The University of Nebraska

Management Letter

For the Year Ended June 30, 2011

Issued on February 10, 2012

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS
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December 16, 2011

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, 2011, and have issued our report thereon dated December 16, 2011.

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 recommendations 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 PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 as described in our separately issued management letter that we consider to be significant deficiencies in internal control over financial reporting: Comment Number 1 (SAP Payables Access), Comment Number 2 (Lack of Audit Cooperation), Comment Number 3 (Impeded Access to Information), Comment Number 4 (SACR Security Turned Off), and Comment Number 5 (Inappropriate Access to Change Passwords). 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.

Compliance and Other Matters

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*.

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, 2011. The University's major Federal programs are identified in the summary of auditors' 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, 2011.

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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, 2011, 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, 2011.

The results of our auditing procedures disclosed no instances of noncompliance with the above requirements, which are required to be reported in accordance with OMB Circular A-133.

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 4 (SACR Security Turned Off) and Comment Number 5 (Inappropriate Access to Change Passwords). 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. SIGNIFICANT DEFICIENCIES

1. SAP Payables Access

A good internal control plan requires a proper segregation of duties to ensure no individual can process transactions from beginning to end to reduce the risk of fraud, waste, or abuse of State funds.

In Systems Applications and Products (SAP), the University's accounting system, the role "MM_AP_MAINTAIN" allows employees to enter, modify, post, and approve an invoice or payable from start to finish without a system required approval by another individual.

Invoices and payables processed in SAP are then electronically transmitted to EnterpriseOne, the State's accounting system. Payments are made from EnterpriseOne via warrant or electronic funds transfer (EFT) the following day. Individuals with both SAP "MM_AP_MAINTAIN" and EnterpriseOne access can process an invoice or payable from start to finish on SAP and then approve the actual disbursement of the payment on EnterpriseOne the following day.

SAP access as of June 2011 was as follows for the University of Nebraska-Lincoln (UNL), University of Nebraska Medical Center (UNMC), University of Nebraska at Omaha (UNO), University of Nebraska at Kearney (UNK), and University of Nebraska Central Administration (UNCA):

	UNL	UNMC	UNO	UNK	UNCA	Total
Individuals with Access to Process a Payable from Beginning to End in SAP	15	21	25	6	7	74
From those noted above, individuals with access to Approve Batches on Enterprise One	5	7	9	5	6	32

The University does not adequately segregate the roles in SAP and EnterpriseOne.

Without adequate controls over the processing of transactions in the accounting systems, there is an increased risk of the loss or misuse of University funds.

> We recommend the University review access in SAP and EnterpriseOne when it involves invoices and payables. Those roles should be revised to ensure that no one employee has access to enter, approve, and post an invoice or payable from beginning to end.

Management Response: The University disagrees that this is a significant deficiency as the magnitude of a potential misstatement resulting from this deficiency is small and the reasonable possibility that controls will fail to prevent, detect and correct a misstatement is low. The audit disclosed no misstatements of this nature.

While there are mitigating controls to detect incorrect payments, we do agree that the "MM_AP_MAINTAIN" role should be modified to prevent a user from both entering and approving the same invoice they have entered. It is anticipated this modification will be completed before June 30, 2012.

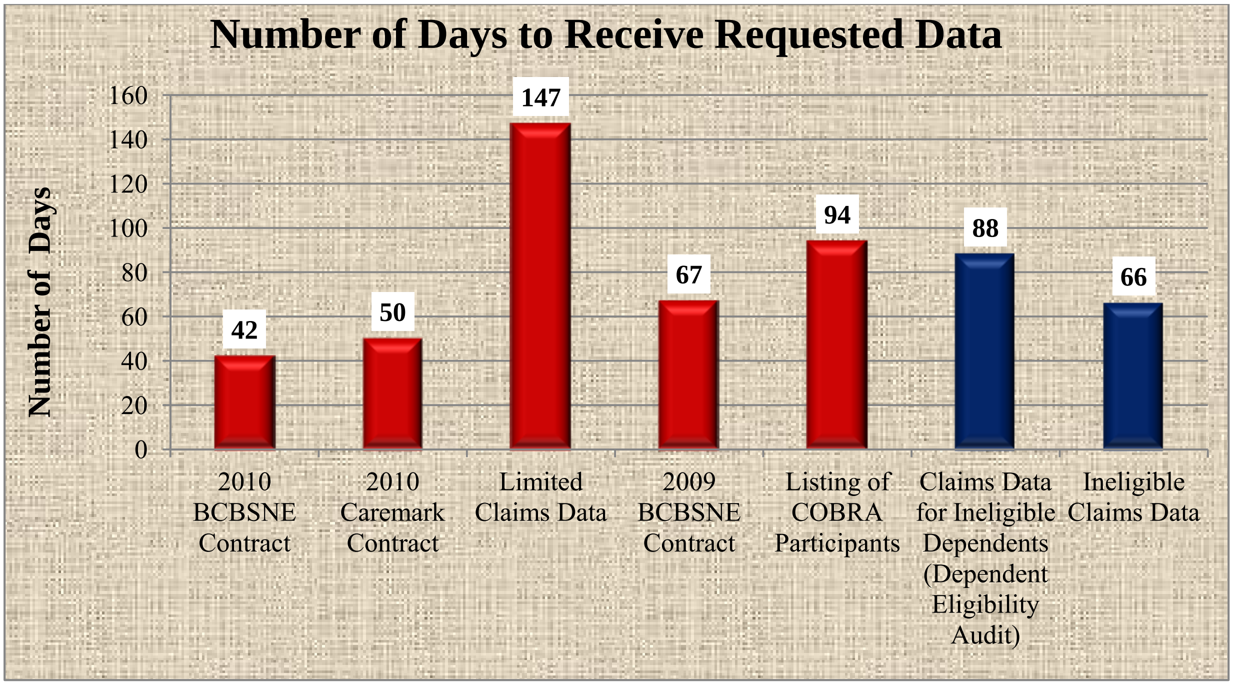
APA Response: AICPA Auditing Standards, AU Section 325.07, states "A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance." We believe this finding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

2. Lack of Audit Cooperation

The University has displayed a lack of cooperation with the Auditor of Public Accounts' (APA) audit of its $100 million health insurance program by refusing to provide the APA with requested information in a timely manner, if at all. Throughout the health insurance audit process, the APA asked for essential information from designated University staff – only to have the responses significantly delayed or the requests ignored altogether.

The University of Nebraska Health Insurance Program (Program) is self insured, meaning the majority of employee medical and prescription claims are paid by the University through the collection of premiums. During fiscal year 2010, the University paid more than $100 million dollars in medical and prescription claims. From the outset of the health insurance audit, the APA has emphasized the necessity of determining whether those funds were used to pay claims solely for the benefit of qualified participants and their eligible dependents. The only way to make such a determination is by testing and comparing the actual claim data with the University records.

The following chart illustrates a few of the significant delays encountered throughout the health insurance audit and was discussed with the University's Board of Regents Audit Committee on December 7, 2011:



As can be seen from the chart above, the University delayed in providing the APA with simple requests, such as contracts for its vendors who provide third party services to the health insurance program. A few examples included:

- The full 2010 Blue Cross and Blue Shield of Nebraska (BCBSNE) contract was provided but initially did not include the agreement's fee schedule. Only after a follow-up request was made did the University provide the fee schedule, 42 days after it was initially requested.
- Likewise, a largely redacted 2010 Caremark contract was initially received from the University. Only after a follow-up request was made did the University provide the full contract, 50 days after it was initially requested.
- Limited claims data was provided to the APA 147 days after it was requested, due to significant delays by the University while invoking HIPAA laws.
- As of December 12, 2011, the information included in the above chart, in blue, still has not been provided by the University.

Due to the University's persistent refusal to cooperate, this health insurance audit was delayed for more than a year. The harmful impact of the intentional obstruction by the University and the resulting delay cannot be overstated.

The control environment of an organization sets the tone, influencing the control consciousness of its people. A well designed and properly implemented control environment should facilitate cooperation between the University and the APA, and provide prompt responses from the University regarding information requested for audit testing.

The refusal to provide requested documents for the health insurance audit also constitutes an open and deliberate violation of State law. Neb. Rev. Stat. § 84-305 (Reissue 2008) provides:

"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."

The University's reluctance to cooperate with the health insurance audit by refusing to provide the APA with requested information in a timely manner, if at all, not only constituted a clear and ongoing violation of § 84-305 but also severely impeded the APA's ability to carry out an effective and relevant audit of the Program. The APA considers this finding to be a significant deficiency.

> We recommend the University take immediate corrective action regarding the lack of cooperation that occurred throughout the health insurance audit and develop procedures to ensure future compliance with § 84-305 by providing prompt and accurate responses to the APA's requests for audit information.

Management Response: This finding does not relate to the APA's audit of the financial statements of the University. Accordingly, we disagree that this finding is a significant deficiency and further disagree with its inclusion in a management letter related to the audit of the University. The comment by the APA that "from the outset of the health insurance audit, the APA has emphasized the necessity of determining whether those funds were used to pay claims solely for the benefit of qualified participants and their eligible dependents" is disingenuous and unfortunate as it gives the indication the University fails to take its fiduciary responsibilities seriously. To the contrary, prior to the APA conducting its separate health performance audit on behalf of the State of Nebraska, the University had elected to conduct an eligibility audit that was performed by a separate firm specializing in this area. This separate audit was acknowledged by the APA in its health audit entrance conference. The results of this audit were shared with the APA in August, 2011.

The information requested by the APA included protected information subject to mandatory confidentiality provisions under applicable federal law, such as HIPAA and FERPA. The University is also legally bound by confidentiality agreements with vendors. Much of the delay was due to reasonable disagreements about the limited data set to be used and appropriate safeguards negotiated in related non-disclosure agreements that were ultimately approved by the APA. Once the treatment of confidential information was mutually acknowledged by the APA and confidentiality safeguards agreed upon, vendors and the University responded to the requests. It should be noted that similar concerns about these requests were lodged by the Governor, State DAS, the State college system, and the Legislative Performance Audit Committee.

As of the date of this reply, all information requested has been supplied.

APA Response: AICPA Auditing Standards, 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.

3. Impeded Access to Information

In response to the APA's questioning of University personnel regarding their knowledge of any actual or alleged fraud, theft, or misuse of University assets, an ongoing investigation into an alleged theft from a University Department was disclosed by the UNL Director of Operations Analysis (Director). The Director further reported to the APA the amount of loss; however, the Director would not disclose any detailed information regarding the alleged theft such as, how the loss was believed to have occurred or the name of the University employee(s) involved.

The reason given by the Director for not providing this information when requested was that the investigation was on-going and the results of her review had been given to the UNL Police Department (Department). Any further information regarding the case would need to come from the Department. When we requested information from the UNL Chief of Police, he would only provide us with the citation the Department had issued. He indicated his investigation was turned over to the Lancaster County Attorney's office and he could not provide us with any more information other than the citation issued by the Department.

The APA ultimately received the Department's investigation reports and other information regarding the case directly from the Lancaster County Attorney's office, as they requested the APA to review the case file information.

Upon receiving the information from the Lancaster County Attorney's office, UNL staff members were willing to discuss the case and provided additional information when requested.

Neb. Rev. Stat. § 84-305 (Reissue 2008) states, in part, "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."

In addition, under both American Institute of Certified Public Accountants (AICPA) and Government Auditing (GAGAS) standards, auditors are required to plan and perform audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In order for auditors to make informed risk assessment decisions in accordance with these standards, open and unrestricted access to information is vital.

The control environment of an organization sets the tone, influencing the control consciousness of its people. A well designed and properly implemented control environment should facilitate cooperation between the University and the APA, and provide prompt responses from the University regarding information requested for audit testing.

When APA access to audit evidence is unreasonably restricted, the APA's ability to properly assess risk, conduct audits, and accomplish audit objectives is compromised.

> We recommend the University address with personnel a firm expectation that all alleged or known instances of fraud, theft, or misuse of University assets be immediately communicated with the

> APA. In addition, the APA should always have full and complete access to all records and financial information of the University.

Management Response: The University disagrees that this is a significant deficiency as there is no misstatement resulting from this deficiency. Additionally, the University's system of control worked as expected and detected the error.

The comment relates to alleged fraud in a department at the UNL campus. The University discovered the alleged defalcation and took appropriate action through the UNL Campus Police and the Lancaster County Attorney's Office. The existence of the alleged defalcation and the amounts in question, estimated at less than $10,000, were properly disclosed to the APA.

Generally accepted auditing standards provide as follows:

> *5.26 When fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.*

The access at issue in the comment was requested after the UNL Campus Police had referred the matter for prosecution by the Lancaster County Attorney. Once referred, the County Attorney is the cognizant authority to make determinations of granting access to related records. The University did not want to jeopardize the prosecution of a possible criminal case if the investigation indicated fraud had been committed and properly referred the APA to the Lancaster County Attorney's Office consistent with 5.26. Once authorized by the proper authorities, the University promptly provided access. It is unclear as to how the APA's access to criminal records through the proper authority of the County Attorney's office relating to an alleged defalcation of less than $10,000 results in a significant deficiency.

APA Response: AICPA Auditing Standards, 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.

Furthermore, detailed information regarding all known or suspected frauds should be made available to the APA for our review and analysis of their potential impact on the University's Basic Financial Statements and whether or not additional audit procedures are necessary in our professional opinion. The standard referenced above by the University relates to publicly reporting information. The intent of the APA's request was not related to reporting the alleged fraud, which we agree would be inappropriate until the matter is resolved by the judicial system. We again reiterate that when the APA's access to audit evidence is unreasonably restricted, the APA's ability to properly assess risk, conduct audits, and accomplish audit objectives is compromised.

4. SACR Security Turned Off

Program: Student Financial Aid Cluster – Allowability

Grant Number & Year: Due to the crosscutting nature of this finding, all Student Financial Aid Cluster CFDAs open in the fiscal year ended June 30, 2011, are affected.

Federal Grantor Agency: U.S. Department of Education

Condition: During our review of the University's Student Information System (NeSIS), we identified a portion of the Student Administration and Contributor Relations (SACR) security was turned off.

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."

A good internal control plan requires security be established so individuals only have access or the ability to alter data which is required as part of their job function, and security events be appropriately logged.

Cause: University employees had problems accessing information so a portion of SACR security was turned off. The University also had not had time to develop SACR logs.

Context: NeSIS restricts access in two ways. First, users are granted roles which permit the user to access various screens in NeSIS. The other way is to limit user access to data once they reach a screen granted to them by a role; this is called SACR security or row level security. For instance, the University can grant a user access to see student information by granting the user a specific role. The University can then restrict the employee's access to student information using SACR security. Using SACR security, the University would be able to restrict an employee's access to only UNL students. Without this additional SACR security setting, the employee would be able to see student information for all University students.

The portion of security turned off secures student financial information. As a result, adequate security layers were not active to prevent users from accessing some critical financial data at other campuses. For example, 43 users had access to edit financial aid award configurations for all University campuses because SACR security was not active. This allowed individuals the ability to alter awards for all University campuses, such as minimum and maximum award amounts. This did not allow a user to alter a specific individual's award, but allowed them to set the parameters of an award used at a specific campus. The 43 users also had the ability to change tuition and fee rates in the system for all University campuses. It was also noted logging of SACR security changes were not recorded to allow the review of user access at the SACR security level.

Effect: Without adequate SACR security enabled, there is an increased risk a user will be able to access information which is not essential to their job function. Without adequate logging of user access, the degree of a user's access cannot be adequately identified once the ID has been deleted. In cases of unauthorized access, there is an increased risk the University will be unable to adequately identify student records that could have been accessed.

Recommendation: We recommend the University fully use SACR security and restrict users' access to the least privileges needed to perform their job function. We also recommend the University adequately capture the history of a user's access through documentation of SACR security applied to user profiles. As SACR security can be applied at a very granular level, our recommendation to adequately document SACR security includes at a minimum, the ability to ascertain the data a user could access at the campus, career, program, and plan levels.

Management Response: The University disagrees that this is a significant deficiency. This deficiency does not adversely affect the University's ability to administer Federal programs such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.

The University implemented a new student information system, NeSIS that went live in September, 2010. A portion of the NeSIS Student Administration and Contributor Relations (SACR) security was turned off during the go-live phase of the implementation to better serve the students by creating a u-wide cadre of financial aid experts able to address student needs during the go-live. The implication of turning off a portion of the SACR security was 43 users had security to change award <u>configuration parameters only</u> at campuses other than their own. This <u>did not</u> permit the users to alter a specific individual student's awards granted at a specific campus.

The users are familiar with one another and their respective campuses. The users collaborate and devote joint efforts as a group to enhance and develop the NeSIS system. The likelihood is high that inappropriate changes to campus level award parameters will be detected as several compensating controls exist. For example, if award parameters were to have been changed, campus budgets for aid, remissions, number of students awarded, size of awards would be detected in the course of business, making the potential for noncompliance low.

During implementations of this magnitude, certain levels of acceptable risk must be brooked. With the initial enrollment and award periods now past, with no instances of non-compliance of the nature alluded to by the APA found, it is an appropriate time to revisit the SACR security and tighten controls.

Corrective Action Plan: The University's plan is to enable SACR auditing for all SACR changes.

Contact: Don Mihulka, Associate CIO/Director of NeSIS and Mark Snook, NeSIS Technical Director.

Anticipated Completion Date: June 30, 2012.

APA Response: AICPA Auditing Standards, 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.

5. <u>Inappropriate Access to Change Passwords</u>

Program: Student Financial Aid Cluster – Allowability

Grant Number & Year: Due to the crosscutting nature of this finding, all Student Financial Aid Cluster CFDAs open in the fiscal year ended June 30, 2011, are affected.

Federal Grantor Agency: U.S. Department of Education

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."

IT Governance Institute's Control Objectives for Information and Related Technology (COBIT) states, in part, control objectives over user account management include a process to "Address requesting, establishing, issuing, suspending, modifying and closing user accounts and related user privileges with a set of user account management procedures. Include an approval procedure outlining the data or system owner granting the access privileges. These procedures should apply for all users, including administrators (privileged users) and internal and external users, for normal and emergency cases. Rights and obligations relative to access to enterprise systems and information should be contractually arranged for all types of users. Perform regular management review of all accounts and related privileges."

A good internal control plan includes establishing a formal authentication process, which includes a normal process be established to change a user's password.

Condition: We noted 17 University users with access to NeSIS had the ability to log in as any established user by bypassing the established authentication process.

Questioned Costs: None

Cause: Some users are using the access to log in as users for troubleshooting issues.

Context: These users were not limited to accessing subordinate's accounts, student's accounts, or employee's accounts. The ability did not require knowledge of another user's password, nor would the user know if their account was accessed or compromised in this manner.

Effect: When users are allowed to circumvent established authentication controls, there is a decrease in accountability as one of these 17 users could log into NeSIS as someone else, and any changes made in the production environment would appear to have been performed by the actual owner of the user account.

Recommendation: We recommend the University remove this access. If this access is required in unique situations, we recommend it be temporarily granted only when needed. We also recommend implementing controls to immediately identify and document users who authenticate to NeSIS by bypassing established authentication processes.

> **Management Response:** The University disagrees that this is a significant deficiency. This deficiency does not adversely affect the University's ability to administer Federal programs such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.
>
> The University did permit 17 users who have the ability to troubleshoot problems to log on as another user to assist other users by solving problems they were having during the go-live phase of the NeSIS system. This was a temporary situation to ensure the success of NeSIS. The University has reviewed the requirements of the identified individuals who have ability to change a user's password to help another user resolve a problem or system issue and is taking steps to document any bypasses to the established authentication process. We disagree permitting a group of professional users to log on as another user for troubleshooting and problem solving is a significant deficiency during a go-live system implementation period of time.
>
> During implementations of this magnitude, certain levels of acceptable risk must be brooked. With the go-live now accomplished - with no instances of non-compliance of the nature alluded to by the APA found, this feature was shut down as of the date of this reply.
>
> **Corrective Action Plan:** A customization to NeSIS was placed into production to address specific requests to access the system for technical trouble shooting requirements. This customization permits an authorized support staff person who has a specific need to request access the production system for a brief duration, for a specific purpose, and how long they need access.
>
> The requestor is temporarily granted ("checked out") for the specific troubleshooting need and the time requested. Temporary access is removed after the time period elapses.

Contact: Don Mihulka, Associate CIO/Director of NeSIS and Mark Snook, NeSIS Technical Director.

Anticipated Completion Date: Completed January 17, 2012.

APA Response: AICPA Auditing Standards, 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.

Furthermore, there were no controls in place, no logging available making it difficult to identify noncompliance issues. While financial aid sample testing did not find instances of noncompliance, there were no IT controls in place surrounding the ability to hijack other accounts to reduce the level of risk to a reasonable level.

B. BASIC FINANCIAL STATEMENTS MANAGEMENT LETTER COMMENTS

6. Payroll Process

Our previous three audits noted some variation in the University payroll process at each of the campuses; however, the University's payroll process can generally be described as a negative reporting system. This means employees will be paid the same amount each pay period unless the Human Resources (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.

After payroll has processed, campus departments may have a report noting individual employees' payroll information sent to them for their review. 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 the 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 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 provided 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 document their review and approval of payroll reports.

Given the fact timesheets are not kept by many employees and there is no documentation that payroll was reviewed by supervisors; 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: There are detective and budgetary controls currently in place which mitigate the risk of faculty and managers having fraudulent personnel in the payroll system. Deans, directors, departmental chairs, and principal investigators review available reports and on-line comparisons of expense to budget during the year to assure budget expenditures are proper. The suggestion of payroll being approved by each manager in advance is, in practice, impractical and the cost of creating the process suggested by the auditor will outweigh the additional control benefits gained.

APA Response: The University stated that deans, directors, departmental chairs, and principal investigators review available reports and on-line comparisons of expense to budget; however, these reviews are not always documented.

7. <u>Journal Entry Access</u>

The University has 640 individuals that have access in SAP to process and post journal entries from beginning to end. The 640 individuals are distributed among the campuses as follows:

UNL	355
UNMC	187
UNO	78
UNCA	16
UNK	4
All Campuses	640

Journal entries had no system documented approval prior to being posted to the general ledger. There is also no approval from the accounting department giving access to these individuals to process journal entries in SAP.

A good internal control plan requires journal entries be reviewed and approved before they are posted to the general ledger. A good internal control plan also requires the access in SAP to process journal entries be given to those individuals actually needing such access.

Without adequate controls over the processing of journal entries there is an increased risk entries will be made in error and the error will go undetected.

We recommend the University review and approve journal entries prior to posting them in SAP. This approval could be done by the department administrators. We also recommend the University review the need for 640 individuals having access to process journal entries on SAP.

Management Response: The University has deployed the system with the goal of having the user communities utilize the SAP system to account for their departmental and project costs rather than maintain sets of internal local spread sheet files.

To address the comment made by the APA, a journal review policy was put into place. Non-Federal revenue and expense journal entries greater than $50,000 are reviewed monthly. Federal expense journal entries greater than $500 are reviewed monthly. It is believed this practice, which encompasses 98% of the dollar value of university journal entries, mitigates the risk of not having a prior approval process.

8. University Bank Accounts

We noted the University's emergency checking account balances were not fully recorded on their Basic Financial Statements and the accounts were being used as depository or clearing accounts, not solely for emergencies as authorized by State Statute. We also noted the University had not developed policies or procedures to monitor compliance with statutorily authorized amounts of the emergency checking accounts.

Neb. Rev. Stat. § 85-125 (Supp. 2011), § 85-192 (Supp. 2011), and § 85-1,123 (Supp. 2011) establish cash funds at UNL and UNMC, UNO, and UNK, respectively. These statutes all state the fund shall be in the custody of the State Treasurer, except that there may be retained by the Board of Regents, at the University of Nebraska at Omaha and at the University of Nebraska at Kearney "a sum not to exceed two percent of the fund, which shall be available to make settlement and equitable adjustments to students entitled thereto, to carry on university activities contributing to the fund, and to provide for contingencies."

Neb. Rev. Stat. § 85-128 (Reissue 2008) 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."

A good internal control plan requires policies or procedures to ensure compliance with amounts retained on hand by State Statute.

Neb. Rev. Stat. § 85-125 (Supp. 2011), § 85-192 (Supp. 2011), and § 85-1,123 (Supp 2011) were amended by 2011 Neb. Laws LB 378 effective on May 17, 2011, to authorize the University cash funds to have amounts on hand at two percent of their respective balances. Prior to this the authorized amounts on hand were $300,000 for UNL, $178,000 for UNMC, and $175,000 each for UNO and UNK.

The following table notes the activity and year end balances for the emergency checking accounts for each campus:

Campus	Deposits	Withdrawals	Balance at June 30, 2011	Number of Accounts
UNL	$ 65,569,056	$ 65,127,271	$ 1,187,305	18
UNMC	57,539,908	57,766,329	499,318	2
UNO	10,756,513	10,728,483	122,097	1
UNK	2,246,176	2,345,941	140,414	3
Totals	$ 136,111,653	$ 135,968,024	$ 1,949,134	24

UNL, UNMC, and UNO recorded their previous statutorily authorized amounts as cash on their financial statements instead of their actual bank balances at June 30, 2011, or a reconciled book balance. This resulted in an understatement of cash on the University's Basic Financial Statements of $1,155,720.

The deposit and withdrawal activity in excess of $135 million is also indicative of depositor or clearing activity through these accounts, instead of funds being deposited directly with the State Treasurer. It appears the University may be using these accounts to process certain types of transactions, such as wire transfers, independent of the State Treasurer. University management indicated this could be due to timing issues and the inability of the State Treasurer and the University to identify what departments should be credited. The emergency checking accounts were also used when the University did not wish to wait for a state warrant to be processed and issued.

The University's Basic Financial Statements do not report the proper amount of cash held by the University. The University is also not in compliance with State Statute by using the emergency checking accounts as depository accounts instead of depositing funds directly with the State Treasurer. There is also an increased risk of noncompliance with State Statute when there are not adequate policies or procedures to monitor emergency checking account balances.

> We recommend the University adopt the following recommendations:
> 1. Report all cash held by the University on their Basic Financial Statements.
> 2. Work with the State Treasurer to ensure their deposit activity is in compliance with State Statute.
> 3. Develop and implement policies or procedures to monitor emergency checking account balances and ensure they are in compliance with State Statute.

Management Response: The University has worked with the State Treasurer's Office and will continue to do so regarding the use of bank accounts to receive and disburse funds on a timely and equitable basis to students, employees, and vendors. We will continue to mutually determine a solution that achieves a balance between responsibilities of the Treasurer's Office to carry out their duties while allowing the University to be responsive to its varied state-wide constituents.

Additionally, entries related to these accounts will be included in accrual entries for the year ended June 30, 2012.

9. **Payroll Vendor Payments**

Since 2003, the State of Nebraska (State) has utilized EnterpriseOne accounting software to record all of its official financial records in one centralized system. However, for more than a decade, the University has relied upon its own separate software, SAP, which interfaces with EnterpriseOne, for accounting purposes.

Payroll vendor payments are set up differently in SAP than in EnterpriseOne. 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 BCBSNE, 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, 2010, and June 30, 2011:

Vendor	**University**
Payment for Health and Dental Insurance*	$ 106,096,005
TIAA/CREF (Retirement)	$ 72,849,608
All other Payments	$ 72,427,665
Total	**$ 251,373,278**

* Because its employee health insurance plan is self-insured, 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's 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 (DAS) 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. This was noted as a prior year finding.

> We recommend the University work with DAS to develop a process that allows vendor payments to be accurately recorded in the State's accounting system.

Management Response: The University understands this comment as it references the University's imprest payroll fund currently maintained in the Nebraska Information System (NIS). The University will explore accounting for the imprest payroll account activity in its SAP system and interface the transactions to NIS. This will facilitate the University's ability to interface invoices entered into SAP to NIS for the payment of payroll taxes and disbursements for other payroll deductions. Invoices or support documentation will be available at the University for APA review.

10. Basic Financial Statements Capital Assets

See also Comment 11 (Research and Development Capital Asset Management)

The University's policy does not require capital assets to be tagged for items under $5,000, including sensitive items such as laptops, printers, and cameras. Issues related to specific campuses are as follows.

UNL
UNL's inventory is not reported to DAS by August 31 of each year as required by State Statute.

UNL performs a centralized inventory every two years, but does not enter the last inventoried date in SAP. As a result, we were unable to determine how many, if any, capital assets have not been inventoried in the last two years.

UNMC
We noted UNMC does not perform an annual inventory. There were 808 items with an inventory date prior to June 30, 2010, or no inventory date. Of these 808 items, there were 276 items with an inventory date prior to June 30, 2009, and 199 items with no inventory date. Of the items with an inventory date prior to June 30, 2009, or with no inventory date, 89 items were purchased with Federal funds and had inventory dates before June 30, 2009, or had no inventory date.

Additionally, it was noted that sufficient information was not being sent to the accounting department during the disposal process of capital assets and adequate procedures were not in place to ensure that proceeds from the disposal of federally funded assets were remitted back to the Federal awarding agency.

UNO

UNO did not have procedures to ensure capital assets are inventoried annually. During the current year, UNO separated the capital asset inventorying process to a departmental review process in order to increase the ease of performing inventory procedures. UNO is currently working on establishing a schedule to ensure that departments are inventoried every other year. During fiscal year 2011, we noted UNO had 497 items that had not been inventoried in the last year; five of these items had not been inventoried in the last two years.

UNK

From ten assets selected for review, we noted one asset was not properly tagged. Another asset, that was fully depreciated, could not be located. Per UNK, this asset was disposed of, however, there was no documentation of the disposal and it was not recorded in SAP.

UNCA

A pickup request for equipment located in the Video Conference Room in the Varner Hall Business Office was submitted on May 10, 2006. Disposal was not removed from inventory records until March 4, 2011, and was recorded with a retirement date of July 1, 2010.

Neb. Rev. Stat. § 81-1118.02 (Supp. 2011) states, "(1) Each executive, department, commission, or other state agency, including the Supreme Court, the Board of Regents of the University of Nebraska, 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… (3) 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."

A good internal control plan requires procedures be in place to monitor equipment to ensure equipment is not lost or misappropriated and that disposals are removed from inventory listings timely.

We recommend the following:

1. All capital assets, including sensitive items under $5,000, should be marked "Property of the State of Nebraska."
2. An inventory of all capital assets should be completed annually.
3. The last inventoried date for capital assets should be recorded on SAP to maintain an accurate record of when the assets were inventoried.
4. The annual inventory should be filed with DAS by August 31 each year in compliance with State Statute 81-1118.02(1).

Management Response: The University's believes its system of internal controls provides an adequate framework for accounting for capital assets. Additional measures planned to bolster the system are as follows.

(1) The University's capitalization policy provides for the capitalization of items costing more than $5,000. Items costing less than $5,000 are charged to expense. Even though an item may cost less than $5,000, the University's staff does make certain that supplies and materials and similar items are safeguarded and available for use by the University even though it is not tagged "Property of the State of Nebraska". Certain sensitive items not inventoried are added to the SAP objects on loan module or kept in a local departmental reference file. The campuses continue to add more items to objects on loan.
(2) The University follows its fixed asset policy that provides for an equipment inventory every two years, consistent with Federal inventory requirements included in OMB Circular A-110. The University will continue to work with DAS to seek revision of state statutes to allow a physical inventory every two years, congruent with Federal expectations.
(3) The University will strive to record the last inventoried date in SAP for inventoried equipment.
(4) Each campus will print a file of all capitalized equipment from SAP every year and forward it to the DAS Materials Division.

C. OMB CIRCULAR A-133 SINGLE AUDIT MANAGEMENT LETTER COMMENTS

11. Research and Development Capital Asset Management

Also see Comment 10 (Basic Financial Statements Capital Assets)

Program: Research & Development Cluster – Equipment and Real Property Management

Grant Number & Year: Various

Federal Grantor Agency: Various

Criteria: 2 CFR § 215.34 (January 1, 2011) requires the following:

> *"(f)(1) Equipment records shall be maintained accurately and shall include the following information…(vii) Location and condition of the equipment…(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…*

> *(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment…*
>
> *(g) … If the recipient has no need for the equipment, the recipient shall request disposition instructions from the Federal awarding agency."*

Neb. Rev. Stat. § 81-1118.02(3) (Supp. 2011) 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."

Condition: We noted the following:

1. Fixed asset records in SAP do not include the condition of the asset.
2. Capital assets under $5,000 are not indelibly tagged, marked, or stamped as property belonging to the State of Nebraska, with the following: "Property of the State of Nebraska."
3. Various issues during testing of R&D capital assets and during follow-up of the prior year finding as explained below.

Questioned Costs: None

Cause: Unknown

Context:

UNO

Findings noted in the previous year were not appropriately followed up on: For one of ten Federal assets tested, the asset was not properly tagged. However, after auditor inquiry during the current year audit, the asset has subsequently been tagged.

UNMC

For three of seven assets tested, the purchase was not properly reviewed and determined to be a Federal capital asset when it should have been. However, after these errors were brought to UNMC's attention, they performed a review of any assets coded to a possible Federal account and made any necessary changes. This review included 748 assets. UNMC changed 48 assets incorrectly marked as non-Federal assets to Federal assets and 13 assets incorrectly marked as Federal assets to non-Federal assets. We examined UNMC's review and the changes noted above and determined UNMC's Federal assets now appear to be marked appropriately.

UNMC did not have documented procedures to ensure any disposed assets were reviewed to determine: (1) If the asset was federally funded and (2) The fair market value of the federally funded asset. We did observe new procedures implemented on May 2, 2011. However, these were not in effect during the entire fiscal year and it does not appear the review of the asset was documented.

In the prior fiscal year, we 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. This procedure does not require proper notification to the Federal awarding agency of the transfer to ensure the asset is accounted for properly in the future. UNMC has established procedures to notify the Federal awarding agency of any transfers of equipment. However, these procedures did not go into effect until May 2, 2011, and did not apply to the entire fiscal year.

For two of ten assets, there was no documentation that a physical inventory had been completed within the last two years. One of these assets was not tagged until September 28, 2011, when it was purchased on September 1, 2009. The other asset had a date of December 10, 2010; however, UNMC did not have supporting documentation of why this date was entered since it was a manual entry.

UNL

For two of 30 assets, one asset could not be located and one asset was not tagged nor was the tag located on the asset memo.

In the prior fiscal year, we noted UNL'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. This procedure did not require proper notification to the Federal awarding agency of the transfer to ensure the asset is accounted for properly in the future. UNL has established procedures to notify the Federal awarding agency of any transfers of equipment. However, these procedures did not go into effect until April 2011 and did not apply to the entire fiscal year.

Effect: Lack of controls over federally funded equipment increases the risk of loss or misuse of Federal funds. Also, the University is not in compliance with State and Federal requirements. This was a prior year report comment.

Recommendation: We recommend the University improve control procedures over federally funded equipment to ensure assets are properly tagged, noted as Federal equipment, located and properly inventoried on at least a biennial basis in accordance with Federal requirements. We also recommend UNL and UNMC ensure the revised procedures regarding the transfer and disposal of Federal equipment are followed to comply with Federal requirements. Finally, we recommend equipment records in the accounting system reflect the condition of the asset.

Management Response: The University believes its system of internal controls provides an adequate framework for accounting for capital assets. Additional measures planned to bolster the system are as follows.

(1) The campuses will continue the efforts initiated during fiscal 2011 to identify capital Federal funded equipment and to capitalize and inventory all equipment every two years costing more than $5,000 according to the University's capitalization policy.
(2) UNL and UNMC established procedures during 2011 regarding the transfer of research equipment to another research institution. These procedures were adopted in April 2011 and May 2011 respectively.

(3) The University will explore how to capture the condition of capital assets during the biennial inventory which are identified as being purchased with Federal funds.

Corrective Action Plan: The University will (1) continue efforts initiated in 2011 to identify capital Federal funded equipment and inventory equipment every two years, (2) follow established procedures for the transfer of research equipment, and (3) explore how to capture the condition of Federal capital assets.

Contact: Mary LaGrange, UNL Controller, Carol Kirchner, UNMC Controller, and Joe Huebner, UNO Controller.

Anticipated Completion Date: Action 2 is completed, actions 1 and 3 to be completed by the end of the next inventory cycle.

12. <u>ARRA Subrecipient Monitoring</u>

Program: Research & Development Cluster – Special Tests

Grant Number & Year: Various

Federal Grantor Agency: Various

Criteria: 2 CFR § 176.210(c) (January 1, 2011) 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."

Condition: During fiscal year 2011, UNL and UNMC did not notify ARRA subrecipients of the Federal award number, CFDA number, and the amount of ARRA funds at the time of disbursement of funds.

Questioned Costs: None

Cause: Unknown

Context: UNL implemented procedures on January 5, 2011, to notify ARRA subrecipients at the time of disbursement of the above required information. As of June 2011 UNMC had not yet implemented procedures to comply with this requirement.

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 UNL continue the procedures implemented in January 2011 and UNMC begin notifying ARRA subrecipients of the Federal award number, CFDA number, and amount of ARRA funds at the time of the disbursement.

Management Response: The deficiency noted has been corrected as of the date of this response. The UNL campus implemented procedures in January 2011 to notify ARRA sub-recipients of the Federal award number, CFDA number, and the amount of ARRA funds at the time of disbursement of funds. UNMC implemented these procedures in December, 2011.

Corrective Action Plan: Corrective action has been completed.

Contact: Mary LaGrange, UNL Controller, Carol Kirchner, UNMC Controller

Anticipated Completion Date: Completed December 31, 2011.

13. Return of Title IV Funds

Program: Student Financial Aid Cluster – Special Tests

Grant Number & Year: Due to the crosscutting nature of this finding, all Student Financial Aid Cluster CFDAs open in the fiscal year ended June 30, 2011, are affected.

Federal Grantor Agency: U.S. Department of Education

Criteria: 34 CFR § 668.22(f)(2)(i) (July 1, 2010) states, "The total number of calendar days in a payment period or period of enrollment includes all days within the period, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period."

34 CFR § 668.164(g) (July 1, 2010) states, "Late disbursements – (1) Ineligible student. For purposes of this paragraph, an otherwise eligible student becomes ineligible to receive title IV, HEA program funds on the date that- (i) For a loan under the FFEL and Direct Loan programs, the student is no longer enrolled at the institution as at least a half-time student for the period of enrollment for which the loan was intended; or (ii) For an award under the Federal Pell Grant, ACG, National SMART Grant, FSEOG, Federal Perkins Loan, and TEACH Grant programs, the student is no longer enrolled at the institution for the award year."

34 CFR § 668.22(c) (July 1, 2010) states, "Withdrawal date for a student who withdraws from an institution that is not required to take attendance. (1) For purposes of this section, for a student who ceases attendance at an institution that is not required to take attendance, the student's withdraw date is — … (iii) If the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c)(1)(i) or (c)(1)(ii) of this section, the mid-point of the payment period (or period of enrollment, if applicable)."

34 CFR § 668.173(b) (July 1, 2010) states, "In accordance with procedures established by the Secretary or FFEL Program lender, an institution returns unearned title IV, HEA program funds timely if — (1) The institution deposits or transfers the funds into the

bank account it maintains under § 668.163 no later than 45 days after the date it determines that the student withdrew; (2) The institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew; (3) The institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs a FFEL lender to adjust the borrower's loan account for the amount returned; or (4) The institution issues a check no later than 45 days after the date it determines that the student withdrew."

34 CFR § 668.22(j)(2) (July 1, 2010) states, "An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the — (i) Payment period or period of enrollment, as appropriate, in accordance with paragraph (e)(5) of this section; (ii) Academic year in which the student withdrew; or (iii) Educational program from which the student withdrew."

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."

A good internal control plan requires a documented review by a second individual to ensure return of title IV funds calculations are performed correctly.

Condition: We noted the following during our testing of the University's return of title IV funds:

UNL
For one of nine students tested, the number of total days in the spring semester used for the calculation of the return of title IV funds was not correct.

UNK
For one of five students tested, the student withdrew and no return of title IV funds calculation was performed.

UNO
For one of six students tested, a return of title IV funds calculation was not performed in a timely manner. Upon further review, we determined another 34 students did not have this calculation performed in a timely manner. Of the aforementioned 35 students, title IV funds were not returned within the required timeframe for 17 students: 14 students from the fall semester and 3 students from the spring semester.

For one of six students tested, there was not a documented review by a second individual of the return of title IV funds calculation.

UNMC
UNMC does not have a documented review by a second individual of the return of title IV funds calculation. For two of five students tested, the number of total days in the semester used for the calculation of the return of title IV funds was not correct.

Questioned Costs:
UNL: $658
UNK: $5,512
UNO: $46,775
UNMC: None

Cause:
UNL
The Saturday before spring break was excluded from the total number of calendar days in the semester; however, class was held so it should have been included.

UNK
The progress unit flag on NeSIS was not being set by the registrar when students withdrew. Therefore, the system was not recognizing students with "W" grades as withdrawn but rather as still enrolled.

UNO
There was an error in how the "All F" report was written causing the report to be incomplete.

UNMC
Unknown

Context:
UNL
The campus calculated 108 days in the spring semester while the correct number of days was 109. This resulted in the total amount of title IV funds earned by the students to be $658 more than it should have been using the correct number of days. For the student tested in the spring semester, the difference was $11.

UNK
The return of title IV funds calculation was not performed for a student in the fall 2010 semester because UNK was not aware one needed to be completed. The student was enrolled in classes for the fall semester but withdrew on September 10, 2010, prior to being awarded financial aid. The student re-enrolled and completed the spring semester. They did not submit a Free Application for Federal Student Aid (FAFSA) to the Federal Aid Center until January 3, 2011. Aid is not awarded and disbursed until the University has received the student's Institutional Student Information Report (ISIR); therefore, no aid was disbursed to them in the fall semester and a return of title IV funds calculation was not performed when they withdrew. When the University received the student's ISIR in January, the system automatically generated their aid package. Since the system still recognized the student as being enrolled in the fall semester, it awarded and disbursed the aid funds for both the fall and spring semesters. The student received a Pell grant of $2,775 and a subsidized Stafford loan of $2,737 for a total of $5,512 aid each semester. Since the student was not actually enrolled in the fall semester, the student was not eligible for aid.

At the beginning of the 2010 fall semester, UNK noticed students who were registered for classes which they had subsequently dropped were still getting aid credited to their student accounts. It was determined the "progress unit" flag in NeSIS was not being set by the registrar. This caused the system to recognize students withdrawn from all classes as enrolled students. When this was determined, queries were generated from NeSIS to identify withdrawn students who were incorrectly receiving aid credited to their account. These accounts were subsequently adjusted.

UNO

When we asked for documentation of the return of title IV funds calculation, it was determined a calculation had not been performed because the student did not show up on the original "All F" report run on May 27, 2011. It was then determined the "All F" report was incomplete for both the fall 2010 and spring 2011 semesters due to how the report was written. The "All F" reports were re-run for both semesters on July 6, 2011, after the error in how the report was written was determined and corrected. Due to this error, we noted 14 additional students for the fall semester and 21 additional students for the spring semester who needed return of title IV funds calculations performed and funds returned to the appropriate Federal funding agencies. The total amount to be returned for these additional students was $46,775.

Federal compliance requires the withdrawal date to be determined within 30 days after the end of the semester. Since the "All F" report was not re-run until July 6, 2011, UNO would not have been in compliance with this requirement for any of the 35 students. UNO then has 45 days from the date the withdrawal was determined to return the funds. UNO would not have been in compliance with this requirement for the 14 students indentified for the fall semester. For the spring semester, UNO had only identified 18 of the 21 students identified by the APA that needed a calculation performed. Since the last day of the spring semester was 5/6/2011, the funds were required to be returned by July 20, 2011. Therefore, UNO was not in compliance for the three additional students identified by the APA on July 21, 2011.

UNMC

Per the Director of Financial Aid, she performs the calculation for the return of title IV funds and the Assistant Director of Financial Aid reviews the calculation with her. However, this review was not documented.

For one student that withdrew in the fall semester, 118 days was used in the calculation for the total number of days in the semester, but should have been 117 days. Therefore, UNMC returned $24 more than needed for this student.

Another student withdrew in the spring semester and 110 days was used in the calculation for the total number of days in the semester. The total number of days should have been 109, causing UNMC to return $12 more than needed for this student.

Effect: When the total number of days in a semester is not calculated correctly, the amount of title IV funds returned will not be calculated correctly which causes the school to return the incorrect amount.

When the system does not accurately reflect when a student has withdrawn, there is an increased risk financial aid will be awarded to students that are not eligible.

When a second review of the return of title IV funds calculation is not documented, there is an increased risk the calculation could be performed incorrectly, resulting in the incorrect amount of funds returned.

When the return of title IV funds calculations are not performed timely and the funds are not returned in the required timeframe, the University is not in compliance with Federal requirements.

Recommendation: We recommend the University ensure the correct total number of days per semester is used in all return of title IV funds calculations. We recommend UNK ensure the registrar is adequately identifying withdrawn students as no longer enrolled. We recommend UNO ensure all return of title IV funds calculations are performed within the required timeframe and all applicable title IV funds are returned within the required timeframe. We recommend UNO and UNMC ensure a review of the return of title IV funds calculation is performed and documented by a second individual.

Management Response: The University will ensure the correct number of days per semester or academic calendar period is used in the calculation of the return of Title IV funds at all the campuses.

At UNK, the campus discovered a problem in October, 2010 with financial aid disbursements to students who had withdrawn. Changes were put into place to correct the problem on January 15, 2011. However the second semester had begun on January 10, 2011 so the correction was not effective until the beginning of the summer 2011 term.

At UNO, an all F's grade report was revised to include all Title IV recipients who should have their aid recalculated which will prevent a reoccurrence of the error noted by the auditor.

At UNMC, the campus has twelve academic calendars that affect the disbursement of student aid which can be confusing when the correct calendar must be referenced in NeSIS each time a student withdraws. UNMC will begin using an electronic "federal" R2T4 system for the spring 2012 semester which will make it easier to calculate the return of funds.

Corrective Action Plan: Each campus will have a second person recalculate the number of days per semester or academic period after a calculation is made by a department staff member.

The report correction made by UNK was completed before the first summer session of 2011, the UNO report correction was made in July 2011, and the UNMC implementation of the R2T4 system was made in January 2012.

The questioned costs of $5,512 at UNK, $46,775 at UNO, and $658 at UNL were returned to the Department of Education by July, 2011.

Contact: Mary Sommers, UNK Director of Financial Aid, Randall Sell, UNO Director of Financial Aid, and Judith Walker, UNMC Director of Financial Aid

Anticipated Completion Date: UNK completed January 2011, UNO completed July 2011, and UNMC completed January 2012.

14. Direct Loan School Account Statement (SAS) Data File Reconciliation

Program: CFDA 84.268 – Federal Direct Student Loans – Special Tests

Grant Number & Year:
UNL: P268K1002650 (FFY 2010); P268K1102650 (FFY 2011)
UNK: P268K111779 (FFY 2011)
UNO: P268K1117810 (FFY 2011)
UNMC: P268K1112869 (FFY 2011)

Federal Grantor Agency: U.S. Department of Education

Criteria: 34 CFR 685.102(b) (July 1, 2010) states, "*Standard origination:* In general, under this option the school performs the following functions: creates a loan origination record, transmits the record to the Servicer, receives funds electronically, disburses funds, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis."

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."

A good internal control plan requires procedures to ensure compliance requirements are performed and reviewed in a timely manner.

Condition: The four University of Nebraska campuses did not reconcile their respective direct loan SAS data files monthly per Federal compliance requirements. Furthermore, there were not adequately designed internal control plans to ensure compliance with this requirement on each of the four campuses.

Cause: Per discussion with University staff, implementation of the Federal Direct Loan program at three campuses and NeSIS at all four campuses caused a lack of resources that prevented the University's campuses from implementing adequate procedures to meet and ensure compliance with the requirements noted in the criteria above.

Questioned Costs: None

Context: NeSIS has a reconciliation report, FADLRECN, which can be run after the SAS data file is imported into the system. FADLRECN reconciliation reports run prior to November 15, 2010, were erased from the system entirely, and we were unable to verify if the report had been run prior to that date.

UNL
We noted on NeSIS, the UNL Associate Director of Financial Aid ran the FADLRECN report a total of three times on the following dates: January 3, 2011, and June 23, 2011.

UNK
We noted on NeSIS, a UNK Financial Aid Counselor ran the FADLRECN report a total of 19 times on the following dates: November 15, 2010; November 23, 2010; February 7, 2011; March 11, 2011; and June 27, 2011. The reconciliation reports ran by UNK prior to June 27, 2011, were not maintained and we were unable to view them.

UNO
We noted on NeSIS, the UNO Assistant Director of Financial Aid ran the FADLRECN report a total of 15 times on the following dates: January 11, 2011; February 28, 2011; March 10, 2011; April 6, 2011; April 7, 2011; June 2, 2011; and June 27, 2011. The reconciliation reports ran by UNO prior to June 27, 2011, were not maintained and we were unable to view them.

UNMC
We noted on NeSIS, the UNMC Assistant Director of Financial Aid ran the FADLRECN report a total of 11 times on the following dates: December 8, 2010; December 9, 2010; February 16, 2011; March 15, 2011; and April 11, 2011. The reconciliation reports ran by UNMC prior to April 11, 2011, were not maintained and we were unable to view them.

Effect: There is an increased risk of errors or omissions not being detected when required reconciliations are not performed or reviewed in a timely manner.

Recommendation: We recommend the University implement procedures at all four campuses to ensure the direct loan SAS data files are reconciled to NeSIS and SAP monthly per Federal compliance requirements and these reconciliations be subject to a documented secondary review.

> **Management Response:** The University campuses agree they will reconcile their respective loan SAS data files monthly.
>
> **Corrective Action Plan:** Each campus will complete a reconciliation of the direct loan SAS data files, NeSIS, and SAP on a monthly basis and have a second person review the reconciliations.

Contact: Mary Sommers, UNK Director of Financial Aid, Randall Sell, UNO Director of Financial Aid, and Judith Walker, UNMC Director of Financial Aid, Kay Dinkelman, UNL Associate Director of Financial Aid.

Anticipated Completion Date: Completed September, 2011.

15. Notification of Loan Disbursements to Student Accounts

Program: CFDA 84.268 – Federal Direct Student Loans (FDL); CFDA 84.038 – Federal Perkins Loan Program (FPL) – Special Tests

Grant Number & Year: FDL P268K1128690 (FFY 2011) and all open FPL grants

Federal Grantor Agency: U.S. Department of Education

Criteria: 34 CFR § 668.165(a)(3) (July 1, 2010) states, "The institution must provide the notice described in paragraph (a)(2) of this section in writing – (i) No earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution, if the institution obtains affirmative confirmation from the student under paragraph (a)(6)(i) of this section…."

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."

A good internal control plan requires procedures to ensure notifications of loan funds being credited to students' accounts are made as required.

Condition: For all ten students tested at UNMC, the students were not notified that their financial aid was being disbursed to their student accounts.

Questioned Costs: None

Cause: With the implementation of NeSIS, UNMC did not get the piece set up in NeSIS to notify students of the disbursement of their loans.

Context: Prior to NeSIS, UNMC notified students that a paper check was ready for them to pick up. The check would outline which direct loans were subsidized and unsubsidized. With the implementation of NeSIS, UNMC decided to distribute title IV funds electronically to the students' accounts; however, UNMC did not include the required notification under this process.

Effect: UNMC was not in compliance with Federal regulations. Furthermore, the student or parent may not have known about the loan disbursement and would not have had an opportunity to modify or cancel it.

Recommendation: We recommend UNMC establish procedures to ensure that the student or parent is notified of the amount of the loan, when it will be disbursed and how much of the direct loans are subsidized and unsubsidized.

Management Response: UNMC did not notify students that loans were credited to their respective student accounts.

Corrective Action Plan: UNMC developed a communication template to send to students to notify them when a loan had been credited to their student account.

Contact: Judith Walker, UNMC Director of Financial Aid.

Anticipated Completion Date: Completed September, 2011.

16. <u>Auditor NeSIS Access</u>

Program: Student Financial Aid Cluster – Allowability

Grant Number & Year: Due to the crosscutting nature of this finding, all Student Financial Aid Cluster CFDAs open in the fiscal year ended June 30, 2011, are affected.

Federal Grantor Agency: U.S. Department of Education

Criteria: Neb. Rev. Stat. § 84-305 (Reissued 2008) states, in part, "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."

In addition, 34 CFR § 668.24(f) (July 1, 2010) *Examination of records* states, in part, "(1) An institution that participates in any title IV, HEA program and the institution's third-party servicer, if any, shall cooperate with an independent auditor, the Secretary, the Department of Education's Inspector General, the Comptroller General of the United States, or their authorized representatives, a guaranty agency in whose program the institution participates, and the institution's accrediting agency, in the conduct of audits, investigations, program reviews, or other reviews authorized by law. (2) The institution and servicer must cooperate by—(i) Providing timely access, for examination and copying, to requested records, including but not limited to computerized records and records reflecting transactions with any financial institution with which the institution or servicer deposits or has deposited any title IV, HEA program funds, and to any pertinent books, documents, papers, or computer programs."

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."

A good internal control plan requires significant accounting systems, such as NeSIS, have a specific inquiry only access role developed for auditors to allow them to adequately conduct audits.

Condition: The Auditor of Public Accounts (APA) has not been granted inquiry access to the University of Nebraska's student information system known as NeSIS which contains student records, information essential to comply with Federal audit requirements.

Questioned Costs: None

Cause: Unknown

Context: Access was initially requested on March 31, 2011. On November 21, 2011, representatives from the Nebraska State College System, University of Nebraska, and the APA met to further discuss the issue of NeSIS inquiry access and agreed that they would work together to ensure such access going forward. In order to obtain all NeSIS data necessary for testing of the Student Financial Aid Cluster for the fiscal year ended June 30, 2011, the APA obtained hardcopy NeSIS screen prints from University personnel.

Effect: When the APA cannot view original student financial aid records as they exist in the University of Nebraska's official system of record, there is an increased risk of incomplete and/or altered information being made available for testing of Federal compliance requirements.

Recommendation: We recommend the University create "inquiry only" NeSIS access for the APA.

> **Management Response:** Access to several NeSIS system screens were given to the APA auditors on June 27, 2011. These screens were used by the APA auditors as they moved from one campus to another. However upon the auditors' completion of the 2011 audit, they determined that additional screen access was needed. We are currently working with the APA staff to identify and add the additional screens that are needed specifically to complete future audits. We will also work with the APA to balance their needs with our need to protect student information.
>
> **Corrective Action Plan:** Develop additional security roles for APA auditors (such as inquiry only access) to be used for the audit process during the course of the audit.
>
> **Contact:** Don Mihulka, Associate CIO/Director of NeSIS.
>
> **Anticipated Completion Date:** June 1, 2012.

17. NeSIS Terminated User Access

Program: Student Financial Aid Cluster – Allowability

Grant Number & Year: Due to the crosscutting nature of this finding, all Student Financial Aid Cluster CFDAs open in the fiscal year ended June 30, 2011, are affected.

Federal Grantor Agency: U.S. Department of Education

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."

The University of Nebraska Executive Memorandum No. 16 (Section 5) states, "Unauthorized access to information systems is prohibited… 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."

A good internal control plan requires procedures to ensure compliance with University policies that could affect federally funded programs.

Condition: For seven of eight terminated University employees tested with NeSIS access, their access was not removed within three business days following the termination. Furthermore, there was no documentation available to indicate that the appropriate staff had been notified to remove the seven terminated employees' access.

Questioned Costs: None

Context: The following table illustrates the seven employees whose access was not removed upon termination, as well as the approximate number of business days since termination (excluding holidays) as of *April 25, 2011.

Employee	Campus	Termination Date	*Days Since Termination
1	UNO	8/21/2010	176
2	UNMC	9/1/2010	169
3	UNK	9/1/2010	169
4	UNK	12/24/2010	87
5	UNL	12/11/2010	96
6	UNL	4/1/2011	17
7	UNCA	1/20/2011	68

Cause: No formal procedure was in place to ensure NeSIS access was promptly removed after termination.

Effect: When a user's access to IT systems is not terminated timely there is an increased risk business processes will be negatively impacted due to terminated employees accessing critical resources.

Recommendation: We recommend the University develop a formalized process to immediately remove access to applications upon termination. The creation, modification, and removal of a user's access should be documented and include a date stamp.

Management Response: We agree with the recommendation to remove access to NeSIS upon the termination of an employee on a timelier basis.

Corrective Action Plan: The University has initiated an internal Change Request to better track employee terminations and hires from SAP human resources for use in granting security access to NeSIS.

Contact: Don Mihulka, Associate CIO/Director of NeSIS.

Anticipated Completion Date: June 1, 2012.

18. <u>Extension Program Not Federally Funded</u>

Program: CFDA 10.500 – Cooperative Extension Service – Reporting

Grant Number & Year: N/A

Federal Grantor Agency: N/A

Criteria: Per OMB Circular A-133 § 310(b) states, "The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements."

A good internal control plan requires procedures be in place to correctly identify Federal and non-Federal awards.

Condition: A grant with $1,986,817 in expenditures during the fiscal year ended June 30, 2011, was incorrectly identified as a Federal pass-through in SAP and included on the University's draft Schedule of Expenditures of Federal Awards (SEFA).

Questioned Costs: None

Context: This award does not have a CFDA, a Federal award number, or requirements to comply with OMB Circular A-133. Funding for the award is received from the Association of Public Land-Grant Universities (APLU), formerly the National Association of State Universities and Land-Grant Colleges, to undertake the national extension project. Per the award letter, the APLU's funding source of the award is an annual assessment paid by member universities. The assessment amount is .8% of the Cooperative Extension Smith-Lever allocation.

Cause: When this award was originally received in 2004, the University erred on the side of caution and identified the award as Federal pass-through. As the award has progressed, it is now clear that the award is not Federal pass-through.

Effect: The draft SEFA for the fiscal year ended June 30, 2011, was overstated by the grant's expenditures of $1,986,817.

Recommendation: We recommend the grant not be identified as Federal funding in SAP and its expenditures not be included on the University's final SEFA.

> **Management Response:** The reporting requirement for this grant changed over time, but we concur with the recommendation to not include this grant in the schedule of expenditures to Federal awards.
>
> **Corrective Action Plan:** This particular grant was not included in the schedule of expenditures to Federal awards at June 30, 2011.
>
> **Contact:** Jeanne Wicks, Director of UNL Sponsored Programs.
>
> **Anticipated Completion Date:** Completed June 30, 2011.

D. INFORMATION TECHNOLOGY (IT) MANAGEMENT LETTER COMMENTS

19. Password Parameters – University

Good business practices include establishing documented policies regarding minimum password standards that must be used by users to help adequately protect IT resources. A good internal control plan includes system enforced password parameters to ensure users meet minimum password standards.

IT Governance Institute's Objectives for Information and Related Technology (COBIT), Process Control 5, *Policy, Plans and Procedures* states, "Define and communicate how all policies, plans and procedures that drive an IT process are documented, reviewed, maintained, approved, stored, communicated and used for training. Assign responsibilities for each of these activities and, at appropriate times, review whether they are executed correctly. Ensure that the policies, plans and procedures are accessible, correct, understood, and up to date."

There was no enterprise-wide password policy. Both SAP and NeSIS had password parameters and policies defined within various identity management systems, but they did not appear to be reasonable or consistent based on other University and State government password policies in existence.

TrueYou identity management password parameters were not set at a sufficiently strong level to ensure only appropriate individuals gained access to SAP or NeSIS. Professional users in SAP were revoked after 10 failed log in attempts. The TrueYou password policies used for NeSIS users were based on the level of access the user had in SAP. If a user had Employee Self Service (ESS) access in SAP, their password only expired every 3,650 days regardless of the level of access they had in NeSIS. University users at the UNL, UNO, and UNK campuses authenticate to NeSIS through TrueYou.

UNMC set up their own NeSIS ID management system to manage their password parameters separately; however, UNMC parameters were not consistent with TrueYou settings and did not appear to be reasonable based on other University and State government password policies in existence. The password parameters at UNMC were as follows: passwords had to be changed every 180 days; and password length had to be at least seven characters and did not require at least one special character or one number. In addition, users were not required to change their temporary passwords at their first log in or after a reset.

We noted a similar finding in our prior audit.

When enterprise-wide policies are not established by management, there is an increased risk password parameters set by various University IT staff will not be sufficiently strong and in line with management's intentions. Strong password parameters are essential in providing adequate security to information systems and protecting internal data. Weak password parameters increases the risk unauthorized users may gain access to information systems and compromise the integrity and confidentiality of highly sensitive data.

> We recommend the University develop, approve, and publish minimum enterprise-wide password standards. We also recommend implementing TrueYou password settings that would revoke users after a reasonable number of unsuccessful login attempts and require their password to be changed every 30 to 90 days. We also recommend UNMC implement password settings that include requiring passwords to be at least eight characters, changed at least every 30 to 90 days, and contain a mix of case, letters, numbers, and special characters. Finally, we recommend users be required to change their password upon first log in or password reset.

Management Response: The University utilizes a central authentication system named TrueYou. TrueYou enforces a common password parameter requirement and a password reset policy based on an assigned end-user role. TrueYou did not have an automated policy assignment in place for NeSIS end-users at the time of the audit field work. This automated process was subsequently placed into service at the beginning of the fall 2011 semester.

20. Mainframe Settings and User Management – University

The University of Nebraska Executive Memorandum No. 16, Section 5, states "Unauthorized access to information systems is prohibited… 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." A good internal control plan also includes procedures to remove access timely when users transfer job functions or no longer require access to perform their job function. Sound information security practices include revoking user access after 30 to 90 days of inactivity based on the risk of the resource being protected.

During our review of mainframe users we identified one individual with elevated access, GROUP SPECIAL, who terminated employment on September 1, 2010, but did not have their access removed until April 2011. The user's access was automatically disabled by the system after 255 days of inactivity, not because the University had identified the terminated user account and taken the appropriate steps to remove the access. The setting of revoking user access after 255 days of inactivity is inadequate, especially for users with elevated access.

In addition to the terminated user, we identified 23 other users with elevated access who had not logged in for over 90 days. Of the 23 users, 11 were inactive for at least 255 days. There was a total of 48 active user IDs with GROUP SPECIAL access.

When a terminated user's access is not removed in a timely manner, there is an increased risk an unauthorized user could gain access to mainframe resources. There is an additional risk of unauthorized users gaining access to the mainframe when the revocation of access is based on a long period of inactivity, such as 255 days.

> We recommend the University implement procedures to remove access timely for those individuals who no longer need such access, including terminated users. We recommend the University reduce the mainframe setting to revoke inactive users to a more reasonable period of time, using a risk based approach.

Management Response: The University agrees with this recommendation and has changed the inactivity time out to 90 days beginning in July, 2011.

21. <u>SAP Change Management – University</u>

The APA observed two individuals with access to complete the entire change management process. The review of changes made by these two individuals was documented; however, the majority of the review was performed by one of the two individuals who could perform the entire change management process. We noted a similar finding in our prior audit.

We also noted changes provided by third party vendors and/or SAP patches were not all documented using the Lotus Notes change request form. We noted a similar finding in our prior audit.

Both a lack of segregation of duties in the change management process and the review of changes being performed by an individual who can develop, approve, and promote changes to production increases the risk unauthorized and/or untested changes could be promoted to production. Unauthorized changes increases the risks of negatively impacting the stability or integrity of the SAP production environment.

> We recommend the University have a staff member, with knowledge of approved changes to SAP, perform and document their review of changes promoted to production. This employee should not be able to complete all aspects of a change. We also recommend the University document all changes affecting SAP through their normal change management process. This would include patches or updates from third party vendors and patches from SAP.

Management Response: We agree with the merit of this recommendation and have re-assigned this review process to the Administrative Systems Group director. We will review and improve as much as possible the documentation process for specific patch maintenance and support changes impacting the SAP production system.

22. Segregation of Duties – Awarding Financial Aid

A good internal control plan includes an adequate segregation of duties so that no single individual has the ability to create awards, configure award parameters, and apply awards to individual students.

During our audit, we noted 12 University staff with the ability to create scholarships in NeSIS, configure scholarship parameters, and also award scholarships to individual students. This included the following staff: seven at UNMC, four at UNL, and one at UNK.

A lack of segregation of duties around the creation and application of scholarship awards increases the risk of a single individual setting up and applying awards to a student without another individual's knowledge.

> We recommend the University implement an adequate segregation of duties around the award process so a single individual is not able to create a scholarship, configure the scholarship parameters, and then award the scholarship to students.

Management Response: We agree with the recommendation from an audit perspective, however due to insufficient resources at the smaller campuses, segregation of all duties may not be fully achieved. We will continue to work with the campuses to identify appropriate access to various NeSIS functions and to reduce access where practical.

23. Waive Student Fees

A good internal control plan includes a periodic review of users access to ensure users are restricted to access which is required as part of their job function. A good internal control plan also includes a periodic review of fees waived to help determine if the amount of fees waived is reasonable.

During a review of user's access in NeSIS, we noted 41 UNO staff with the ability to waive various student fees in NeSIS.

These individuals were from the cashiering/student accounts, registrar, and student health services offices. Many of the users were granted the access through the student records default role. The default role was widely used by registrar employees, contributing to the high number of users with the access. A limited number of registrar users required the access to waive 30-40 late registration fees per semester. UNO did not have a report available to assess the reasonableness of waived fees. The highest number of users with this access at any of the other University campuses was nine.

Allowing a large number of individuals to waive various student fees, increases the risk student fees could be inappropriately waived. Without a reporting mechanism to review student fees waived in the system, there is an increased risk inappropriately waived fees will not be identified.

> We recommend the University review the list of UNO users with access to waive student fees to determine if they require the access for their daily job functions. For those users who do not require the access, we recommend their access be removed. We also recommend reviewing the access included in the student records default role to ensure it is reasonable.

Management Response: User security to waive various student fees will be addressed with a new security role taking into account specific campus needs. We will examine individual user functions to determine who should be granted security to waive student fees and then grant this access to that defined user group.

* * * * *

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