities regarding this matter and they are in agreement that the University should provide this information as it would not violate any provisions of HIPAA. The University and their counsel have not provided the APA with documentation on how providing the requested information this office is entitled to could expose them to HIPAA violations.

In the spirit of cooperation and acknowledgement of the privacy concerns noted by the University, we have consented to receive this information with redacted names and to also sign a non-disclosure agreement, but the University continues to withhold the requested information.

F. BASIC FINANCIAL STATEMENTS MANAGEMENT LETTER COMMENTS BY CAMPUS AND CENTRAL ADMINISTRATION

University of Nebraska Medical Center (UNMC)

13. Construction Work in Progress (CWIP) Overstated for the Fiscal Year Ended June 30, 2009 for the Durham Tower II

During our testing we noted Capital Grants and Gifts were overstated for the fiscal year ended June 30, 2009. The University of Nebraska Medical Center (UNMC) reported in their financial statements in error an additional $9,205,394 in their CWIP account. This error occurred as the amount was recorded twice, once in SAP, the University's Accounting System, and also as a year end adjusting entry to the financial statements. In preparation of the fiscal year ended June 30, 2010, financial statements, UNMC identified this error and corrected the amount by crediting current year CWIP and debiting current year Capital Grants and Gifts, resulting in an understatement of UNMC's Capital Grants and Gifts by $9,205,394 for the fiscal year ended June 30, 2010. The financial statements for fiscal year 2009 were not restated.

Good accounting practices would require procedures to detect significant errors and if errors go undetected that the prior year financial statements be restated.

When accounting procedures are not in place to detect significant errors and when significant undetected errors are not corrected by a restatement of the prior year financial statements there is a greater risk financial statements will be materially misstated.

> We recommend UNMC restate their fiscal year ended June 30, 2009, financial statements. UNMC chooses not to do so. We also recommend UNMC review their accounting procedure to ensure financial statement errors are detected during the preparation of their financial statements.

Management Response: The University will re-examine its review procedures for the plant group of accounts to help ensure detection of such errors in the current audit year.

University of Nebraska at Omaha (UNO)

14. Conflict of Interest

University of Nebraska Board of Regents policy RP-3.2.8 covers Conflict of Interest and Conflict of Commitment and reference to section 3.8 of the Bylaws of the Board of Regents. The pertinent parts of those policies are as follows:

- **Conflict of Interest - Policy RP-3.2.8.1.** states, in part: "No employee of the University shall engage in any activity that in any way conflicts with duties and responsibilities at the University of Nebraska. The Board of Regents has adopted Regents Policy RP-3.2.8 and authorized the implementation of related policies and directives to properly avoid, disclose and manage potential conflicts of interest."

  "Furthermore, federal funding agencies require that the University establish safeguards to prevent employees or consultants from using their positions for purpose which are motivated by (or even give appearance of) a drive for private financial gain either for themselves or family members."

  "Responsibility for assurance of compliance with this policy rests with the President and Chancellor of each campus. The Chancellors shall submit an annual report to the President detailing the compliance policies, procedures and management activities at their campus."

- **University-Wide Conflict of Interest Principles - Policy RP-3.2.8.2.** states, in part, "2) The University must avoid situations where the possibilities for personal gain for the Covered Person may be judged to be so significant that it is unreasonable to expect the Covered Person to exercise the objectivity necessary for public trust in the University and the rigor of its research."

- **Personnel Affected by Conflict of Interest and Conflict of Commitment Policy - Policy RP-3.2.8.4.** Covered Person is defined in the policies, in part, as "1) University administrative officers and employees, specifically including any University employee with delegated signature, purchasing or contracting authority on behalf of the University; 2) University employees and faculty engaged in outside employment or other activities specified in this policy (tech transfer/use of University facilities or equipment) that may create a Conflict of Interest."

  "Conflict of Interest shall mean situations when a Covered Person's direct or indirect personal financial interests may compromise, or have the appearance of compromising, the Covered Person's professional judgment or behavior in carrying out his or her obligations to the University of Nebraska. This includes indirect personal financial interests of a Covered Person that may be obtained through third parties such as a Covered Person's immediate family, business relationships, fiduciary relationships, or investments."

- **Outside Employment and Conflicts of Commitment - Policy RP-3.2.8.8.** states, in part: "Outside Activity and Employment. As University-industry relationships increase with a growing desire for consultantships and other professional activities outside the University, University employees must continue to observe the University policy on outside employment embodied in Section 3.4.5 of the Bylaws of the Board of Regents. In addition, University employees must observe the Board of Regents policy on Conflict of Interest stated in Section 3.8 of the Bylaws of the Board of Regents. Accordingly, each campus shall develop appropriate forms for employees to disclose 1) potential Conflicts of Interest, and 2) outside employment in order for review, documentation, approval and management of Conflicts of Interest and outside employment. Department chairpersons, department heads, deans, and directors have primary responsibility to review the specific nature of each proposed outside professional activity with their respective areas of administrative responsibility and to deny approval to any such activity which would interfere with the normal University duties of the employee involved and to require proper disclosure and management of any Conflict of Interest."

  "University employees proposing outside employment or a consulting relationship of any nature pursuant to Section 3.4.5 of the Bylaws are required to complete the appropriate campus form for disclosure of outside employment."

- **Outside Employment-Section 3.4.5.** of the Bylaws of the Board of Regents states, in part: "Staff members employed on a part-time basis by the University, such as practicing lawyers or physicians, may engage in outside employment or activities unless it is expressly stipulated to the contrary in the conditions of employment."

Staff members employed by the University, other than those covered in the preceding paragraph, shall be encouraged to engage in professional activities outside the University as a means of contributing to the economic growth and development of the State as well as broadening their experience and keeping them abreast of the latest developments in their specialized fields; provided such activities do not interfere with their regular duties at the University, or represent a conflict of interest. Staff members may accept temporary or occasional employment for such professional services when such employment is recommended by the Dean of the college or director of the division involved and approved by the Chancellor or President, or their designees.

- **UNO policy on Conflict of Interest** states, in part, the following: "University policy states that no employee of the University shall engage in any activity which conflicts in any way with his/her University duties and responsibilities. Outside Employment - A full-time employee who accepts employment elsewhere in addition to his/her regular duties must be sure that: a) There is no interference with the performance of duties at the University. b) There is no conflict of interest as a result of the additional employment. The employee should discuss outside employment in advance with his/her supervisor if the potential exists for a conflict of interest. c) No resources of the University will be utilized for purposes of his/her additional employment."

- **University Board of Regents Purchasing Policy,** section RP-6.2.1.6.a does not require competitive bidding until the University commits expenditures of $150,000 or more. Section RP-6.2.1.11.a - Financial or Beneficial Personal Interest Forbidden: Gift and Rebates Prohibited-states: "No officer or employee of the University involved in an advisory or decision-making capacity relating to any University purchase and no member of his or her immediate family shall be financially interested, or have any beneficial personal interest, either directly or indirectly, in such purchase, or in any bidder, contractor, lessor or vendor for such purchase. No such officer or employee or member of his or her immediate family shall receive or accept, either directly or indirectly, by rebate, gift or otherwise, any money or other specific item of value whatsoever, or any promise, obligation or contract for future reward or compensation from any person, firm, corporation or other entity which has submitted or intends to submit a bid or proposal in connection with any University purchase or which has otherwise been contacted by the University relating to a proposed University purchase."

It was brought to our attention through the Auditor of Public Accounts hotline that a University of Nebraska at Omaha (UNO) engineer in the Facilities Management & Planning Department had the responsibility to select vendors to perform professional engineering work for UNO following the University Board of Regents policy RP-6.2.1.6.a (purchases committing the University to less than $150,000, thus not requiring a competitive bid.) In performing his responsibility he selected BMW, an engineering firm, to perform certain engineering work for UNO when he had also worked and was associated with BMW on projects outside UNO projects. Through inquiries it was determined that this employee had not reported this association with BMW to his direct supervisor and thus had not followed the policies noted above. We believe this situation gives rise to the perception of a conflict of interest as defined above in the Board of Regents and UNO policies.

Additional information was requested regarding any other companies or individuals associated with UNO and also associated with the engineer on projects outside UNO. UNO provided us with a list of 13 additional companies/individuals. For 3 of the 13 companies/individuals we also requested a list of projects performed and compensation received by the engineer. The engineer provided the requested list of projects, but declined to provide any information on compensation received.

When conflict of interest policies are not followed there is greater risk employees may use their position for purposes which are motivated by (or give the appearance of) a drive for private financial gain either for themselves or family members. In addition we believe there is a greater risk a person's direct or indirect personal financial interests may compromise, or have the appearance of compromising, the person's professional judgment or behavior in carrying out his or her obligations to the University of Nebraska.

Upon bringing this issue to the attention of the Vice Chancellor for Business and Finance at UNO he took action to obtain an Application for Authority to Engage in Outside Professional Activity in which the employee disclosed his associations with BMW. In addition, the employee disclosed his association with BMW in a letter to his immediate supervisor.

> We recommend UNO management take appropriate steps to ensure all employees are following the Board of Regents and UNO conflict of interest and outside employment policies.

Management Response: The UNO conflict of interest policies and procedures will be updated. The updated policies and procedures will be communicated to faculty and staff with periodic communications to the campus community.

University of Nebraska at Kearney (UNK)

15. <u>Women's Basketball Funds</u>

We noted 3 of 18 expense reimbursements submitted by the University of Nebraska at Kearney (UNK) Women's Basketball Assistant Coach did not have adequate supporting documentation for a total of $509 in expenses claimed. We also noted monies credited to the Women's Basketball Camps cost center on SAP (the University of Nebraska Accounting System) were $240 less than the number of registrants would indicate.

UNK management notified the Auditor of Public Accounts (APA) during final audit fieldwork that there had been a situation regarding a staff member who did not have adequate support for their expense reimbursements. We reviewed the information provided and noted the following:

- March 15, 2010—Iowa City trip ($438). Excessive request of $113 and $82 for cancelled hotel reservations processed from confirmations instead of actual invoices.
- April 16, 2010—Omaha trip ($265). Excessive request of $210 for cancelled reservation for two nights processed from confirmations instead of actual invoices. Women's Basketball Assistant Coach provided check, post-dated October 1, 2010, for repayment of this reimbursement only, on or about September 20, 2010.

- July 21, 2010—Overland Park, KS trip ($212). Excessive request of $104 for cancelled second of two nights detected and adjusted from reimbursement prior to payment. This was the first instance detected and not actually reimbursed by UNK.
- A total of $195 is currently being disputed as being owed by the UNK Women's Basketball Assistant Coach.
- APA also reviewed all deposits for the Women's Basketball Camps for elementary and high school girls for the most recent UNK camps. The employee had access to registration receipts for these camps consisting mainly of cash and checks. We noted UNK did not have supporting documentation for the registration of attendees of the Team Camp held June 19, 2010. Per an October 18, 2010, email from UNK Women's Basketball Head Coach, the former employee had information regarding the registration forms for the 90 participants in a binder, but UNK was unable to locate it. Total deposits for the Team Camp should have been $3,600 based on the 90 participants and the $40 registration fee. By process of elimination, APA was able to determine $3,360 had been deposited for the Team Camp, a potential shortage of $240.

When adequate supporting documentation is not received for expense reimbursements and there is not an adequate segregation of duties handling deposits there is an increased risk of loss or misappropriation of University assets.

> We recommend the University ensure all expense reimbursements have adequate supporting documentation, including detailed, itemized receipts. We also recommend an adequate segregation of duties be established for the receipt and deposit of athletic camp fees.

Management Response: UNK accounts payable staff are aware that expense reimbursements must have adequate supporting documentation, including detailed, itemized receipts and will continue to maintain a high level of scrutiny when auditing.

UNK will review and implement procedures within the Athletic Department to adequately segregate the duties for the receipt and deposit of athletic camp fees.

University of Nebraska Central Administration

16. <u>Payroll Vendor Payments</u>

JD Edwards EnterpriseOne (EnterpriseOne) is accounting software used by the State of Nebraska to record all of its official financial records in one centralized system. The University of Nebraska (University) uses Systems Applications and Products (SAP) accounting software, which is then interfaced with EnterpriseOne.

Payroll vendor payments are set up differently in the SAP system implemented by the University than in the EnterpriseOne system utilized by the State. Payments made to vendors through the State's payroll process are recorded as vendor payments in EnterpriseOne. However, instead of generating vendor payments through SAP or EnterpriseOne during the payroll process, the

University sends payroll payment instructions directly to the State's bank, authorizing the automatic deposit of payments to the vendors' banks. As a result, a vendor payment entry is not created in either accounting system; rather, a mere journal entry is made to record such payments. Because the University's accounting system does not record vendor payments to health insurance vendors, such as Blue Cross and Blue Shield of Nebraska (BCBS), the total amounts paid to these vendors cannot be determined or identified.

The following amounts were paid through the payroll process by the University between July 1, 2009, and June 30, 2010:

Vendor	University
Payment for Health and Dental Insurance*	$ 98,924,365
TIAA/CREF (retirement)	$ 72,243,794
All other Payments	$ 69,423,132
Total	$ 240,591,291

* Because its employee health insurance plan is self funded, the University's health insurance payments go to its own separate bank account.

Sound accounting procedures include complete and accurate reporting of all payments to vendors to allow users of the State accounting system to review and report on all vendor payments. According to Neb. Rev. Stat. § 81-1110.01 (Reissue 2008), the purpose of the accounting division of the Department of Administrative Services is:

> *"[T]o prescribe, coordinate, and administer a centralized, uniform state accounting and payroll system and personnel information system, to establish and enforce accounting policies and procedures for all state agencies, boards, and commissions, to monitor and enforce state expenditure limitations established by approved state appropriations and budget allotments, and to administer the federal Social Security Act for the state and the state's political subdivisions."*

When vendor payments do not originate from the State's accounting system, it is difficult for users of the system to ascertain the total amount paid to all vendors.

> We recommend the University work with the Department of Administrative Services to develop a process that allows vendor payments to be accurately recorded in the State accounting system.

Management Response: The University does interface all its accounts payable system vendor payments for the purchase of goods and services to the State of Nebraska accounting system. We also provide unlimited access to the SAP system to State officials, similar to that provided to the Auditor's office. It is the goal of the University to continue to provide meaningful data to State officials while, to the extent possible, avoiding duplication of efforts.

APA Response: Individual payments to payroll benefit providers, such as BCBS, Caremark, and TIAA/CREF, are not recorded separately on SAP or EnterpriseOne. We continue to recommend that the University work with the Department of Administrative Services to develop a process to record these individual payments on EnterpriseOne.

G. INFORMATION TECHNOLOGY MANAGEMENT LETTER COMMENTS

17. Mainframe User Maintenance

Eight of 70 mainframe user IDs with elevated privileges had user names which were not associated with a person or process. Five of the 70 mainframe user IDs with elevated privileges were not required to change their password periodically. Fourteen of the 70 mainframe user IDs, including the ID of a terminated employee; were not automatically revoked after a set period of inactivity.

Good internal control includes sound user account management where all user IDs are assigned to a specific user or system process.

University of Nebraska Computing Services Network Password Policy, section IV states, in part, "2. Passwords must be changed every 60 days."

University of Nebraska Executive Memorandum No. 16, Policy for Responsible Use of University Computer and Information Systems states, in part, "When any user terminates his or her relation with the University of Nebraska, his or her ID and password shall be denied further access to University computing resources." Good internal control also includes removing access when employees transfer job positions or no longer are in need of the access.

When accounts are not assigned to specific users, there is a lack of accountability regarding the use of the ID. Generic user names give the appearance of shared IDs. When users are not required to change their passwords periodically, there is an increased risk computer resources could be compromised. When terminated users or users who no longer need access to computer resources maintain access, there is an increased risk of sensitive data being obtained and valuable computing resources utilized.

> We recommend the University of Nebraska perform a periodic review of mainframe users to ensure unused accounts are revoked; users are required to change passwords, and user IDs are assigned to specific individuals or system processes.

Management Response: The University has made changes to the eight mainframe IDs identified by the auditors. Four IDs have been deleted, two have been specifically assigned to authorized individuals at the associated campus, and two are now categorized for non-general use for specific processing and problem resolution requirements.

Also, CSN will create a policy that mainframe user IDs with elevated privileges must be associated with a person or process. Any exceptions to this policy will be approved by CSN Director of Networks and Systems, documented and reviewed on an annual basis.

Finally, CSN will develop an emergency access policy for situations when production is down or other emergencies where access may be granted to remediate these problems. This policy will address the escalation of privilege, approvals, and documentation of these situations. A process will be established to review mainframe user IDs with elevated privileges on a semi-annual basis to ensure password policies are enforced, that privileged access is still required, and that the user is still an employee.

18. Change Management

Two of 25 changes made to the SAP application were not requested, tested, and approved using the Lotus Notes change request form or the form was completed by a single individual.

We also noted that two Computing Services Network (CSN) staff had the ability to develop, approve, and promote changes to production. Changes to the SAP application by third party vendors or SAP patches are not documented using the Lotus Notes change request form or any other documented process.

A good internal control plan requires changes made to the SAP application be documented and the change process is not performed by a single individual.

Allowing a single person to develop, approve, and promote a change to SAP increases the risk a change to the SAP application could be made that was not in accordance with management's intentions. In addition, changes made without documenting who approved and promoted the change increases the risk a change could be made that was not in accordance with management's intentions.

> We recommend the University track all changes made to the SAP application. We also recommend the University establish a segregation of duties so no one individual is able to develop, approve, and promote changes to the SAP application.

Management Response: CSN has an established change management process for the SAP environment. This policy will be reviewed with technical staff. The policy will be revised to ensure changes needed to address emergency situations such as system and application maintenance requiring immediate access by authorized staff to production systems is appropriately approved and documented.

CSN management will review production changes to the SAP environment on a quarterly basis to ensure the changes were properly documented and approved.

CSN management has reviewed the access of two senior-level technical staff who have security to develop, approve, and promote changes to production. This level of security was discussed with the University management and Internal Audit. The University is willing to accept the risk associated with the access provided to the two staff members. We believe this access is necessary based on the limited resources available to support a full segregation of duties.

This letter is intended solely for the information and use of management, the Board of Regents of the University of Nebraska, others within the University, 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. However, this letter is a matter of public record and its distribution is not limited.

Sincerely,

Signed Original on File

Don Dunlap, CPA
Assistant Deputy Auditor

University of Nebraska

Exhibits to Management Letter Comment Number 6

University Bank Accounts

UNIVERSITY OF NEBRASKA
UNL BANK ACTIVITY
Fiscal Year Ended June 30, 2010

Exhibit A

	Beg. Bal	Deposits	Total Beg. Bal. plus Deposits	Checks	Ending Balance
Bursar's Office					
FNO - Credit Card Clearing	$ 271,218	$ 39,783,965	$ 40,055,183	$ 39,783,333	$ 271,850
WFB - Revolving Fund	262,137	10,854,552	11,116,689	11,005,446	111,243
PIN - Revolving Fund	298,877	10,205,566	10,504,443	10,458,493	45,950
UB - Revolving Fund	39,479	649,888	689,367	594,705	94,662
IANR Locations					
CSB - NE College of Tech Ag	36,787	538,213	575,000	559,559	15,441
CSB - NCTA Student	33,317	81,820	115,137	69,761	45,376
FNO - North Platte Station	50,371	1,083,952	1,134,323	1,128,501	5,822
Athletics					
FNO - Athletic Concessions	10,000	5,490,399	5,500,399	5,490,399	10,000
WFB - Athletics	46,105	473,313	519,418	479,584	39,834
WFB - NE Union	29,593	2,083,998	2,113,591	2,080,256	33,335
Rec. Transmittal					
MWB - Ashfall Park	32,370	160,142	192,512	175,768	16,744
PIN - Cedar Point Biological	150	4,646	4,796	4,646	150
PSB - NE. State 4-H	250	203,197	203,447	203,197	250
PIN - Eastern 4-H	-	10,284	10,284	7,218	3,066
SFB - Trailside Museum	3,475	31,121	34,596	32,837	1,759
UB - Office of the Comptroller	53,450	30,034	83,484	83,484	-
USB - Mail Services	26,381	1,135,000	1,161,381	1,122,516	38,865
WFB - Civil Clinic Law	5,363	12,108	17,471	6,996	10,475
WFB - Healing Pathways	48,619	78,017	126,636	88,741	37,895
WFB - Foundation Students Loan	34,066	250,353	284,419	171,811	112,608
WFB - Wheel Club	30,033	69,937	99,970	79,260	20,710
WFB - Meat Packers	897	1,078	1,975	700	1,275
Totals	**$ 1,312,938**	**$ 73,231,583**	**$ 74,544,521**	**$ 73,627,211**	**$ 917,310**

Note: Authority for these accounts is Neb. Rev. Stat. § 85-125 (Reissue 2008).
Authorized amount for all of the accounts is $300,000 in total.
The four Bursar office accounts are for credit card clearing accounts and depository accounts for student payments.
The three IANR locations are used as receipt accounts for the Institute of Agriculture and Natural Resources (IANR) schools in Curtis, Scottsbluff, and North Platte.
The two Athletic accounts are used for the receipt of concession money and National Collegiate Athletics Association (NCAA) Student Assistance.
The NE Union account is used as a depository account for Nebraska Union activities; i.e. Bookstore, Computer Store, etc.
The 12 Rec. Transmittal accounts are used as receipt accounts for specialty funds that need to be kept separate.

CSB = Curtis State Bank
FNO = First National Bank of Omaha
MWB = Midwest Bank
PIN = Pinnacle
PSB = Purdum State Bank
SFB = Security First Bank
UB = Union Bank
USB = US Bank
WFB = Wells Fargo Bank

Exhibit B

UNIVERSITY OF NEBRASKA

UNMC BANK ACTIVITY

Fiscal Year Ended June 30, 2010

	Beg. Bal.	Deposits	Total Beg. Bal. plus Deposits	Checks	Ending Balance
FNO Revolving	$ 1,935	$ 40,848,625	$ 40,850,560	$ 40,749,971	$ 100,589
FNO Sweep	709,000	15,522,225	16,231,225	15,606,074	625,151
Totals	**$ 710,935**	**$ 56,370,850**	**$ 57,081,785**	**$ 56,356,045**	**$ 725,740**

Note: Authority for these accounts is Neb. Rev. Stat. § 85-125 (Reissue 2008) ($175,000), and Neb. Rev. Stat. §§ 83-130 and 83-305.04 (Reissue 2008) ($3,000).

Total authorized amount is $178,000.

The Revolving account is used for Emergency purchases and emergency payroll.

The Sweep account is used for clearing of credit card receipts and a depository account for wire transfers.

FNO = First National Bank of Omaha

UNIVERSITY OF NEBRASKA

Exhibit C

UNO BANK ACTIVITY

Fiscal Year Ended June 30, 2010

	Beg. Bal.	Deposits	Total Beg. Bal plus Deposits	Checks	Ending Balance
Wells Fargo - Revolving	$ 99,078	$ 11,078,549	$ 11,177,627	$ 11,083,560	$ 94,067

Note: Authority for this account is Neb. Rev. Stat. § 85-192 (Reissue 2008).
Authorized amount is $175,000.
The account is used for Emergency purchases, a clearing account for credit cards, and a depository account for wire transfers.

UNIVERSITY OF NEBRASKA

UNK BANK ACTIVITY

Fiscal Year Ended June 30, 2010

Exhibit D

	Beg. Bal.	Deposits	Total Beg. Bal plus Deposits	Checks	Ending Balance
Athletic Ticket Sales	$ 102	$ 9,560	$ 9,662	$ 9,560	$ 102
Agency Checking	51,912	1,915,791	1,967,703	1,845,364	122,339
Cash Revolving	100,278	246,650	346,928	229,190	117,738
Totals	**$ 152,292**	**$ 2,172,001**	**$ 2,324,293**	**$ 2,084,114**	**$ 240,179**

Note: Authority for these accounts is Neb. Rev. Stat. § 85-1,123 (Reissue 2008).
For all three of the accounts the total Authorized amount is $175,000 and the established amount is $125,000.
The Athletic ticket sales account is used to record athletic ticket sales.
The Agency account is used for clearing of credit cards and a depository account for wire transfers.
The Cash Revolving account is used for Emergency purchases and payroll.