MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM

JULY 1, 2012, THROUGH JUNE 30, 2013

Issued on December 20, 2013

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS
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December 18, 2013

Mr. Stanley Carpenter, Chancellor
Board of Trustees
Nebraska State College System
P.O. Box 94605
Lincoln, Nebraska 68509-4605

Dear Mr. Carpenter:

We have audited the financial statements of the Nebraska State College System (NSCS) (a component unit of the State of Nebraska) for the year ended June 30, 2013, and have issued our report thereon dated December 18, 2013.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards 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 NSCS's organization gained during our work, and we make the following comments and recommendations that we hope will be useful to you.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the discretely presented component units of the Nebraska State College System as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nebraska State College System's basic financial statements, and have issued our report thereon dated December 18, 2013. Our report includes a reference to other auditors who audited the financial statements of the Nebraska

State College System Foundations, the Nebraska State Colleges Facilities Corporation and the Nebraska State College System Revenue and Refunding Bond Fund, as described in our report on the Nebraska State College System's financial statements. The financial statements of these entities were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Nebraska State College System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nebraska State College System's internal control. Accordingly, we do not express an opinion on the effectiveness of Nebraska State College System's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described below that we consider to be a significant deficiency: Comment Number 1 (SAP Transactions-Lack of Segregation of Duties).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska State College System's financial statements are free from 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.*

Nebraska State College System's Response to Findings

The Nebraska State College System's responses to our findings are described below. The Nebraska State College System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

IDENTIFIED SIGNIFICANT DEFICIENCY

1. SAP Transactions-Lack of Segregation of Duties

A good internal control plan requires proper segregation of duties to ensure no one individual can process a transaction from beginning to end.

We noted a lack of segregation of duties in the processing of various types of transactions in SAP, which is the Nebraska State College System's (NSCS) and the University of Nebraska's (University) accounting system. (The University is overall responsible for the system design of SAP. Thus, the NSCS must coordinate with the University to make any system changes to SAP.) In addition, we also noted a lack of segregation of duties in the processing of various types of transactions in EnterpriseOne (E1), the State of Nebraska's (State) accounting system, which NSCS is required to use to process payroll and payments to vendors. Our audit noted the following:

Journal Entry (JE) Transactions in SAP

The workflow in the SAP system does not require separate preparers and posters of JE type transactions. As a result, certain individuals throughout the NSCS had the capability of completing JE transactions from beginning to end without a documented secondary review and approval in SAP. Each NSCS location (the three Colleges and the System Office) developed its own unique compensating controls to address this inherent system weakness. However, in general, the compensating controls put in place at all NSCS locations included a manual documentation of the preparer and poster of the JE transactions.

During our audit of the GL security roles in SAP for the fiscal year ended June 30, 2013, the APA identified 27 users with the ability to prepare and post journal entries in SAP without a secondary review or approval. Additionally, those users had a security role that allowed them to prepare and post all transaction types in SAP without a secondary review or approval. (For further comment and recommendation on this area, see the **Accounts Payable (A/P) Transactions** section of this comment below.)

The 27 users capable of preparing and posting JE transactions, as well as other transaction types, without a secondary review or approval are noted by location below:

Wayne State College	7 users
Peru State College	6 users
Chadron State College	9 users
NSCS System Office	3 users
University of NE Central Administration Office	2 users

When individuals are able to complete JE transactions (and other transaction types) without a documented secondary review and approval prior to posting the transaction to the GL, there is a greater risk of erroneous or inappropriate JE transactions (and other transaction types) occurring and going undetected. Additionally, in the absence of an adequate segregation of duties, there is an increased risk of loss, theft, or misuse of funds.

> We recognize that the NSCS has worked to implement compensating controls to mitigate risks related to the SAP system not having an established workflow, which would automatically require a segregation of duties in the preparation and posting of journal entries (and other transaction types). Nevertheless, we continue to recommend that the NSCS work with the University on a system-based SAP solution as well. Furthermore, we recommend that the NSCS modify its role configuration for the 27 users identified, so that those users will not have the ability to post any transaction types in SAP without a secondary review and approval.

Accounts Payable (A/P) Transactions

A good internal control plan includes an adequate segregation of duties, so no single individual has the ability to process an A/P transaction from beginning to end.

During our audit of the A/P security roles in SAP, we noted 24 users had the ability to prepare an invoice, post it in SAP, and also approve and post it in E1. Additionally, 14 of those users had the ability to create a purchase order, prepare the invoice related to the purchase order, and post the transaction in both SAP and E1.

The 24 users who could prepare invoices and post them in SAP and E1 are noted by location below:

Wayne State College	7 users
Peru State College	6 users
Chadron State College	8 users
NSCS System Office	3 users

The 14 of 24 users identified above who could also prepare a purchase order are noted by location below:

Wayne State College	4 users
Peru State College	2 users
Chadron State College	5 users
NSCS System Office	3 users

The A/P roles in SAP did not restrict users from posting their own transactions. Those transactions were entered into E1 through an interface process. The users above had the ability to approve and post transactions that flowed through the interface process in E1.

Again, a lack of segregation of duties around the A/P process allows a single individual to purchase and pay vendors without a secondary review or approval. This risk allows for the possible theft and misuse of State funds.

> We recommend the NSCS work with the University to review the security design of the A/P roles in SAP and implement controls that require separate individuals to prepare and post A/P transaction types.

Ability to Change Pay Rates

A good internal control plan includes an adequate segregation of duties, so no single individual has the ability to adjust his or her own pay rate. A good internal control plan also requires the test environment of an application to mirror the production environment to ensure tests of the application functionality accurately predict the performance of the application in the production environment.

During a review of the human resources security roles in SAP, the APA identified 14 users with the ability to adjust their own pay rate in SAP. The HR role identified had a parameter set incorrectly, which allowed users to adjust their own pay. This issue was verified by the APA in the test environment; however, it could not be replicated in the production environment by the NSCS or University staff. Therefore, the APA was unable to determine whether those users could actually adjust their pay rate in the production environment.

The 14 users with the ability to adjust their own pay rate in SAP are noted by location below:

Wayne State College	5 users
Peru State College	4 users
Chadron State College	2 users
NSCS System Office	3 users

A lack of segregation of duties around the change of pay rates introduces the risk of possible theft and misuse of State funds. Moreover, when test environments do not function in the same manner as the production environment, there is an increased risk that tested controls and functionality will not work as designed.

> We recommend the NSCS work with the University to review the security design of SAP. Furthermore, we recommend the NSCS work to implement controls that ensure an employee will not have the ability to change his or her own pay rate in SAP. We also recommend the NSCS work with the University to identify differences between the test and production environments.

Management's Response: The NSCS will continue working with the University to address the potential of system changes to deal with the issues identified and will review established roles.

The ability to change pay rates was only verified by the APA in the test environment. The NSCS tested several of the individuals noted in the production environment and determined that they could NOT change their pay rate in the production environment.

SYSTEM OFFICE COMMENTS

2. Foundation Expenses

Last year's audit report contained a comment noting that the Board of Trustees (Board) of the NSCS, on behalf of Peru State College, Chadron State College, and Wayne State College, entered into formal agreements to provide those colleges' respective foundations – i.e., Peru State College Foundation, Chadron State Foundation, and Wayne State Foundation Board of Trustees – with financial assistance, resources, and services.

The three separate agreements differ somewhat with regard to the details of the assistance provided. In general, however, the Board has committed to furnishing the affiliated college foundations with, among other things, the following:

- Office space and various clerical services, such as telephone, email, photocopier, and computer support services.
- Payroll processing services for all foundation personnel.
- The ability of all foundation personnel to participate in the colleges' health and life insurance plans.
- Funding for the payroll costs of three Chadron and three Wayne State Foundation personnel.

Complete copies of the agreements between the Board and the college foundations are included in Exhibit A of this management letter.

Pursuant to the terms of the agreements, the foundations reimburse the Board for the costs of many – though not all – of the services and other benefits received. Nevertheless, a question exists as to the authority of the Board to provide private corporations, such as the college foundations, with funds, resources, facilities, and personnel of the colleges.

Article XIII, section 3, of the Nebraska State Constitution provides, in relevant part:

> *The credit of the state shall never be given or loaned in aid of any individual, association, or corporation, except that the state may guarantee or make long-term, low-interest loans to Nebraska residents seeking adult or post high school education at any public or private institution in this state.*

According to the Attorney General, this constitutional prohibition "not only prevents making loans to private corporations and persons, but is generally interpreted to prohibit the expenditure of public funds for a private purpose." Op. Att'y Gen. No. 91015 (March 4, 1991). The Nebraska Supreme Court has supported this view by explaining:

> *Closely related to the prohibition against the giving or lending of the state's credit, although technically not part of the prohibition due to the prohibition's narrow and specific wording, is the principle of law that public funds cannot be expended for private purposes.*

Haman v. Marsh, 237 Neb. 699, 721-722, 467 N.W.2d 836, 851 (1991).

In the prior report comment, the Auditor of Public Accounts (APA) observed also that, by accepting and relying upon NSCS funds, resources, facilities, and personnel to sustain them, the college foundations may have inadvertently created something of a quandary regarding the purportedly private nature of both their activities and the money that they manage.

All three of the foundations have registered with the Nebraska Secretary of State as separate, non-profit corporations. Regardless, in light of their dependence upon what amounts, in essence, to a form of public funding and collaboration, the college foundations may risk being viewed as instrumentalities of the institutions that they serve – and, therefore, being treated as public entities themselves. Such an outcome could have far-reaching consequences for the handling and disposition of the many millions of dollars that each foundation currently oversees.

Finally, the APA must point out that the NSCS's present method of supporting the college foundations has given rise to imprecise accounting practices. Rather than allowing for a clear distinction between the resources provided by donors and related expenses of the various foundations and those of the NSCS, the current procedure complicates the accurate accounting for expenses and fund resources of both the NSCS and the foundations.

The APA concluded last year's audit report comment by encouraging the NSCS to seek guidance from the Attorney General, possibly through the issuance of a formal legal opinion, as to any legal implications, as well as the advisability, of continuing to support the college foundations. According to a recent communication from an NSCS representative, however, no such guidance or opinion has been sought.

Additionally, in response to the APA's request to be provided with any alternative legal analysis prepared or obtained regarding this issue, the NSCS representative wrote:

> *NSCS legal counsel was actively involved in the establishment of the agreements with the Foundations and the agreements were again reviewed as a result of the APA comment. The current arrangements are within the broad legal authority of the Board of Trustees . . . .*

The APA has yet to receive documentation from the NSCS supporting the above assertion.

> The APA reiterates the prior report recommendation that the Board seek formal legal guidance from the Attorney General as to any legal implications, as well as the advisability, of continuing to support the college foundations. An Attorney General's opinion would cost the NSCS nothing and would be quite easy to request. In addition to being obtained free of charge and with a minimum of effort, such an opinion would provide the NSCS with an objective and authoritative legal review of this issue – which could help to forestall any potential complications that might otherwise arise.

Management's Response: The APA references the use of public funds for a private purpose. The foundations exist not for a private purpose, but rather for a charitable purpose -- with the specific purpose for each to support its respective college. The APA also references "imprecise accounting practices" and notes that this "complicates the accurate accounting for expenses". The NSCS is unsure how the present methods of accounting for activity with the Foundations has given rise to such comments. All transactions between the respective foundations and Colleges are recorded appropriately in the Colleges' financial statements. The decision whether or not to pursue further legal review is the Board's prerogative. The Board understands the APA's prior recommendation, but does not agree that it is necessary to seek guidance from the Attorney General.

3. <u>State Claims Board</u>

Neb. Rev. Stat. § 81-8,297 (Reissue 2008) states, in relevant part:

> *The State Claims Board shall have the power and authority to receive, investigate, and otherwise carry out its duties with regard to . . . all requests on behalf of any department, board, or commission of the state for waiver or cancellation of money or charges when necessary for fiscal or accounting procedures . . . .*

During our review of the NSCS's accounts receivable write-off procedures, we noted that each of the Colleges annually submits accounts receivable, including tuition and fees and revenue bond and other fund accounts, to its Board of Trustees for write-off approval. However, no procedures were in place to forward these write-offs to the State Claims Board for its approval. Based on historical data, between 2007 and 2013, the NSCS has written off a total of $1,108,852. This amounts to an average annual write-off for all three of the Colleges of approximately $158,407.

When delinquent accounts receivable are not submitted to the State Claims Board for write-off approval, the NSCS is in violation of State statute.

This finding and recommendation has been noted in prior audits. In response to our fiscal year ended June 30, 2011, comment, the NSCS responded:

> *The NSCS follows formalized write-off procedures that include Board of Trustees approval of write-offs in accordance with Board Policy #6008. The Board reviews and authorizes write-offs annually.*

The NSCS responded to our fiscal year ended June 30, 2012, by stating simply, "The NSCS continues its response from prior fiscal years which is noted above."

Based on discussions with NSCS management, the Board does not plan to change its write-off policy.

> We continue to recommend that receivables be submitted to the State Claims Board, in accordance with State statute, before they are formally written off.

Management's Response: As noted above, the NSCS follows formalized write-off procedures that include Board of Trustees approval of write-offs in accordance with Board Policy #6008. The Board reviews and authorizes write-offs annually.

4. Payroll Vendor Payments

In prior audits, we have noted that, since 2003, the State has utilized its 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, for accounting purposes. As both "a cost-savings and efficiency directive" from Governor Dave Heineman, the NSCS moved its existing business systems from the State's accounting system to the University's SAP system in mid-2009.

Payroll vendor payments are set up differently in the SAP system implemented by both the University and the NSCS than in the State's accounting system. Payments made to vendors through the State's payroll process are recorded as vendor payments in the State's accounting system, E1. However, instead of generating vendor payments through SAP or E1 during the payroll process, the University, on behalf of the NSCS, 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 neither accounting system records vendor payments by the NSCS to health insurance vendors, such as Blue Cross Blue Shield of Nebraska (BCBSNE), the total amounts paid to these vendors cannot be determined or identified by general users of the two systems.

The following amounts were contributed by the employees and the NSCS through the NSCS payroll process between July 1, 2012, and June 30, 2013:

Contributions*	State Colleges
Health and Dental Insurance	$ 8,755,846
TIAA/CREF (retirement)	$ 6,706,559
All other Contributions	$ 1,029,281
Total	$ 16,491,686

**Contributions made on behalf of the NSCS' fully insured employee health insurance plan go directly to its health insurance carrier, BCBSNE. Other vendors paid through this method include college/ University foundations, the United Way, vision and life insurance vendors, union payments, etc.*

After discussions with NSCS representatives, the APA obtained this payroll process information from the University, which provides the NSCS payroll feeds from SAP to the E1.

Sound accounting procedures include complete and accurate reporting of all payments to vendors to allow users of E1 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 two systems to ascertain the total amounts paid to all vendors.

As indicated above, the Auditor of Public Accounts (APA) has presented this finding for the past three fiscal years. In response to current inquiries regarding the status of any corrective action taken to address our recommendation, the NSCS stated:

> *The NSCS understands that the vendor payments made as part of payroll are processed differently than accounts payable, as part of the payroll clearing process. While the information is not available within the vendor file, it is available in SAP as part of the journal entry that makes the clearing entries. The amounts provided in the journal entry are reconciled by the NSCS each month to assure that the correct transfers were made. Under the current process, the NSCS completes and documents the reconciliation each month to assure the payroll journal entries are accurate. The NSCS will continue to consult with the University.*

This response is similar to that made by the NSCS to our prior year comments. However, the APA is unaware of any specific action taken by the NSCS to determine a possible solution to this issue.

> We continue to recommend that the NSCS work with DAS and/or the University to develop a process that allows vendor payments to be recorded in E1.

Management's Response: As noted above, the NSCS understands that the vendor payments made as part of payroll are processed differently than accounts payable, as part of the payroll clearing process. While the information is not available within the vendor, file, it is available in SAP as part of the journal entry that makes the clearing entries. The amounts provided in the journal entry are reconciled by the NSCS each month to assure that the correct transfers were made. Under the current process, the NSCS completes and documents the reconciliation each month to assure the payroll journal entries are accurate. The NSCS has and will continue to consult with the University.

5. <u>Capital Asset Policy 7002</u>

The NSCS has established policy 7002 for the capitalization, definitions and classifications of assets purchased or constructed. This policy categorizes buildings in three classifications along with the expected life of each classification--Major Buildings and Structures with an expected life of 50 years, Minor Buildings and Structures with an expected life of 25 years and Building Improvements with an expected life of 20 years.

In our review of construction projects for Peru State College (PSC) and Wayne State College (WSC) we noted similar large renovation projects were capitalized at different expected lives. For Fiscal Year ended June 30, 2013, PSC capitalize the renovation of the Morgan building in the amount of $4,328,406 with an expected life of 50 years. WSC capitalized the renovation of the Pile Hall building in the amount of $5,271,220 with an expected life of 20 years. The difference between the annual depreciation expenses of a capital asset with an expected life of 50 years compared to a capital asset with an expected life of 20 years is significant.

Based on our review of policy 7002 and discussion with accounting staff at both PSC and WSC as well as staff at the System Office, the different expected life usage for two similar construction projects at PSC and WSC appears to be due, in part, on how policy 7002 is written.

As noted above the policy does have a classification for Building Improvements. When a determination is made that the construction projects should be classified as a Building Improvement, which these construction projects were, the policy notes the expected life should be 20 years. The policy goes on to provide a description of these classifications; however, it only defines Major and Minor Buildings and Structures and appears to include Building Improvements with the Major Buildings and Structures description. The policy notes this classification should have an expected life of 50 years. Thus, based on how the policy is written, it appears the policy could be read to have Building Improvements depreciated over 20 or 50 years.

When policies are not clearly written there is a greater risk those policies will not be consistently applied and depreciation expenses could either be understated or overstated.

> We recommend the NSCS Board review and clarify policy 7002 to ensure it is consistently applied system-wide in accordance with General Accepted Accounting Principles. We also recommend that when the policy has been clarified and approved by the NSCS Board that the NSCS review the expected lives of the capital assets noted above, and other capital asset as appropriate, and make proper adjustments for depreciation expense in accordance with the revised policy.

Management's Response: The NSCS is currently in the process of reviewing and updating the capital asset policy to ensure asset classifications and useful lives are clear.

CHADRON STATE COLLEGE (CSC) COMMENTS

6. Updating Systems Rate Tables

The NSCS uses the Nebraska Student Information System, NeSIS, to record, among other data, all tuition and fees charged to students. The Star Rez system is a separate system used by the NSCS to account for all room and board charges made to student accounts.

A good internal control plan would include a supervisory review of tuition and fee rate changes and changes to account codes in NeSIS, as well as changes made to student room and board rates in Star Rez.

The Star Rez room and board charges are uploaded into NeSIS, which uses the information to bill students for tuition and fees and room and board charges. Annually, the Board approves changes to tuition and fees and room and board rates to be charged to students. At CSC, one person was responsible for updating the tuition and fee rate table in NeSIS, and one person was responsible for updating the room and board rates in Star Rez.

Additionally, we noted that accounting code changes were occasionally needed to ensure NeSIS activity was accurately recorded in SAP. In our review of this updating process, we noted that one person was authorized to make such changes.

There was a supervisory review of the overall updating process and approval of the tuition and fee rates and accounting code changes put into production in NeSIS and the room and board rate changes put into production in Star Rez; however, that review and approval was not documented.

When a supervisory review and approval process for the updating of tuition and fee rates and the accounting code changes in NeSIS, as well as the room and board rates in Star Rez, is not documented, there is less assurance that the update will be done accurately and in accordance with the Board's directives.

> We recommend CSC management develop procedures to document its supervisory review and approval process for updating tuition and fee rates and accounting code changes in NeSIS and the room and board rates in Star Rez.

Management's Response: Currently CSC reviews the Board approved rates thoroughly with staff from several offices reviewing the rates for accuracy. CSC feels the process is adequate as currently implemented, but will improve documenting the process for the APA's analysis.

7. Initial Control Over Receipts Received in the Mail

Good internal control over receipts requires a plan of organization, procedures, and records for establishing initial control over receipts. It also requires an adequate segregation of duties to ensure that no one individual is in a position both to perpetuate and to conceal errors or irregularities. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. The control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by someone other than the two individuals opening the mail or the individual preparing the deposit. Such reconciliation should be documented.

Mail at CSC was received in the mail room and then sent to either the business office or other offices or departments at the college. This mail may or may not contain cash or checks payable to the College. Based on discussions with CSC staff, most money mailed to the college was addressed to the business office – although other offices or departments also receive funds in the mail. The business office and other offices or departments then process receipts through their normal receipting process. However, initial control over receipts was not maintained in the CSC mail room, as procedures did not include having the mail room staff prepare an initial log of all monies received by CSC.

According to CSC personnel, a lack of sufficient staffing makes it impractical for the mailroom employees to open all mail and to prepare an initial log of all cash and checks received through the mail. Additionally, CSC personnel have expressed concerns that such a process would slow down the processing of mail. If this is indeed the case, we recommend that CSC take alternative action to develop the procedures described above in the business office and other offices and departments that routinely receive cash or checks through the mail.

When initial control over receipts is not initiated at each location where they are first received, there is a greater risk of loss or theft of those receipts.

> We recommend that CSC implement practical procedures to ensure the establishment of an adequate system of internal controls over receipts. This control plan should include two individuals opening the mail and the preparation of a control log for all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by someone other than the two individuals opening the mail and the individual preparing the deposit. This reconciliation should be documented.

Management's Response: CSC believes there are sufficient compensating controls in place to ensure that payments are applied to a students' accounts. An analysis of cash collections in fiscal year 2012 showed that less than 1% of student payments received were in the form of a cash/check. This would include students who present the payment in person to the Business Office. The students/parents are very proactive in monitoring their accounts and immediately inform the College if the payments are not applied to their account.

PERU STATE COLLEGE (PSC) COMMENTS

8. Updating Systems Rate Tables and Account Codes

A good internal control plan would include a supervisory review of tuition and fee rate changes and changes to account codes in NeSIS and changes made to student room and board rates in Star Rez.

The Star Rez room and board charges were uploaded into NeSIS, which used the information to bill students for tuition and fees and room and board charges. Annually, the Board approves changes to tuition and fees and room and board rates to be charged to students. At PSC, one person was responsible for updating the tuition and fee rate table in NeSIS, and one person was responsible for updating the room and board rates in Star Rez. There was no supervisory review of the overall updating process or a final supervisory approval of the tuition and fee rate changes in NeSIS and the room and board rate changes put into production in Star Rez.

Furthermore, there was no supervisory review of the overall updating process or a final supervisory approval of accounting code changes in NeSIS. NeSIS interfaces with SAP, the NSCS accounting system. Accounting code changes were occasionally needed to ensure that NeSIS activity was recorded accurately in SAP. In our review of this updating process, we noted that one person was authorized to make such changes – doing so without supervisory review of either the overall updating process or final supervisory approval of the accounting code changes made in NeSIS.

Without a supervisory review and approval process for the updating of tuition and fee rate tables and the accounting code changes in NeSIS and the room and board rates in Star Rez, there is an increased risk of errors occurring and loss or misuse of State funds.

> We recommend that PSC management institute a supervisory review and approval process for updating tuition and fee rates and accounting changes in NeSIS and the room and board rates in Star Rez. This supervisory review and approval process should be properly documented.

Management's Response: PSC's Vice President for Administration and Finance is now reviewing and initialing changes to tuition and fee rates and accounting changes in NeSIS. The Vice President for Enrollment Management/Student Affairs will review and initial changes to room and board rates in Star Rez.

9. Initial Control Over Receipts Received in the Mail

Good internal control over receipts requires a plan of organization, procedures, and records for establishing initial control over receipts. It also requires an adequate segregation of duties to ensure that no one individual is in a position both to perpetuate and to conceal errors or irregularities. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to the deposits by someone other than the two individuals opening the mail and the individual preparing the deposits. This reconciliation should be documented.

Mail at PSC was received in the mail room and given to an accounting clerk in the business office. Initial control over receipts was not maintained in the PSC mail room, as procedures did not include having the mail room staff prepare an initial log of all monies received.

When initial control over receipts is not established at the location where they are first received, there is a greater risk of loss or theft of those receipts.

> We recommend that PSC implement procedures to ensure the creation of an adequate system of internal controls over receipts. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by someone other than the two individuals opening the mail and the individual preparing the deposits. This reconciliation should be documented.

Management's Response: PSC will look into ways to improve internal controls over mail.

10. Financial Statement Understatements

A good internal control plan for financial reporting would include procedures to ensure financial statement amounts are fairly stated in all material respects.

For the fiscal year ended June 30, 2013, PSC received State appropriations to renovate its football facilities and incurred expenses during that fiscal year on the renovation project. In our review of the project records prepared by PSC to support amounts recorded on its financial statements, we noted that both accounts receivable (A/R) and accounts payable (A/P) were understated by $444,383 in the Plant Fund.

The A/P were identified by PSC but not recorded on the financial statements. PSC also did not record the corresponding A/R in the amount of $444,383. That amount was income earned and recorded as income in the Plant Fund but not received from the State until after June 30, 2013. We also noted that the Plant Fund contained an additional A/P in the in the amount of $276,651, which, along with the corresponding A/R from the State, was not recorded. Along with the above, we noted that construction retainage of $161,366 was recorded in the Plant Fund as a payable, but the corresponding A/R and income was not recorded. Thus A/R and income were both understated by the $161,366.

No procedures were in place to detect these financial statement understatements. Upon the identification of these understatements, however, PSC made the appropriate adjustments to its financial statements.

Without adequate procedures to ensure financial amounts are fairly stated in all material respects, there is a greater risk that financial statements will be materially misstated.

> We recommend that PSC implement procedures in the preparation of its financial statements to ensure financial amounts are fairly stated in all material respects.

Management's Response: PSC adjusted amounts when the issue was raised by the APA. PSC always strives to ensure financial amounts are fairly stated.

11. SAP/E1 Reconciliation

A variance exists between the Cash Fund accounts recorded in SAP and E1. An attempt by PSC to find a consistent variance between the two systems has been unsuccessful. As of June 30, 2012, the variance between the two accounts totaled $12,180. By June 30, 2013, that variance had increased to $15,659.

Sound accounting practices require that proper procedures be in place to ensure the complete, accurate, and timely identification of all accounting system variances. This has been a prior audit finding for the last two fiscal years.

When systems are not reconciled, there is an increased risk that errors, omissions, or misuse may go undetected.

> We recommend again that PSC continue to work on identifying and correcting the variance between the Cash Fund accounts recorded in SAP and E1, taking the appropriate steps to ensure that those systems agree.

Management's Response: PSC will continue working on identifying and correcting the variance.

WAYNE STATE COLLEGE (WSC) COMMENTS

12. Updating Systems Rate Tables and Account Codes

The NSCS uses the NeSIS to record, along with other data, all tuition and fees charged to students. The Star Rez system is a separate system used by the NSCS to account for all room and board charges made to student accounts.

A good internal control plan would include a supervisory review of tuition and fee rate changes and changes to account codes in NeSIS and changes made to student room and board rates in Star Rez.

The Star Rez room and board charges are uploaded into NeSIS, which uses that information to bill students for tuition and fees and room and board charges. Annually, the Board approves changes to tuition and fees and room and board rates to be charged to students. At WSC, one person is responsible for updating the tuition and fee rate table in NeSIS, and one person is responsible for updating the room and board rates in Star Rez. Currently, there is no supervisory review of the overall updating process or final supervisory approval of the tuition and fee rate changes in NeSIS and the room and board rate changes in Star Rez.

Additionally, there is currently no supervisory review of the overall updating process or a final supervisory approval of accounting code changes in NeSIS. NeSIS interfaces with SAP, the NSCS accounting system. Accounting code changes are occasionally needed to ensure that NeSIS activity is recorded accurately in SAP. In our review of this updating process, we noted that one person was authorized to make such changes; however, there is no supervisory review of the overall updating process or a final supervisory approval of the accounting code changes made in NeSIS.

Without a supervisory review and approval process for the updating of tuition and fee rate tables and the accounting code changes in NeSIS, as well as the room and board rates in Star Rez, there is an increased risk of errors occurring and loss or misuse of State funds.

> We recommend that WSC management institute a supervisory review and approval process for updating tuition and fee rates and accounting changes in NeSIS and the room and board rates in Star Rez. This supervisory review and approval process should be properly documented.

Management's Response: A process has been put in place for one staff member to review the rate tables each semester after another staff member has entered the new rates into PeopleSoft (PS). This process has been completed for Fall 2013 and Spring 2014. WSC will work on a similar process for reviewing the accounting codes in PS.

13. Initial Control of Receipts Received in the Mail

Good internal control over receipts requires a plan of organization, procedures, and records for establishing initial control over receipts and an adequate segregation of duties to ensure that no one individual is in a position both to perpetuate and to conceal errors or irregularities. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by someone other than the two individuals opening the mail and the individual preparing the deposit. This reconciliation should be documented.

Mail at WSC was received in the mail room and given to an accounting clerk in the business office, who opened the mail and logged the checks into a spreadsheet. Other mail, which did not include receipts or contained correspondence that should go to other departments, was then distributed to the appropriate department. However, initial control over receipts was not maintained in the WSC mail room, as procedures did not include having the mail room staff prepare an initial log of all monies received.

When initial control over receipts is not initiated at the location where they are first received, there is a greater risk of loss or theft of those receipts.

> We recommend that WSC implement procedures to ensure the creation of an adequate system of internal controls over receipts. This control plan should include two individuals opening the mail and the preparation of a control log of all monies received. Such control log should be initialed and dated by the two individuals opening the mail. The control log should then be reconciled to deposits by an individual separate from the two individuals opening the mail and the individual preparing the deposits. This reconciliation should be documented.

Management's Response: WSC's Student Financial Services will continue to log receipts onto a spreadsheet but will institute a process of having two staff members present when the mail is opened. WSC will continue to review their process.

14. Residence Life Office Receipting Procedures

Good internal control requires a plan of organization, procedures, and records to ensure that no one individual is in a position both to perpetuate and to conceal errors or irregularities. A good internal control plan also requires that checks be restrictively endorsed when received and deposited in a timely manner.

In addition, Neb. Rev. Stat. § 84-710 (Reissue 2008) states, in relevant part:

> *It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state . . . to receive any fees . . . or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars.*

During our review of the receipting procedures at the Residence Life Office, we noted the following:

- Checks received were not endorsed "For Deposit Only" when received.

- Based on discussions with staff, checks were held and not deposited until a transmittal sheet is full or at the end of the week, whichever came first. Depending on the amounts collected, the Residence Life Office may not have been in compliance with the provisions of § 84-710 requiring the timely payment of funds into the State Treasury.

- The Residence Life Office sent the deposit (transmittal form and checks/cash) to the Business Office to process the deposit; however, the Residence Life Office did not have a procedure in place to ensure the amount sent to the Business Office was deposited and record properly in NeSIS.

- The Business Office had not performed a reconciliation between NeSIS and Star Rez for fiscal year ended June 30, 2013.

- The receipt book used by the Residence Life Office was pre-numbered; however, no one reviewed the receipt book periodically for missing receipts to ensure that all monies received were deposited.

  There was generally a lack of segregation of duties in the Residence Life Office related to the collecting and processing of receipts. One person handled the monies coming into the Residence Life Office, applied these payments to the student accounts in Star Rez, and provided the charge and payment details to the Business Office which was uploaded into NeSIS and applied to the student accounts. An estimate of receipts collected at the Residence Life Office for fiscal year ended June 30, 2013, was $27,000.

When one individual has the ability both to perpetuate and to conceal errors or irregularities, checks are not restrictively endorsed when received, and deposits are not made in a timely manner, as required by statute, there is a greater risk of loss or misuse of State funds.

> We recommend that, instead of cash and checks being receipted in the Residence Life Office, students be directed to pay all amounts due directly to the Business Office. There, checks should be endorsed "For Deposit Only" immediately when received. We recommend also that the Business Office deposit the receipts in a timely manner, pursuant to the requirements of § 84-710. Additionally, we recommend that the Business Office maintain an appropriate level of segregation of duties in the handling of receipts. If the Business Office cannot implement this recommendation, we recommend these same controls be implemented at the Residence Life Office. We also recommend

that NeSIS be reconciled to Star Rez on a regular basis to ensure all amounts recorded in Star Rez for room and board, as well as all related fees, are collected, receipted in NeSIS, and deposited to the State Treasury.

Management's Response: The Housing Office will stamp all checks "For Deposit Only, Wayne State College" when they are received (either in person or through the mail). Deposits will be brought to Student Financial Services daily and will not be held overnight. A staff member of Student Financial Services will reconcile Star Rez to PS each month. Such reconciliation has already been done between the two systems for fiscal year 2013 and for the months of July - November, 2013.

When cash is received, the receipt number will be noted on the transmittal form. A staff member from the Accounting Office will check the receipt book during surprise cash counts on petty cash drawers. The book will be checked for missing receipts and spot checked to PS receipts.

All monies handled by the Office of Residence Life will be processed and recorded on a deposit transmittal by the Office Assistant. Another Residence Life staff member will apply these payments to students' accounts in StarRez. Charges will be exported daily to Student Financial Services to be uploaded to student accounts in PS. Two people in Residence Life are trained in this process to provide back-up.

15. Financial Statement Adjustments

A good internal control plan includes procedures to ensure the completeness and accuracy of amounts recorded in the preparation of the NSCS annual financial statements.

In our review of the amounts recorded on WSC's financial statement trial balance, we noted the following:

- An understatement of Cash and Cash Equivalent (C&CE) and Accounts Payable (A/P) by $399,359. This was due to WSC recording an adjusting entry to cash. WSC credited (decreased) cash and debited (decreased) A/P for expenses that were paid after fiscal year ended June 30, 2013, but were coded to fiscal year ended June 30, 2013, in SAP. Since these expenses were paid after fiscal year ended June 30, 2013, they should have been recorded as A/P as of June 30, 2013, and no adjusting entry to cash should have been made.

- An understatement of Unearned Revenues and overstatement of Tuition and Fees Revenue by $275,291. WSC identified Unearned Revenue totaling $275,291 but failed to record that amount on its financial statements.

- An adjusting journal entry incorrectly recorded $308,609 as "Other Capital Expense." The correct adjusting journal entry should have recorded this amount as "Repairs and Maintenance Expense."

When procedures are not in place to ensure the completeness and accuracy of amounts recorded in the preparation of the NSCS annual financial statements, there is an increased risk that a material misstatement may occur and go undetected.

When the above proposed adjustments were identified, WSC corrected its fiscal year ended June 30, 2013, financial statements accordingly.

> We recommend that WSC establish procedures to ensure the proper recording of financial amounts in its annual financial statements.

Management's Response: WSC acknowledges the change noted in the comment regarding handling of expenses paid after the 2013 fiscal year end. WSC will exercise additional caution in how such transactions are presented on future financial statements.

COMMENTS RELATED TO THE INFORMATION TECHNOLOGY (IT) AUDIT

16. Password Parameters

Best business practices include establishing documented policies regarding minimum password standards to help adequately protect Information Technology (IT) resources. A good internal control plan includes system-enforced password parameters to ensure that users meet minimum password standards. A good internal control plan also includes a review of the changes made to the TrueYou Identity Manger, which is used by the NSCS and the University to enforce minimum password standards for SAP. PSC, CSC, and three University Campuses also use TrueYou Identity Manager to enforce password standards for NeSIS. Changes to the TrueYou Identity Manager, especially large scale changes, should be reviewed to ensure password levels are being assigned appropriately.

IT Governance Institute's Objectives for Information and Related Technology (COBIT 4.1), 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 in place to require consistent password complexity settings among NSCS campuses. Both SAP and NeSIS had password parameters and policies defined within various identity management systems; however, those parameters did not appear to be reasonable or consistent in comparison with other higher education and State government password policies currently in use.

WSC utilized its own system to manage its password parameters for NeSIS; however, WSC parameters were inconsistent with TrueYou Identity Manager settings and did not appear to be reasonable in comparison with other higher education and State government password policies currently in use. The password parameters at WSC were as follows: password expiration was set at 180 days for faculty/staff (level 2) users. All faculty/staff users, including those with campus-wide access (level 3), could log in 24 times after their password had expired.

For 2 of 10 NSCS users tested, the password level in TrueYou Identity Manager was incorrect based on the most restrictive access between SAP and NeSIS roles. TrueYou Identity Manager is updated daily from sync tables in NeSIS. On March 10, 2013 a large volume of records, approximately 200,000, were updated due to the assignment of a new dynamic role for password level 1 (self services). The NSCS sync table changes were applied first, followed by University sync table changes. Those NSCS users, who had been students at the University, had their NSCS update overridden by the University update – which modified the NSCS password level that should have been assigned. The two users noted were required to change their password every 180 days. Based on their level of access in NeSIS, they should have been required to change their password every 90 days.

We noted a similar finding in our prior audits. The APA was provided a draft copy of an enterprise-wide password policy for the University Computing Services Network with an initial draft date of January 13, 2013, and an intended effective date of July 31, 2013; however, this policy had not been approved or implemented.

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

> We continue to recommend that NSCS develop, approve, and publish minimum enterprise-wide password standards. We recommend also that WSC implement password settings that: 1) require passwords to be changed every 30-90 days for all faculty and staff users; and 2) deny user access when a password expires, until it is reset. The NSCS should work with the University to correct errors in assigned passwords levels within the TrueYou Identify Manager and make necessary corrections to the sync process to prevent future errors.

Management's Response: An enterprise password policy is in the final stages of development and approval. It is being reviewed by the Security Council and is scheduled to be finalize 1st quarter, 2014. WSC Network and Technology Department will review enterprise-wide password standards, and will plan to incorporate satisfactory changes with adequate campus preparation and notification.

17. NeSIS Inappropriate and New User Access

A good internal control plan includes processes, such as documented approval signatures, to ensure that only access required to perform job functions is granted to NeSIS users. Likewise, a periodic review of NeSIS user access should be performed to ensure that users are restricted to access required to perform their particular job functions. NSCS Policy 5008, *Employee Use of Campus Computers,* states in relevant part:

> *The following uses are considered unacceptable, unauthorized and prohibited … 6) To use the network to access information or resources unless permission to do so has been granted by the owners or holders of rights to those resources and information.*

- For three of six users tested, the security access form did not contain an appropriate approval. Additionally, the security access form was not completed for two CSC employees. According to the CSC Security Coordinator, access approval for those employees was granted over the phone. The security access form for one University employee with NSCS access was not signed appropriately to indicate approval of the request.

- For one of six users tested, the security roles did not appear reasonable. A PSC employee was granted roles that gave him the ability to modify student groups and test scores; however, it was subsequently noted that the user should not have had that access. It appears that the request form was not clear, which resulted in the erroneous access being granted.

- During a review of individuals with access to modify Student Administration and Contributor Relations (SACR) security in NeSIS, it was noted that there 13 users (3 PSC, 6 WSC, and 4 CSC) had access to modify security views. Such ability should be granted only to the NeSIS technical team at the University.

Furthermore, during a review of users with access to modify system security, it was noted that two PSC users had access to run a dynamic role process. That process could interfere with other levels of security in place and, therefore, that ability should be denied to users in the production environment.

Allowing user access to NeSIS without the appropriate approval processes in place increases the risk of unauthorized modifications being made to the system. Additionally, allowing security access to users who do not require such access as an essential part of their job duties increases the risk of unauthorized modifications to the system.

> We recommend that the NSCS ensure adherence to approval procedures for granting access to NeSIS in all cases, as well as improve procedures for granting the appropriate level of access. We recommend also that the NSCS periodically review lists of users, especially those with privileged access to the system, to ensure their access is appropriate.

Management's Response: The NSCS will ensure the proper security access form is completed. Additionally, steps are being taken to review and correct the identified individuals. The NSCS will also look into improving procedures for reviewing NeSIS security access.

18. <u>NeSIS Terminated User Access and SAP Terminations</u>

NSCS policy 5008, *Employee Use of Campus Computers*, states in relevant part:

> *When any user terminates his or her relations with the college, his or her username and password shall be denied further access to college computing resources as stated in institutional policy generally or upon employment termination.*

A good internal control plan requires that terminated NeSIS user access be removed timely. Additionally, documentation – whether by system audit records, access removal forms, or both – should be available to indicate that such access was properly removed.

NeSIS Terminated User Access

For one of four NSCS terminations tested, NeSIS access was not removed within three business days following termination. Additionally, we noted four active users who no longer required access to NeSIS but did not have their access removed timely.

- A WSC employee terminated on November 3, 2012; however, their NeSIS access was not removed until November 27, 2012, which was 17 business days after termination.

- Two PSC employees terminated on June 1, 2011; however, they still had NeSIS access in June 2013. We also noted two University consultants who assisted with the admissions implementation of NeSIS and were on "standby" to assist in case of emergency. The consultants had not logged into NeSIS since 2010. Therefore, it appears that their access should be removed.

SAP Terminations

For 3 of 25 terminations tested, SAP access was not removed within three business days after termination. See table below.

Employees	Campus	Access removed business days/months after Termination
2	PSC	8 to 9 days
1	WSC	4 days

Based on our understanding of the SAP access removal process for terminated employees, the lack of timely removal of access was due to the separation dates not being entered into SAP in a timely manner. We noted a similar finding in our prior audits.

When terminated user access to networks and applications is not removed in a timely manner, it creates the opportunity for unauthorized processing of transactions.

> We recommend that NSCS implement a formal procedure to ensure appropriate staff are notified of all terminations in order to remove terminated user access to NeSIS within three business days and that this procedure be documented. We also recommend that the NSCS enter separation dates into SAP immediately in order to ensure the timely removal of access to networks and applications for terminated users.

Management's Response: The NSCS will work on implementing procedures to ensure terminated users are removed in a timely manner.

19. <u>Financial Aid Segregation of Duties</u>

A good internal control plan requires an adequate segregation of duties, so no single individual has the ability to create a scholarship, configure scholarship parameters, and award the scholarship to a student.

There were nine University users with the ability to set up a specific student, create a scholarship, configure the scholarship parameters, and then award that scholarship to the student in NeSIS. Two WSC users had the ability to create a scholarship, configure the scholarship parameters, and then award that scholarship to the student in NeSIS.

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 students without a secondary review or approval.

> We recommend that the NSCS implement an adequate segregation of duties around the scholarship award process, so a single individual is not able to create a scholarship, configure the scholarship parameters, and then award the scholarship to a student, particularly if those users can also create a student in NeSIS.

Management's Response: A security change request has been submitted to remove the roles from the two WSC employees with access to both create and award scholarships. Additionally, the NSCS will consider a possible security re-design to assure segregation of duties between scholarship awards and award processing.

* * * * *

It should be noted that this letter is critical in nature, as it contains only our comments and recommendations and does not include our observations on any strengths of the NSCS.

Draft copies of the comments and recommendations included in this management letter were furnished to the NSCS administrators to provide them with an opportunity to review and respond to them. All formal responses received have been incorporated into this management letter. Responses have been objectively evaluated and recognized, as appropriate, in the management letter. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

This letter is intended solely for the information and use of management, the Board of Trustees, others within the NSCS, and the appropriate Federal and regulatory awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

SIGNED ORIGINAL ON FILE

Don Dunlap, CPA
Assistant Deputy Auditor

EXHIBIT A

Collaborative Agreements Between the Board of Trustees of the Nebraska State Colleges (the Board) and the Foundations – Nebraska Non-profit Corporations (the Foundations)

Exhibit A-1	-	Chadron State Foundation
Exhibit A-2	-	Peru State College Foundation
Exhibit A-3	-	Wayne State Foundation Board of Trustees

AMENDED COLLABORATIVE AGREEMENT

This Agreement is made by and between the Board of Trustees of the Nebraska State Colleges, (the "Board") for the benefit of Chadron State College (the "College") and the Chadron State Foundation, a Nebraska Non-Profit Corporation (the "Foundation").

This Agreement identifies a commitment between the College, the Board and the Foundation to engage in cooperative practices and exchange benefits for the betterment of the College.

The Foundation is a separately incorporated, tax exempt §501 (c) (3) non-profit organization created to raise, manage, distribute, and steward private resources to support the various missions of the College. The Foundation is responsible for identifying and nurturing relationships with potential donors and other friends of the College. The Foundation solicits cash, securities, real and intellectual property, and other private resources for the support of the College. The Foundation Board of Directors is solely responsible for control and management of Foundation assets.

Nothing in this Agreement shall be interpreted to supersede the Articles of Incorporation and Bylaws of the Foundation.

This Agreement shall become effective upon the signature of the parties and shall continue until terminated as provided by the terms of this Agreement.

Foundation's Responsibilities.

The Foundation, in consultation with the College community and the President, is responsible for planning and executing a comprehensive fund-raising and donor-acquisition program in support of the College's mission. These programs may include annual giving, major gifts, planned gifts, special projects, and other campaigns as appropriate.

The Foundation is responsible for the control and management of all its assets, including the prudent management of all gifts consistent with donor intent and Internal Revenue Service requirements.

The Foundation shall continue asset-allocation, disbursement, and spending policies that adhere to applicable federal and state laws including the Uniform Prudent Investor Act (UPIA) and the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Foundation shall continue to engage an independent accounting firm annually to conduct an audit of the Foundation's financial and operational records and shall provide the President and the Board a copy of said annual audit in a timely manner each year, in order to allow for inclusion with the NSCS' Comprehensive Audit. The Foundation shall continue to work with the College to adhere to pronouncements issued by the Governmental Accounting Standards Board including GASB 39. The Foundation shall continue to provide the President financial reports prepared for the Foundation's Board of Directors meetings. The President may share these reports with the Chancellor.

The Foundation is responsible for employment, compensation, supervision and evaluation of all its employees, including but not limited to, the Executive Director and Business Manager. As part of its responsibilities as an employer, the Foundation shall continue to maintain appropriate personnel policies, issue employment contracts, and conduct any necessary and appropriate orientation and training. Paid leave, holiday benefits, and overtime provisions shall be maintained consistent with those established for College employees. The Foundation understands and agrees that the Board and the College are not responsible for the Foundation's obligations as an employer, although the Chancellor and President may provide input to the Foundation regarding the performance of the Foundation employees.

The Foundation agrees to reimburse the College in a timely manner for all expenses that the College incurs as a result of the terms of this agreement, including but not limited to, unemployment benefits paid on behalf of the Foundation's previous employees, the proportionate share of worker's compensation premiums paid on behalf of the Foundation's employees, expenses for central office services as described in this Agreement, additional insurance premiums, retirement contributions for Foundation employees, employee benefits for Foundation employees, and all other related payroll expenses.

The Foundation shall continue to maintain, at its own expense, copies of the plans, budgets and donor and alumni records developed in connection with the performance of its obligations. The Foundation shall protect donor confidentiality and rights.

In August the Foundation establishes a budget for the fiscal year that begins on July 1st. On or before June 15th, the Board and the President may submit a request to the Foundation to fund items that may include, but are not limited to, the following:

- NSCS Senators' reception for the benefit of the College;
- Funding for the NSCS Teaching Excellence Award;
- Discretionary funds to be used by the President, and at the President's discretion, for the benefit of the College, consistent with the Articles of Incorporation and By-Laws of the Foundation.
- Discretionary funds to be used by the Chancellor, and at the Chancellor's discretion, for the benefit of the College, consistent with the Articles of Incorporation and By-Laws of the Foundation.

Once the Foundation sets the budget, the Foundation will inform the Board of decisions regarding any requests on or before September 15th.

Receipts for all expenses, with appropriate documentation consistent with the IRS requirements, shall be submitted to the Foundation.

The Foundation has in prior years, provided a suitable automobile to the College for use by the President. The Foundation agrees, in good faith, to continue this arrangement.

Except for reimbursement for President's spouse's travel expenses related to accompanying the President on College business, the Foundation agrees that it shall not enter into any agreements or contracts with the Board's employees or family members of Board employees to provide income, deferred compensation, or other taxable benefits under the Internal Revenue Service Code without prior written approval of the Chancellor.

The Foundation agrees that the Board's employees shall not serve as board members or directors of the Foundation.

The Foundation recognizes the Board is the employer of the Chancellor, the President, College employees, and employees in the Nebraska State College System office. The Board and the College recognize that the Foundation is the employer of the Executive Director and the Business Manager of the Foundation. The Board and the College recognize also that the Director of Development and Alumni, the Development Officer, and the Office Assistant II, work under the supervision and direction of the Executive Director of the Foundation. The Foundation, the College, and the Board agree to respect the respective employer-employee relationships set forth above.

College and Board's Responsibilities.

The Board shall provide the Foundation with office space necessary to conduct its activities, including utilities, maintenance and janitorial services, free of charge. The College and Board shall also provide the Foundation with, (i) access to its telephone and email systems; (ii) hosting of the Foundation's website; and (iii) computer support services. The Foundation agrees to reimburse the College for the actual cost of telephone (including long distance), email, website, and computer support service expenses on a monthly basis.

The Board shall continue to provide funding for three employees of the Foundation. Currently, those employees include the Director of Development and Alumni, the Development Officer, and the Office Assistant II.

The Board shall allow Foundation employees access to participate in the College plans for TIAA/CREF retirement programs; medical/dental, vision, long term disability, and life insurance plans; the immediate family tuition remission program; the tuition waiver program; and, Employee Assistance Program Services in the same manner as College employees. The Foundation agrees to reimburse the College for the employer's share of the Executive Director and Business Manager's employee benefits.

The Board shall provide payroll processing services for Foundation employees in accordance with the College's normal policies and procedures. Wages must be paid by direct deposit or other means of electronic transfer. All Foundation payroll expenses for the Executive Director and the Business Manager shall be reimbursed to the College.

The College and the Board may provide other benefits or services to assist the Foundation's work at the discretion of the Chancellor or President.

The College and the Board shall make available to all College employees, the opportunity for payroll deduction for donations to be directed to the Foundation.

The College and the Board recognize that the Foundation is a separate legal entity with the authority to keep all records and data confidential consistent with applicable law.

The Board and the College recognize that the Foundation is the employer of the Executive Director and the Business Manager of the Foundation. The Board and the College recognize also that the Director of Development and Alumni, the Development Officer, and the Office Assistant II, work under the supervision and direction of the Executive Director of the Foundation.

The Board shall include the Foundation as an additional insured on its general liability, property, and directors and officers insurance coverage at no charge. The parties agree that if the Foundation causes, through any act or omission, insurance premiums to increase, the Foundation shall reimburse the Board for such premium increases.

The Foundation recognizes the Board is the employer of the Chancellor, the President, College employees, and employees in the Nebraska State College System office. The Foundation, the College, and the Board agree to respect the respective employer-employee relationships set forth above.

Hold Harmless.

The Foundation agrees to protect, save and hold the College and the Board and all trustees, directors, agents, officers, representatives and employees thereof, forever harmless for any damages, costs or charges imposed for violations of any law or ordinance occasioned by the negligence, affirmative act or omission of the Foundation, including the Foundation's directors, agents, officers, representatives and employees. The agreement to hold harmless shall include, but not be limited to, reimbursement for any and all losses, costs, damages, liability or expenses including attorney's fees and litigation costs arising from a breach of the terms of this Agreement by the Foundation.

The Board agrees to protect, save and hold the Foundation and all directors, agents, officers, representatives and employees thereof, forever harmless for any damages, costs or charges imposed for violations of any law or ordinance occasioned by the negligence, affirmative act or omission of the Board, including the trustees, directors, agents, officers, representatives and employees. The agreement to hold harmless shall include, but not be limited to, reimbursement for any and all losses, costs, damages, liability or expenses including attorney's fees and litigation costs arising from a breach of the terms of this Agreement by the Board.

Meetings.

To ensure effective achievement of the provisions of this Agreement, the Chancellor and/or the President shall meet regularly with the Foundation's officers, directors and/or Executive Director to foster and maintain productive relationships, share information as appropriate and to ensure open and continuing communications and alignment of priorities.

Amendment.

This Agreement may be amended upon written agreement of the parties.

Termination.

Either party may, upon six (6) months written notice to the other party, terminate this Agreement. Notwithstanding the foregoing, either party may terminate this Agreement in the event the other party defaults in the performance of its obligations and fails to cure the default within ninety (90) days time after receiving written notice of the default.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the day and date set forth below.

Board Chair
On Behalf of the Board of Trustees of the Nebraska State Colleges

10-15-13
Date

Board Chair
On Behalf of the Chadron State Foundation

10-14-2013
Date

President
On Behalf of Chadron State College

10-22-13
Date

COLLABORATIVE AGREEMENT

This Agreement is made by and between the Board of Trustees of the Nebraska State Colleges, (the "Board") and the Peru State College Foundation, a Nebraska Nonprofit corporation (the "Foundation").

This Agreement identifies a commitment between the Board and the Foundation to engage in cooperative practices and exchange benefits for the betterment of Peru State College (the "College").

Nothing in this Agreement shall be interpreted to supersede the articles of incorporation and bylaws of the Foundation.

This Agreement shall become effective upon the signature of the parties and shall continue until terminated as provided by the terms of this Agreement.

Role of the Foundation

The Foundation is a Nebraska nonprofit corporation and operated for the benefit of, and in connection with, the College. The Foundation is tax-exempt under section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") as a supporting organization under section 509(a)(3) of the Code. In connection with such purpose, the Foundation:

1. Works with the Board and the College to identify the College's needs, both short term and long term;

2. Promotes the College's educational program, faculty, employees, and students, and encourages the attendance of worthy and deserving students through scholarships and student loans; and

3. Solicits and accepts gifts, grants, devises and bequests of real and personal property, and holds, administers, uses, and disposes of the same for the accomplishment and furtherance of its purpose to support the College.

In connection with its fundraising and asset management activities, the Foundation retains personnel experienced in planning for and managing contributions.

Role of the Board

The Board is responsible for the performance and oversight of all aspects of the Nebraska State College System (NSCS), including the College, Chadron State College, Wayne State College and the NSCS Office.

The Board directs the strategic plan, priorities and operations for the NSCS.

The Board is responsible for the employment, compensation, and evaluation of all NSCS employees.

Role of the Chancellor

The NSCS Chancellor ("Chancellor") is responsible for overseeing the NSCS strategic plan and for the leadership and operations of the NSCS.

The Chancellor acts as the official liaison among the Board, the College and Foundation and is responsible for communicating the Board's priorities and long-term plans for the College to the Foundation, either directly or through the President of the College ("President").

The Chancellor is responsible for overseeing the employment, compensation, and evaluation of the President.

Role of the President

The President is responsible for setting priorities and long-term plans for the College in conjunction with the Board and communicating such priorities and long-term plans to the Foundation. The President shall include the Foundation as a participant in the strategic planning for the College.

The President is responsible for overseeing the mission, and for the leadership and operations of the College.

Foundation's Responsibilities

The Foundation, in consultation with the Chancellor and President, is responsible for planning and executing a comprehensive fund-raising program in support of the College's mission. This program may include annual giving, major gifts, planned gifts, special projects and other campaigns as deemed appropriate by the Foundation.

The Foundation is responsible for the management of its assets, including the prudent management of all gifts consistent with donor intent, Internal Revenue Service requirements and investment standards governing nonprofits under Nebraska law.

The Foundation is responsible for the performance and oversight of all aspects of its operations and is governed by its bylaws.

The Foundation shall establish asset-allocation, disbursement and spending policies that adhere to applicable federal and state laws including the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Foundation shall engage an independent accounting firm annually to conduct an audit of the Foundation's financial and operational records and shall provide the Chancellor and the President with a copy of the annual audited financial statements, according to a deadline agreed upon by the parties in order to allow for inclusion with the NSCS Comprehensive Audit. The Foundation shall cooperate with the College to adhere to applicable pronouncements issued by the Governmental Accounting Standards Board including GASB 39. In addition to the annual audit, the Foundation shall provide semi-annual reports to the Chancellor and the President summarizing the results of donations, expenditures and specific initiatives.

The Foundation is responsible for employment, compensation, supervision and evaluation of all its employees, including, but not limited to the executive director of the Foundation. As part of its responsibilities as an employer, the Foundation shall adopt-personnel policies and practices it deems appropriate for Foundation employees.

The Chancellor, President and Board agree to respect the Foundation's employer/employee relationship and not to interfere with employment matters between the Foundation and its employees. The Foundation understands and agrees that the Board and the College are not responsible for the Foundation's obligations as an employer.

The Foundation may explore opportunities, including acquisition and management of real estate for future allocation, transfer, or use by the College.

The Foundation shall maintain, at its own expense, copies of the plans, budgets and donor and alumni records developed in connection with the performance of its obligations. The Foundation shall establish and enforce policies to protect donor confidentiality and rights.

Prior to the beginning of each calendar year, the Foundation shall establish a budget for such upcoming calendar year. The Foundation will obtain the input of the President in establishing such budget in order to identify both short term and long term financial needs of the College. The Foundation anticipates that, in accordance with past practices, and upon input from the Chancellor and President, such annual budget will include financial support for the following line items:

(a) car for the President;

(b) discretionary funds for the President and Chancellor for activities in support of the College;

(c) NSCS Senators' reception for the benefit of the College; and

(d) full funding of the NSCS Teaching Excellence Award when awarded to a College employee at the current award level or such other amount as agreed to by the Foundation.

The Foundation agrees that once its calendar year budget is set, the Board will provide a copy of the budget document to the Chancellor and President.

The Foundation will be responsible for furnishing the office space provided by the College at its expense including, but not limited to, the furniture, computers, computer software, telephones, and photocopy and facsimile machines.

The Foundation agrees to reimburse the College in a timely manner for unemployment benefits paid on behalf of the Foundation's employees, the proportionate share of worker's compensation premiums paid on behalf of the Foundation's employees, retirement contributions for Foundation employees, employee benefits for Foundation employees and all other related payroll expenses.

The Foundation recognizes that the Board is the employer of the Chancellor, the President, College employees and employees in the NSCS office. The Foundation agrees to respect that employer/employee relationship and not to interfere with employment matters between the Board and the Board's employees.

The Foundation agrees that it shall not enter into any agreements or contracts with the Board's employees or family members of Board employees to provide income, deferred compensation or other taxable benefits under the Internal Revenue Service Code without prior written approval of the Chancellor.

The Foundation agrees that the Board's employees shall not serve as directors of the Foundation.

Board's Responsibilities

The Board shall provide the Foundation with office space necessary to conduct its activities, including utilities, maintenance and janitorial services, free of charge. The Board shall also provide the Foundation with (i) access to its telephone and email systems; (ii) hosting of the Foundation's website; and (iii) computer support services. The Foundation agrees to reimburse the College for the actual cost of telephone (including long distance), email, website, and computer support service expenses on a monthly basis.

The Board shall allow Foundation employees access to participate in the College's TIAA/CREF retirement programs; medical/dental, vision, long term disability, and life insurance plans; the immediate family tuition remission program; the tuition waiver program; and, Employee Assistance Program services in the same manner as College employees. The Foundation agrees to reimburse the College for the employer's share of Foundation employee benefits.

The Board shall provide payroll processing services for Foundation employees in accordance with the College's normal policies and procedures. Wages must be paid by direct deposit or other means of electronic transfer. Accrual rates for vacation leave, sick leave, holidays, and overtime shall be established in a manner consistent with current, available leave plan accrual program codes within the College's payroll system. The Foundation shall reimburse the College for all payroll expenses incurred on the Foundation's behalf.

The Board may provide other benefits or services to assist the Foundation's work at the discretion of the Chancellor or President.

The Board shall make available to all College employees, the opportunity for payroll deduction for donations to be directed to the Foundation.

The Board recognizes that the Foundation is a separate legal entity with the authority to keep all records and data confidential consistent with applicable law.

The Board shall include the Foundation as an additional insured on its general liability, property, and directors and officers insurance coverage at no charge. The parties agree that if the Foundation causes, through any act or omission, insurance premiums to increase, the Foundation shall reimburse the Board for such premium increases.

Hold Harmless

The Foundation agrees to protect, save and hold the Board and all trustees, directors, agents, officers, representatives and employees thereof , forever harmless for any damages, costs or charges imposed for violations of any law or ordinance occasioned by the negligence, affirmative act or omission of the Foundation, including the Foundation's directors, agents, officers, representatives and employees. The agreement to hold harmless shall include, but not be limited to, reimbursement for any and all losses, costs, damages, liability or expenses including attorney's fees and litigation costs arising from a breach of the terms of this Agreement by the Foundation.

The Board agrees to protect, save and hold the Foundation and all directors, agents, officers, representatives and employees thereof, forever harmless for any damages, costs or charges imposed for violations of any law or ordinance occasioned by the negligence, affirmative act or omission of the Board, including the trustees, directors, agents, officers, representatives and employees. The agreement to hold harmless shall include, but not be limited to, reimbursement for any and all losses, costs, damages, liability or expenses including attorney's fees and litigation costs arising from a breach of the terms of this Agreement by the Board.

Meetings

To ensure effective achievement of the provisions of this-Agreement, the Chancellor and/or the President shall meet regularly with the Foundation's officers, directors and/or Executive Director to foster and maintain productive relationships, share information as appropriate and to ensure open and continuing communications and alignment of priorities.

Amendment

This Agreement may be amended upon written agreement of the parties.

Termination

Either party may, upon ninety (90) days written notice to the other party, terminate this Agreement. Notwithstanding the foregoing, either party may terminate this Agreement in the event the other party defaults in the performance of its obligations and fails to cure the default within thirty (30) days time after receiving written notice of the default.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the day and date set forth below.

Larry Teahon

Board Chair Larry Teahon
On Behalf of the Board of Trustees of the
Nebraska State Colleges

1/12/10
Date

Charles Niemeyer

Charles Niemeyer, Chair
On Behalf of the Peru State College Foundation

12/10/09
Date

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Collaborative Agreement

This Agreement is made by and between the Board of Trustees of the Nebraska State College System, hereinafter referred to as the "Board" and the Wayne State Foundation Board of Trustees, hereinafter referred to as the "Foundation."

This Agreement identifies a commitment between the Board and the Foundation to engage in cooperative practices and exchange benefits for the betterment of Wayne State College.

Nothing in this Agreement shall be interpreted to supersede the articles and by-laws of the Wayne State Foundation.

Role of the Foundation

As stated in the articles of incorporation, the Foundation is a separately incorporated, tax exempt §501 (c) (3) non-profit organization created to raise, manage, distribute, and steward private resources to support the various missions of the Wayne State College. The Foundation is responsible for identifying and nurturing relationships with potential donors and other friends of Wayne State College (hereinafter referred to as the College) and the NSCS. The Foundation shall solicit cash, securities, real and intellectual property, and other private resources for the support of the College. The Foundation Board of Trustees and its Executive Committee are responsible for control and management of Foundation assets.

The Foundation exists to raise and manage private resources supporting the mission and the long-term priorities of the College, to provide opportunities for students, faculty, and staff and to provide a margin of institutional excellence beyond what is otherwise possible.

The Foundation is dedicated to building the endowment for the support of the College and in addressing, through financial support, the academic and other priorities of the College, as submitted by the College to the Foundation.

The Foundation shall employ personnel experienced in planning for and managing private contributions to work with the NSCS and the College. Such employees are not employees of the College or the NSCS and are not afforded tenure or rank.

Role of the Board

The Board is legally responsible for the performance and oversight of all aspects of the Nebraska State College System, including Chadron State College, Peru State College, Wayne State College and the System Office.

The Board directs the strategic plan, priorities and operations for the NSCS.

The Board is responsible for the employment, compensation, and evaluation of all state college employees.

Role of the Chancellor

The Chancellor is responsible for overseeing the NSCS strategic plan, and for the leadership and operations for the Nebraska State College System.

The Chancellor acts as the official liaison between the Board of Trustees of the Nebraska State Colleges and the Foundation and is responsible for communicating the priorities and long-term plans for the state colleges to the Foundation either directly or through the College President.

The Chancellor is responsible for overseeing the employment, compensation, and evaluation of all the college presidents.

Role of the President

The President is responsible for setting priorities and long-term plans for the College in conjunction with the Board and communicating such priorities and long-term plans to the Foundation.

The President is responsible for overseeing the mission, and for the leadership and operations of the College.

Foundation's Responsibilities

The Foundation, in consultation with the College community and the President, is responsible for planning and executing a comprehensive fund-raising and donor-acquisition program in support of the College's mission. These programs may include annual giving, major gifts, planned gifts, special projects, and other campaigns as appropriate.

The Foundation is responsible for the control and management of all its assets, including the prudent management of all gifts consistent with donor intent and Internal Revenue Service requirements.

The Foundation shall continue to establish asset-allocation, disbursement, and spending policies that adhere to applicable federal and state laws including the Uniform Prudent Investor Act (UPIA) and the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Foundation shall continue to engage an independent accounting firm annually to conduct an audit of the Foundation's financial and operational records and shall provide the College, the President and the Chancellor a copy of the annual audited financial statements, including the management letters by October 1 each year, in order to allow for inclusion with the NSCS Comprehensive Audit. The parties agree to revise the October 1 deadline as may be necessary to accommodate the schedule established by the State Auditor of Public Accounts. The Foundation has provided annual audits of the Foundation to the College in a timely manner since 2004 when GASB 39 was established. The Foundation shall **continue to work** with the College to adhere to pronouncements issued by the Governmental Accounting Standards Board including GASB 39. The Foundation shall continue to provide the President financial reports prepared for the Foundation's quarterly Executive Committee meetings. The President may share these reports with the Chancellor.

The Foundation is responsible for employment, compensation, supervision and evaluation of all its employees, including, but not limited to the **Executive Director**, **Director of Planned Giving , Director of Development and Alumni Relations,** and **Office Assistant I**. As part of its responsibilities as an employer, the Foundation shall adopt appropriate personnel policies and conduct any necessary and appropriate personnel orientation and training. Paid leave, holiday benefits and overtime provisions shall be established consistent with those established for College employees. The Foundation understands and agrees that the Board and the College are not responsible for the Foundation's obligations as an employer, although the Chancellor and President may provide input to the Foundation regarding the performance of the Foundation employees.

The Foundation may explore opportunities, including acquisition and management of real estate on behalf of the College and the Board for future allocation, transfer, or use.

The Foundation may serve as an instrument for entrepreneurial activities for the College and the Board and may engage in such activities as purchasing, developing, or managing real estate for College expansion.

The Foundation shall maintain, at its own expense, copies of the plans, budgets, and donor and alumni records developed in connection with the performance of its obligations.

The Foundation shall provide a portion of its unrestricted funds to a discretionary fund for the President and the Chancellor. The Foundation shall provide the President with an automobile suitable for the President and an annual expense account of no less than Ten Thousand Dollars ($10,000). The Foundation will deposit no less than Two Thousand Five Hundred Dollars ($2,500) into the account each quarter. Such funds may be used for the President's spouse to travel to Foundation and alumni events, dues for community organizations, flowers for funerals in the College and local community, off-campus banquets, off-campus wi-fi service for laptop during travel, and office publications, etc. Receipts for all expenses with appropriate documentation consistent with the IRS requirements shall be submitted to the Foundation. The Foundation shall also establish an annual expense account of no less than Fifteen Hundred Dollars ($1,500) for the Chancellor to be used for activities in support of the College. Receipts for all expenses with appropriate documentation consistent with the IRS requirements shall be submitted to the Foundation to receive reimbursement.

The Foundation shall provide a college support account to be used for presidential expenses, student and faculty research, campus events not supported by state funds, student travel to conferences, etc. The account will be managed by the Foundation Office. The President will submit requests for payments to the Foundation Office explaining the request for payment by attaching supporting information and/or receipts in accordance with IRS requirements.

The Foundation shall provide one-third of the payments in support of the NSCS's annual Senator's reception. The Foundation shall join the state college foundations in sponsoring the NSCS Teaching Excellence Award with an annual contribution **from each of the foundations** of One Thousand Dollars ($1,000) paid to the NSCS. **All of the state college foundations must participate in this award or the Foundation will not.**

The Foundation agrees to reimburse the College in a timely manner for all expenses that the College incurs as a result of the terms of this Agreement, including but not limited to, unemployment benefits paid on behalf of the Foundation's previous employees, the proportionate share of worker's compensation premiums paid on behalf of the Foundation's employees, expenses for central office services as described in this Agreement, additional insurance premiums expenses, retirement contributions for Foundation employees, employee benefits for Foundation employees, and all other related payroll expenses.

The Foundation recognizes that the Board is the employer of the Chancellor, the President, College employees and employees in the System office. The Foundation will continue to respect that employer/employee relationship and agrees not to interfere or insert itself into employment matters between the Board and the Board's employees.

Except for reimbursing the President's spouse for travel expenses related to accompanying the President on College business, the Foundation agrees that it shall not enter into any agreements or contracts with the Board's employees, or family members of Board employees to provide income, deferred compensation, or provide any other taxable benefits as defined by the Internal Revenue Service without prior written approval by the Chancellor.

The Foundation agrees that the Board's employees shall not be appointed as board members or directors for the Foundation in the future. Board employees who are currently serving as board members or directors for the Foundation may remain in that capacity through the end of his/her current term.

Board's Responsibilities

The Board shall provide the Foundation with office space including utilities free of charge. The Board shall also provide access to central office services including, but not limited to, telephone, facsimile, email, photocopier and computer support services. The Foundation agrees to reimburse the College for central office service expenses on a monthly basis through Foundation funds or an appropriate college account established in support of the Development and Alumni Office.

The Board shall include the Foundation as an additional insured on its general liability, property, and directors and officer's insurance coverage at no charge. The parties agree that if the Foundation causes, through any act or omission, insurance premiums to increase, the Foundation shall reimburse the Board for such premium increases.

During the period that this Agreement and in order to assist the Foundation, the Board shall continue to provide funding for three employees of the Foundation. Currently, those employees include two Office Assistants and the Assistant Director/Accountant. The Foundation agrees to continue to provide .09 FTE funding to the College for the Assistant Director/Accountant position.

The Board shall allow Foundation employees access to participate in the College plans for TIAA/CREF retirement programs; medical/dental, vision, long term disability, and life insurance plans; the immediate family tuition remission program; the tuition waiver program; and, Employee Assistance Program services in the same manner as College employees. The Foundation agrees to reimburse the College for the employer's share of the Foundation employee benefits.

The Board shall provide payroll processing services for Foundation employees in accordance with the College's normal policies and procedures. Wages must be paid by direct deposit or other means of electronic transfer. All Foundation payroll expenses shall be reimbursed to the College.

The Board may provide other benefits or services to assist the Foundation's work at the discretion of the Chancellor or President.

The Board shall make available to all College employees, the opportunity for payroll deduction for donations to be directed to the Foundation.

Hold Harmless

The Foundation agrees to protect, save and hold the Board of Trustees of the Nebraska State Colleges, all Directors, agents, officers, representatives and employees thereof, forever harmless for any damages, costs or charges imposed for violations of any law or ordinance occasioned by the negligence, affirmative act or omission of the Foundation, including the Foundation's Directors, agents, officers, representatives and employees. The agreement to hold harmless shall include, but not be limited to, reimbursement for any and all losses, costs, damages, liability or expenses including attorney's fees and litigation costs arising from this collaborative relationship and the terms of this Agreement.

The Board of Trustees of the Nebraska State Colleges agrees to protect, save and hold the Foundation, all Directors, agents, officers, representatives and employees thereof, forever harmless for any damages, costs or charges imposed for violations of any law or ordinance occasioned by the negligence, affirmative act or omission of the Board of Trustees, including the Board of Trustees' Directors, agents, officers, representatives and employees. The agreement to hold harmless shall include, but not be limited to, reimbursement for any and all losses, costs, damages, liability or expenses including attorney's fees and litigation costs arising from this collaborative relationship and the terms of this Agreement.

Meetings

To ensure effective achievement of the items of the agreement, the Chancellor and/or the President shall meet regularly with Foundation officers and/or executive employees to foster and maintain productive relationships, share information, and to ensure open and continuing communications and alignment of priorities.

Amendment

This Agreement may be amended upon written agreement of the parties.

Termination

Either party may, upon ninety (90) days written notice to the other party, terminate this Agreement. Notwithstanding the foregoing, either party may terminate this Agreement in the event the other party defaults in the performance of its obligations and fails to cure the default within thirty (30) days time after receiving written notice of the default.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the day and date first above written.

Larry Teahon

Chair of the Board of Trustees
On Behalf of the Board of Trustees of the
Nebraska State Colleges
Larry Teahon

1/12/10
Date

Michael P. Bousquet

President of the Board of Trustees
On Behalf of the Wayne State Foundation
Mike Bousquet

10/17/09
Date

Amendment
Collaborative Agreement

This Agreement is made by and between the Board of Trustees of the Nebraska State College System, hereinafter referred to as the "Board" and the Wayne State Foundation Board of Trustees, hereinafter referred to as the "Foundation."

This agreement amends the seventh paragraph on page 3 of the Collaborative Agreement signed on October 17, 2009 by President of the Wayne State Foundation's Board of Trustees, Mike Bousquet and Chair of the Board of Trustees of the Nebraska State Colleges, Larry Teahon on January 12, 2010.

Paragraph seven on page 3 will be amended to read:

The Foundation shall provide one-third of the payments in support of the NSCS's Senator's reception. *The Foundation shall provide to the NSCS the $3,000 to fund the annual NSCS Teaching Excellence Award when the recipient is a faculty member of WSC.*

In Witness Whereof, the parties have caused this amendment to the Collaborative Agreement to be executed by their duly authorized officers as of the day and date first above written.

Bill Dickey
President of the Board of Trustees
On Behalf of the Wayne State Foundation
Bill Dickey

1/26/12
Date

Carter Peterson
Chair of the Board of Trustees
On Behalf of the Board of Trustees of the Nebraska State Colleges
Carter Peterson

1-26-12
Date