# *The University of Nebraska*

## Management Letter

For the Year Ended June 30, 2014



**Issued on December 15, 2014**

# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 3, 2014

The Board of Regents
University of Nebraska

We have audited the financial statements of the University of Nebraska (University), a component unit of the State of Nebraska, for the year ended June 30, 2014, and have issued our report thereon dated December 3, 2014.

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 University'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 unit of the University as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 3, 2014. Our report includes a reference to other auditors who audited the financial statements of the University of Nebraska Foundation (Foundation), a discretely presented component unit of the University; the University of Nebraska Facilities Corporation, the UNMC Physicians, the University Technology Development Corporation, the University Dental Associates, the UNeHealth, and the Nebraska Utility Corporation, blended component units of the University (collectively identified as the Blended Component Units); and the activity relating to the Members of the Obligated Group Under the Master Trust Indenture, as described in our report on the University's financial statements. The financial statements of these entities were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

## Internal Control Over Financial Reporting

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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.*

## University's Response to Findings

The University's responses to our findings are described below. The University'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.

## SCHEDULE OF FINDINGS AND RESPONSES

### 1. Accounts Payable (A/P) Transactions

A good internal control plan requires proper segregation of duties to ensure no one individual can process a transaction from beginning to end. A good internal control plan also includes adequate security controls, through the design, creation, approval, and assignment of user roles, to prevent users from performing functions that do not allow for a proper segregation of duties.

During our audit of the A/P security roles in SAP, we noted 15 users had the ability to prepare an invoice, post it in SAP, and also approve and post it in EnterpriseOne (E1).

The 15 users who could prepare invoices and post them in SAP and E1 are noted by location below:

| Campus | # of Users |
|---|---|
| University of Nebraska at Kearney (UNK) | 5 |
| University of Nebraska Medical Center (UNMC) | 5 |
| University of Nebraska Central Administration (UNCA) | 5 |

Additionally, 12 of the 15 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. They are noted by location below:

| Campus | # of Users |
|---|---|
| UNK | 3 |
| UNMC | 4 |
| UNCA | 5 |

Two 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. We noted a similar finding in our prior four audits.

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

> We recommend the University review the security design of the A/P roles in SAP, and/or batch management in E1, and implement controls that require separate individuals to prepare and post A/P transaction types.

***Management Response:*** *As the auditor is aware, the University has greatly reduced the number of persons who can prepare and post accounts payable transactions. The write-up also does not cite the mitigating controls that management believes greatly reduce the risk of error. We will continue to challenge the number of persons with preparation and posting capabilities.*

## 2. University of Nebraska at Omaha (UNO) Dome Revenues

There was a lack of internal controls over the billing and collecting of revenues generated from the UNO Dome. In addition, all three of the UNO Dome revenue entries selected for testing lacked adequate supporting documentation.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties, so no one individual is capable of handling all phases of a transaction from beginning to end.

We noted the following internal control issues over the UNO Dome revenues:

- The Associate Director of Campus Recreation Facilities was responsible for most of the financial activities of the UNO Dome, including creating the contracts with the organizations, creating the invoices, sending the invoices to the organizations, following up with the organizations regarding unpaid invoices, and receiving the checks. The only duty not completed by the Associate Director was depositing the checks, which was done by the Business Manager at Campus Recreation.

- The Business Manager matched the check received to the corresponding invoice, but there was little to no oversight of verifying if the information on the invoice was accurate or complete.

- The Associate Director created a Fee Sheet for use of the UNO Dome, but that document was not reviewed or approved by any other employee. The Associate Director updated the Fee Sheet every couple of years, but those updates were also not reviewed or approved by any other employee.

- The invoices had no invoice number, making it impossible to perform a completeness test to ensure payment of all invoices.

- The invoices had no due date, which increased the risk that the Associate Director would be unaware of any unpaid invoice.

- The invoices were manually entered into a Word document, which increased the risk of mathematical errors.

- The invoices were not billed for a consistent amount of time (monthly versus several months) and were not billed at a regular time (invoice dated before the UNO Dome was used versus after the UNO Dome was used), which increased the likeliness of incomplete billings.

- There was no documented legal review of the contract template.

All three of the UNO Dome revenue entries selected for testing lacked adequate supporting documentation. These three entries were comprised of eight invoices from the UNO Dome to six different organizations. The eight invoices had the following documentation issues:

- Four invoices were not supported by a signed contract with the UNO Dome.

- All eight invoices were charged for incorrect dates or an incorrect amount of hours on the invoice.

- Seven invoices had contract rates that did not agree to the fee sheet, and there was no documentation for the difference.

- Two invoices did not have the correct rate.

- One invoice did not foot correctly.

- For one invoice, the original invoice (included with the Deposit Receipt, stamped "Paid" with the check number/date noted on it) was not found.

The documentation issues resulted in the following variances:

| | | Invoice: | | | Facility Report: | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Organization | Date | Hours | Rate | Amount | Hours | *Contract Rate | Amount | Variance | Total Variance |
| Organization 1 | 11/2/2013 | 0.00 | $50 | $0.00 | 4.00 | $50 | $200.00 | ($200.00) | |
| Organization 1 | 11/8/2013 | 5.00 | $170 | $850.00 | 5.00 | ** $170 | $850.00 | $0.00 | |
| Organization 1 | 11/15/2013 | 5.00 | $170 | $850.00 | 5.00 | ** $170 | $850.00 | $0.00 | |
| Organization 1 | 11/22/2013 | 5.00 | $170 | $850.00 | 5.00 | ** $170 | $850.00 | $0.00 | **($200.00)** |
| Organization 2 | 1/5/2014 | 2.00 | $210 | $420.00 | 0.00 | $210 | $0.00 | $420.00 | |
| Organization 2 | 1/12/2014 | 2.00 | $210 | $420.00 | 2.50 | $210 | $525.00 | ($105.00) | |
| Organization 2 | 1/19/2014 | 2.00 | $210 | $420.00 | 2.50 | $210 | $525.00 | ($105.00) | |
| Organization 2 | 1/26/2014 | 2.00 | $210 | $420.00 | 2.50 | $210 | $525.00 | ($105.00) | |
| Organization 2 | 2/2/2014 | 2.00 | $210 | $420.00 | 0.00 | $210 | $0.00 | $420.00 | |
| Organization 2 | 2/9/2014 | 2.00 | $210 | $420.00 | 2.50 | $210 | $525.00 | ($105.00) | |
| Organization 2 | 2/16/2014 | 2.00 | $210 | $420.00 | 2.50 | $210 | $525.00 | ($105.00) | |
| Organization 2 | 2/23/2014 | 1.75 | $210 | $367.50 | 2.50 | $210 | $525.00 | ($157.50) | |
| Organization 2 | 3/2/2014 | 2.00 | $210 | $420.00 | 2.50 | $210 | $525.00 | ($105.00) | |
| Organization 2 | 3/9/2014 | 2.00 | $210 | $420.00 | 2.50 | $210 | $525.00 | ($105.00) | |
| Organization 2 | 3/16/2014 | 2.00 | $210 | $420.00 | 2.50 | $210 | $525.00 | ($105.00) | **($157.50)** |
| Organization 3 | 11/7/2013 | 3.50 | $200 | $700.00 | 3.00 | $200 | $600.00 | $100.00 | |
| Organization 3 | 11/10/2013 | 3.00 | $200 | $600.00 | 3.00 | $200 | $600.00 | $0.00 | |
| Organization 3 | 11/14/2013 | 3.50 | $200 | $700.00 | 3.50 | $200 | $700.00 | $0.00 | |
| Organization 3 | 11/17/2013 | 3.00 | $200 | $600.00 | 3.00 | $200 | $600.00 | $0.00 | |
| Organization 3 | 11/21/2013 | 3.50 | $200 | $700.00 | 3.50 | $200 | $700.00 | $0.00 | |
| Organization 3 | 11/28/2013 | 3.50 | $200 | $700.00 | 0.00 | $200 | $0.00 | $700.00 | **$800.00** |
| Organization 4 | 11/1/2013 | 0.00 | $170 | $0.00 | 1.50 | $170 | $255.00 | ($255.00) | |
| Organization 4 | 11/4/2013 | 3.00 | $170 | $510.00 | 2.50 | $170 | $425.00 | $85.00 | |
| Organization 4 | 11/5/2013 | 3.00 | $170 | $510.00 | 1.50 | $170 | $255.00 | $255.00 | |
| Organization 4 | 11/11/2013 | 0.00 | $170 | $0.00 | 1.50 | $170 | $255.00 | ($255.00) | |

| | | Invoice: | | | Facility Report: | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Organization | Date | Hours | Rate | Amount | Hours | *Contract Rate | Amount | Variance | Total Variance |
| Organization 4 | 11/12/2013 | 3.00 | $170 | $510.00 | 1.50 | $170 | $255.00 | $255.00 | |
| Organization 4 | 11/19/2013 | 3.00 | $170 | $510.00 | 0.00 | $170 | $0.00 | $510.00 | |
| Organization 4 | 11/26/2013 | 3.00 | $170 | $510.00 | 0.00 | $170 | $0.00 | $510.00 | **$1,105.00** |
| Organization 5 | 1/2/2014 | 1.00 | $95 | $95.00 | 1.50 | $190 | $285.00 | ($190.00) | |
| Organization 5 | 1/9/2014 | 1.00 | $95 | $95.00 | 1.50 | $190 | $285.00 | ($190.00) | |
| Organization 5 | 1/16/2014 | 1.00 | $95 | $95.00 | 1.50 | $190 | $285.00 | ($190.00) | |
| Organization 5 | 1/23/2014 | 1.00 | $95 | $95.00 | 1.50 | $190 | $285.00 | ($190.00) | |
| Organization 5 | 1/30/2014 | 1.00 | $95 | $95.00 | 1.50 | $190 | $285.00 | ($190.00) | |
| Organization 5 | 2/6/2014 | 1.00 | $95 | $95.00 | 1.50 | $190 | $285.00 | ($190.00) | |
| Organization 5 | 2/13/2014 | 1.00 | $95 | $95.00 | 1.50 | $190 | $285.00 | ($190.00) | |
| Organization 5 | 2/20/2014 | 1.00 | $95 | $95.00 | 0.00 | $190 | $0.00 | $95.00 | |
| Organization 5 | 2/21/2014 | 0.00 | $95 | $0.00 | 1.50 | $190 | $285.00 | ($285.00) | |
| Organization 5 | 2/27/2014 | 1.00 | $95 | $95.00 | 1.50 | $190 | $285.00 | ($190.00) | **($1,710.00)** |
| Organization 6 | 2/2/2014 | 3.00 | $180 | $540.00 | 3.00 | $180 | $540.00 | $0.00 | |
| Organization 6 | 2/9/2014 | 3.00 | $180 | $540.00 | 3.00 | $180 | $540.00 | $0.00 | |
| Organization 6 | 2/16/2014 | 3.00 | $180 | $540.00 | 3.00 | $180 | $540.00 | $0.00 | |
| Organization 6 | 2/23/2014 | 1.00 | $90 | $90.00 | 0.00 | $90 | $0.00 | $90.00 | |
| Organization 6 | 3/9/2014 | 3.00 | $180 | $540.00 | 3.00 | $180 | $540.00 | $0.00 | |
| Organization 6 | 3/16/2014 | 3.00 | $180 | $540.00 | 0.00 | $180 | $0.00 | $540.00 | |
| Organization 6 | 3/23/2014 | 0.00 | $180 | $0.00 | 3.00 | $180 | $540.00 | ($540.00) | **$90.00** |
| Organization 1 | 2/1/2014 | 1.50 | $170 | $255.00 | 1.50 | ** $170 | $255.00 | $0.00 | |
| Organization 1 | 2/2/2014 | 3.00 | $170 | $510.00 | 3.00 | ** $170 | $510.00 | $0.00 | |
| Organization 1 | 2/3/2014 | 3.00 | $170 | $510.00 | 3.00 | ** $170 | $510.00 | $0.00 | |
| Organization 1 | 2/7/2014 | 5.00 | $170 | $850.00 | 5.00 | ** $170 | $850.00 | $0.00 | |
| Organization 1 | 2/8/2014 | 1.50 | $170 | $255.00 | 1.50 | ** $170 | $255.00 | $0.00 | |
| Organization 1 | 2/9/2014 | 3.00 | $170 | $510.00 | 3.00 | ** $170 | $510.00 | $0.00 | |
| Organization 1 | 2/10/2014 | 3.00 | $170 | $510.00 | 3.00 | ** $170 | $510.00 | $0.00 | |
| Organization 1 | 2/14/2014 | 5.00 | $170 | $850.00 | 5.00 | ** $170 | $850.00 | $0.00 | |
| Organization 1 | 2/15/2014 | 1.50 | $170 | $255.00 | 1.50 | ** $170 | $255.00 | $0.00 | |
| Organization 1 | 2/16/2014 | 3.00 | $170 | $510.00 | 3.00 | ** $170 | $510.00 | $0.00 | |
| Organization 1 | 2/17/2014 | 3.00 | $170 | $510.00 | 3.00 | ** $170 | $510.00 | $0.00 | |
| Organization 1 | 2/22/2014 | 2.00 | $85 | $170.00 | 2.00 | ** $85 | $170.00 | $0.00 | |
| Organization 1 | 2/23/2014 | 6.00 | $85 | $510.00 | 7.00 | ** $85 | $595.00 | ($85.00) | |
| Organization 1 | 2/24/2014 | 3.00 | $170 | $510.00 | 3.00 | ** $170 | $510.00 | $0.00 | **($85.00)** |
| Organization 7 | 11/12/2013 | 1.50 | $65 | $97.50 | 2.00 | ** $170 | $340.00 | ($242.50) | |
| Organization 7 | 11/19/2013 | 1.50 | $65 | $97.50 | 1.50 | ** $170 | $255.00 | ($157.50) | |
| Organization 7 | 11/26/2013 | 1.50 | $65 | $97.50 | 1.50 | ** $170 | $255.00 | ($157.50) | **($557.50)** |

*This column shows the rate that was on the signed contract with the organization.
**This rate was from an unsigned contract with Organization 1. The signed contract could not be located.

> We recommend that the University review the procedures for the UNO Dome and implement strong internal controls over the billing and collecting of revenues. We also recommend that the Fee Sheet and any updates thereto be reviewed and approved. We further recommend the legal department review the current contract template used by the UNO Dome. Finally, we recommend that the invoices have an invoice number and a due date.

***Management Response:*** *The University has created new procedures for Dome invoicing, approving rates, documentation, and contract management at HPER.*

## 3. Travel

The APA reviewed 87 documents related to travel for employees of the University of Nebraska-Lincoln (UNL) and UNMC campuses. We noted the following items:

### Travel was not Reasonable and Proper

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 5, states:

> *To be reimbursed, the expense must be a necessary expense, incurred in the line of duty, reason/purpose of the expense must be clearly stated, all start/stop dates and times must be recorded, and the amount of the expense must be substantiated.*

Per the University of Nebraska-Lincoln's Travel Policies:

> *It is OK, with your supervisor's approval, to add additional time at your business destination and/or to add an additional side trip to your business trip. However, the University will only fund the business portion of your trip approved by your Travel Approver. If you add an additional destination to your trip, you are responsible for any differences in airfare.*

A good internal control plan requires that only expenses that are necessary and incurred in the line of duty for the University should be reimbursed.

Part of one professor's trip to attend an educational conference does not appear reasonable and proper. The conference, which took place in San Diego, California, began on November 15, 2013, at 12:00 p.m., and lasted until November 21, 2013. Instead of flying directly into San Diego on the day of the conference, the professor flew to Phoenix, Arizona, on November 13, two days earlier. Renting a car, the professor then drove from Phoenix to San Diego, arriving in time for the start of the conference. The professor then left the conference early on November 19, 2013, and drove back to Phoenix to give a presentation at Arizona State University on November 21, 2013. The professor flew back to Lincoln, Nebraska, later that same day. According to the professor, it was cheaper to fly round trip from Lincoln to Phoenix and back, renting a car to drive to and from the conference in San Diego, than to fly directly to San Diego. However, there was no documentation supporting this.

On August 11, 2014, the APA inquired into the cost of flights leaving Lincoln on a Thursday and flying directly to San Diego, then leaving San Diego on the following Wednesday, flying to Phoenix and then flying from Phoenix to Lincoln on the next day. Contrary to the professor's unsubstantiated claim, the APA found that such flight itineraries were some $728 less expensive than the unnecessary travel costs incurred by the professor – which, aside from the four days spent driving from Phoenix to San Diego and back, included, among other things, the difference in the price of the flights, the added expense of rental cars, gas and parking, and additional hotel fees.

Another University employee drove from Omaha, Nebraska, to Denver, Colorado, and then inexplicably flew from Denver to Aspen, Colorado – a distance of approximately 160 miles – instead of driving the rest of the way. The cost of reimbursing mileage for the drive from Denver to Aspen and back would have been only $178. However, the employee chose instead to pay $445 for the flight, along with a $50 baggage fee, for a total of $495. This came to $317 more than if the employee had driven instead.

> We recommend that the University reimburse its employees only for the necessary and reasonable expenses of travel for official business. The University should not reimburse avoidable or extravagant costs arising from arrangements, including more expensive or indirect flights and longer stays than required, that needlessly increase travel expenses.

**Meal Reimbursements**

Among the various requirements found in the Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 6 ("Meals"), are the following:

- *No reimbursement may be made for alcoholic beverages.*
- *When requesting or approving food/meal costs, compare the average cost per day for the entire trip with the appropriate daily GSA rate.*
- *Agencies are responsible to see that all submitted claims for food/meals are adequately substantiated. Unsubstantiated food/meals should not be reimbursed. Receipts are required unless the cost of the food/meal is under $5.00.*
- *When an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.*

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 8, states:

> *Detailed receipts are required as support for all expenditures except immaterial items identified by the Director of Administrative Services in section b., below. (However, you are required to substantiate meals and immaterial items, including meals under $5.00, in a log, as described under Reference 5. Substantiation of Expense). The requirement to provide detailed receipts includes, but is not limited to, food/meals lodging, car rental, commercial travel, and registration fees. The requirement is an internal control feature to guard against duplicate payment of claims.*
>
> *Detailed receipt is defined as a receipt that shows a listing of each item purchased and the related cost. Detailed receipt does not include the receipt copy that only identifies an amount is being charged to the employee's credit card.*

UNL Travel Services Food Reimbursement Policy provides:

> *University travelers are expected to make reasonable selections when ordering meals . . . . Detailed receipts are required for all food/meal expenses equal to or greater than $5. Each request must be fully itemized, including the amount, date, place, and essential character of the expense incurred.*

Additionally, the UNL Travel Services Food Reimbursement Policy provides that lunch is reimbursable on the first day of a multiple-day trip only "if departure is prior to 11:00am."

UNL Travel Services Travel & Miscellaneous Reimbursement Quick Reference page says, "Each traveler will claim expenses individually. One is not allowed to claim expenses for another, except when a hotel room is shared."

Per the University of Nebraska Travel Policies, FAQ section:

> *The Standard Meal Allowance, which is maintained by the US General Services Administration and covers domestic travel, is the anticipated cost of meals and incidental expenses for a given state and locality. The standard rate is $39/day unless a higher figure is listed in the M&IE rate for the location where you are traveling. If you exceed this rate, you will be required to provide detailed receipts for meals when you file for reimbursement.*

According to the Nebraska State Accounting Manual, AM-005, Expense Reimbursement Document "ERD" Guidelines, "Reimbursement for meals included with the cost of the conference fee may not be made unless the employee has documented a valid exception."

A good internal control plan and good business practices requires procedures to ensure travel expenses are appropriately reviewed, allowable, and correct.

We noted the following items when testing meals:

- A document tested had two meals with $10 and $12 alcohol purchases. Another document included reimbursement for $3 in taxes associated with alcohol that was not otherwise claimed.

- Five documents tested had meals reimbursed that were $5 or over and did not have itemized receipts. The first document reimbursed had eight meals ranging from $6 to $41, totaling $154. The other four documents had meals reimbursed for $5, $17, $19, and $43.

- Two documents reimbursed employees for meals purchased for individuals other than the employees themselves. One document reimbursed two entrees totaling $22 for the same dinner, when only the employee's entrée of $11 should have been reimbursed, resulting in an overpayment of $11. The other document reimbursed an employee on two separate meals for two entrees. On the first meal, the employee should have claimed $43 but claimed $65, or $22 more than allowed. For the second meal, the employee should have claimed $9 but claimed $14, or $5 more than allowed.

- One document reimbursed an employee $15 for lunch; however, it appears the employee did not leave until after 12:08 p.m., so lunch was not allowed.

- Three documents reimbursed employees for meals that were provided by the conference, totaling $28, $40, and $55.

- Two documents had amounts reimbursed for meals on three days that do not agree to the receipts. One receipt showed a total of $21, but the employee received reimbursement for $51, resulting in an overpayment of $30. Two other receipts totaled $66, but the employee received a reimbursement of $72, for an overpayment of $6. A third receipt was for $122, but the employee was reimbursed $127, for a $5 overpayment.

- One employee was reimbursed twice for the same $6 meal.

- One employee had two meals, which included items that should not have been reimbursed. The employee crossed out the items, which totaled $13; however, the employee was still reimbursed for those ineligible expenditures.

- For one document tested, the average daily meals exceeded the U.S. General Service Administration (GSA) reimbursement rate by $5 per day for nine days. The cost of the average daily meals claimed was $57, but the average daily meal cost allowed per the GSA rate was $52.

> We recommend the University review amounts requested for reimbursement and ensure adequate supporting documentation, including detailed receipts be obtained so that only allowable and reasonable meal costs are reimbursed.

**Unreasonable Lodging Expenses**

Sound business practices and a good internal control plan require procedures to ensure amounts reimbursed for lodging are reasonable.

Two employees stayed in a more expensive hotel room than the standard room. One employee chose to upgrade to a partial ocean view room for $290/night instead of the resort view room rate of $265/night, for a difference of $25/night for seven nights, or $175. The other employee chose to upgrade to an ocean front view room for $299/night instead of the terrace view room rate of $189/night, for a difference of $110/night for five nights, or $550.

> We recommend the University reimburse only reasonable lodging costs unless there is an adequately documented reason for the additional expense.

**Unreasonable Miscellaneous Expenses**

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 8, states:

> *Detailed receipts are required as support for all expenditures except immaterial items identified by the Director of Administrative Services in section b., below. (However, you are required to substantiate meals and immaterial items, including meals under $5.00, in a log, as described under Reference 5. Substantiation of Expense). The requirement to provide detailed receipts includes, but is not limited to, food/meals lodging, car rental, commercial travel, and registration fees. The requirement is an internal control feature to guard against duplicate payment of claims.*

*Detailed receipt is defined as a receipt that shows a listing of each item purchased and the related cost. Detailed receipt does not include the receipt copy that only identifies an amount is being charged to the employee's credit card.*

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 1, states "Reimbursement for commercial air travel will be limited to "coach" fare, if such seating is available at the time of ticket purchase."

The UNL Travel Services website contains a guideline entitled "Expenses for Travel Reimbursement – What's Allowable and What's Not?" According to that document, allowable airfare costs must be supported by a receipt. For taxis, buses, airport shuttles, subways, etc., a receipt must be included for expenditures of $75 or more.

A good internal control plan requires procedures to ensure all travel expenses are reasonable, allowable, and supported by adequate documentation.

Twenty first class airline tickets at UNMC, totaling $95,762, were noted as having been approved to fly business/first class; however, no reasons were given for the upgrades, which were not reimbursed by the employees. See the following table.

| | Depart Date | Origin | Destination | Class Category | Total Paid |
|---|---|---|---|---|---|
| 1 | 08/30/2013 | Chicago, Illinois | Warsaw, Poland | Business | $ 3,325 |
| | 08/31/2013 | Warsaw, Poland | Frankfurt, Germany | Business | |
| | 09/13/2013 | Frankfurt, Germany | Warsaw, Poland | Business | |
| | 09/13/2013 | Warsaw, Poland | Chicago, Illinois | Business | |
| 2 | 10/17/2013 | Chicago, Illinois | Warsaw, Poland | Business | $ 3,779 |
| | 10/18/2013 | Warsaw, Poland | Frankfurt, Germany | Business | |
| | 10/26/2013 | Frankfurt, Germany | Warsaw, Poland | Business | |
| | 10/27/2013 | Warsaw, Poland | Chicago, Illinois | Business | |
| 3 | 11/01/2013 | Omaha, Nebraska | Chicago, Illinois | Economy | $ 5,870 |
| | 11/01/2013 | Chicago, Illinois | Istanbul, Turkey | Business | |
| | 11/02/2013 | Istanbul, Turkey | Muscat, Oman | Business | |
| | 11/08/2013 | Muscat, Oman | Istanbul, Turkey | Business | |
| | 11/08/2013 | Istanbul, Turkey | Chicago, Illinois | Business | |
| | 11/08/2013 | Chicago, Illinois | Omaha, Nebraska | Economy | |
| 4 | 07/19/2014 | Lugano, Switzerland | Zurich, Switzerland | Business | $ 4,341 |
| | 07/19/2014 | Zurich, Switzerland | San Francisco, California | Business | |
| | 07/19/2014 | San Francisco, California | Kona, Hawaii | Business | |
| | 07/25/2014 | Kona, Hawaii | Los Angeles, California | First Class | |
| | 07/26/2014 | Los Angeles, California | Newark, New Jersey | First Class | |
| | 07/26/2014 | Newark, New Jersey | Milan, Italy | First Class | |

| | Depart Date | Origin | Destination | Class Category | Total Paid |
|---|---|---|---|---|---|
| **5** | 01/07/2014 | Omaha, Nebraska | Houston, Texas | Economy | $ 8,355 |
| | 01/07/2014 | Houston, Texas | Frankfurt, Germany | Business | |
| | 01/08/2014 | Frankfurt, Germany | Abuja, Nigeria | Business | |
| | 02/26/2014 | Abuja, Nigeria | Frankfurt, Germany | Business | |
| | 02/27/2014 | Frankfurt, Germany | Chicago, Illinois | Business | |
| | 02/27/2014 | Chicago, Illinois | Omaha, Nebraska | Economy | |
| **6** | 01/08/2014 | Chicago, Illinois | Warsaw, Poland | Business | $ 4,951 |
| | 01/09/2014 | Warsaw, Poland | Frankfurt, Germany | Business | |
| | 01/26/2014 | Frankfurt, Germany | Warsaw, Poland | Business | |
| | 01/26/2014 | Warsaw, Poland | Chicago, Illinois | Business | |
| **7** | 02/28/2014 | Omaha, Nebraska | Chicago, Illinois | Economy | $ 7,103 |
| | 02/28/2014 | Chicago, Illinois | Frankfurt, Germany | Business | |
| | 03/01/2014 | Frankfurt, Germany | Leipzig, Germany | Business | |
| | 03/15/2014 | Frankfurt, Germany | Chicago, Illinois | Business | |
| | 03/15/2014 | Chicago, Illinois | Omaha, Nebraska | Economy | |
| **8** | 03/04/2014 | Leipzig, Germany | Frankfurt, Germany | Business | $ 477 |
| **9** | 07/21/2014 | Zurich, Switzerland | San Francisco, California | Business | $ 6,017 |
| | 07/21/2014 | San Francisco, California | Kona, Hawaii | Business | |
| | 07/25/2014 | Los Angeles, California | Zurich, Switzerland | Business | |
| **10** | 07/25/2014 | Kona, Hawaii | Honolulu, Hawaii | Business | $ 1,176 |
| | 07/25/2014 | Honolulu, Hawaii | Los Angeles, California | Business | |
| **11** | 04/02/2014 | Omaha, Nebraska | Chicago, Illinois | Business | $ 6,517 |
| | 04/02/2014 | Chicago, Illinois | Frankfurt, Germany | Business | |
| | 04/18/2014 | Frankfurt, Germany | Chicago, Illinois | Business | |
| | 04/18/2014 | Chicago, Illinois | Omaha, Nebraska | Business | |
| **12** | 06/17/2014 | Casablanca, Morocco | Cairo, Egypt | Business | $ 1,039 |
| | 06/17/2014 | Cairo, Egypt | Dar es Salaam, Tanzania | Business | |
| **13** | 06/17/2014 | Casablanca, Morocco | Cairo, Egypt | Business | $ 1,039 |
| | 06/17/2014 | Cairo, Egypt | Dar es Salaam, Tanzania | Business | |
| **14** | 05/20/2014 | Casablanca, Morocco | Paris, France | Business | $ 5,676 |
| | 05/21/2014 | Paris, France | Ouagadougou, Burkina Faso | Business | |
| | 05/23/2014 | Ouagadougou, Burkina Faso | Paris, France | Business | |
| | 05/24/2014 | Paris, France | Detroit, Michigan | Business | |
| **15** | 06/17/2014 | Casablanca, Morocco | Cairo, Egypt | Business | $ 1,487 |
| | 06/17/2014 | Cairo, Egypt | Dar es Salaam, Tanzania | Business | |

| | Depart Date | Origin | Destination | Class Category | Total Paid |
|---|---|---|---|---|---|
| **16** | 06/11/2014 | Omaha, Nebraska | Minneapolis, Minnesota | Economy | $ 8,566 |
| | 06/11/2014 | Minneapolis, Minnesota | Cincinatti, Ohio | Economy | |
| | 06/11/2014 | Cincinatti, Ohio | Paris, France | Business | |
| | 06/12/2014 | Paris, France | Dar es Salaam, Tanzania | Business | |
| | 06/22/2014 | Dar es Salaam, Tanzania | Amsterdam, Netherlands | Business | |
| | 06/23/2014 | Amsterdam, Netherlands | Minneapolis, Minnesota | Business | |
| | 06/23/2014 | Minneapolis, Minnesota | Omaha, Nebraska | Economy | |
| **17** | 05/28/2014 | Baltimore, Maryland | Atlanta, Georgia | Economy | $ 4,953 |
| | 05/28/2014 | Atlanta, Georgia | Amsterdam, Netherlands | Business | |
| | 05/29/2014 | Amsterdam, Netherlands | Delhi, India | Business | |
| | 06/13/2014 | Delhi, India | Amsterdam, Netherlands | Business | |
| | 06/13/2014 | Amsterdam, Netherlands | Atlanta, Georgia | Business | |
| | 06/13/2014 | Atlanta, Georgia | Baltimore, Maryland | Economy | |
| **18** | 06/11/2014 | Denver, Colorado | Atlanta, Georgia | Economy | $ 6,894 |
| | 06/11/2014 | Atlanta, Georgia | Paris, France | Business | |
| | 06/12/2014 | Paris, France | Casablanca, Morocco | Business | |
| | 06/22/2014 | Dar es Salaam, Tanzania | Amsterdam, Netherlands | Business | |
| | 06/23/2014 | Amsterdam, Netherlands | Minneapolis, Minnesota | Business | |
| | 06/23/2014 | Minneapolis, Minnesota | Austin, Texas | Economy | |
| **19** | 09/16/2014 | Omaha, Nebraska | Chicago, Illinois | Business | $ 7,929 |
| | 09/16/2014 | Chicago, Illinois | Frankfurt, Germany | Business | |
| | 09/17/2014 | Frankfurt, Germany | Chennai, India | Business | |
| | 09/22/2014 | Chennai, India | Frankfurt, Germany | Business | |
| | 09/22/2014 | Frankfurt, Germany | Newark, New Jersey | Business | |
| | 09/22/2014 | Newark, New Jersey | Omaha, Nebraska | Economy | |
| **20** | 09/16/2014 | Omaha, Nebraska | Chicago, Illinois | Economy | $ 6,267 |
| | 09/16/2014 | Chicago, Illinois | Frankfurt, Germany | Business | |
| | 09/17/2014 | Frankfurt, Germany | Chennai, India | Business | |
| | 09/28/2014 | Chennai, India | Frankfurt, Germany | Business | |
| | 09/28/2014 | Frankfurt, Germany | Chicago, Illinois | Business | |
| | 09/28/2014 | Chicago, Illinois | Omaha, Nebraska | Economy | |
| | | | | **Total** | **$ 95,761** |

One document had an unreasonable miscellaneous expense of $109 for an upgrade to Economy Plus seating on a return flight.

Another document included a $91 reimbursement for a $68 taxi fare, resulting in a $23 overpayment. The amount reimbursed was a result of converting the distance, rather than the amount, from the receipt into US Dollars.

Two documents included miscellaneous travel expenses that lacked adequate support. One was for airfare of $141, and the other was for a $250 shuttle.

> We recommend the University require adequate support for miscellaneous expenses and ensure only reasonable items are reimbursed or paid for with University funds.

**Inadequate Approval Process**

Sound accounting policy and good business practices require procedures to ensure employee airfare and lodging are appropriately reviewed and approved.

The approval process for seven documents tested was inadequate:

- We tested twelve airfare purchases made by University employees through the vendor, Travel and Transport. The purchase of airline and other travel expenses through Travel and Transport lacked appropriate monitoring and controls. University employees self-registered with Travel and Transport to book flights using the University's account. At registration, employees had the option to designate an individual at the University to whom the flight confirmation email would be sent; however, such designation was at the employee's discretion and could be left blank, allowing only the employee to receive the flight confirmation email. After registration, the employee had unrestricted access to databases permitting him or her to build flights in the booking system, without regard to price. The employee could select the preferred airline, number of stops, seat assignment (including first or business class), and the date and time of flight departure and arrival. The University did not review or approve the information provided by Travel and Transportation to ensure who was flying and that the most economical flight was chosen. Additionally, there was no review to ensure trips were not purchased for spouses, family members, or other non-University personnel. During FY 2014, there was $6,681,704 in airfare purchases through Travel and Transport.

- A document tested included $6,248 in lodging purchased through Hotels.com. The purchase lacked appropriate monitoring and controls. The University did not review or approve the information provided by Hotels.com to ensure who obtained lodging and that the most economical lodging was chosen. Additionally, there was no review to ensure lodging was not purchased for spouses, family members, or other non-University personnel. During FY 2014, there was $294,988 in purchases through Hotels.com.

> We recommend the University implement procedures to ensure all travel expenditures, including airfare booked through Travel and Transport and lodging booked through Hotels.com, are appropriately reviewed and approved.

**Foreign Translations**

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 6, states, "No reimbursement may be made for alcoholic beverages."

A good internal control plan requires procedures to ensure all foreign travel documentation is properly reviewed, translated, and supported by adequate receipts in order to determine whether expenditures were allowable.

Documents in foreign languages were not properly reviewed:

- The APA met with the approver of one document and noted the process the approver used to review foreign travel reimbursements was to review the employee's submission and then meet with the employee to discuss any items about which the approver had questions. However, this process was wholly reliant upon the employee's honesty in translating the documentation and identifying items on his/her own expense reimbursement as being questionable or not allowable, which increases the risk of unallowable items being reimbursed.
    - The document had one meal with supporting documentation in Turkish. The detailed receipt included a line item labeled "Alkoll," which translated to alcohol for $22.
    - The document contained the following items for reimbursements, which were labeled food, by the employee on the expense reimbursement, totaling $172:
        - One receipt included a line item, which translated to a magazine or journal, and was reimbursed for $36.
        - Two receipts included newspapers for a total of $7, one receipt included travel articles for $13, and one receipt included a museum admission for $7.
        - Four receipts included line items totaling $57 that were for "food" and "beverages" and had no further detail.
        - Three receipts could not be translated, as information had faded or was hand written, for a total of $52.
- Four documents had receipts in foreign languages that were not adequately reviewed and translated. Six items for $5, $9, $12, $12, $16, and $37 were not translated, so it appears the reviewer did not adequately review the receipt. Two items on a receipt not translated by the reviewer were for alcohol; however, because the meal was reduced to the GSA rate, the alcohol was not reimbursed.
- One employee was reimbursed the taxes on two separate foreign receipts, even though taxes were already included in the price, for a total of $4.
- On one document, an employee claimed 3% credit card transactions fees in the foreign-denominated amounts. However, the employee did not provide support for those fees, which totaled $328 for all of the items reimbursed. Additionally, the reviewer of the reimbursement noted variances between the recalculated US Dollar amounts and what the employee claimed for reimbursement but did not follow up with the employee to resolve those discrepancies.
- On one document, the employee did not have documentation supporting the exchange rate used to convert Korean Won to US Dollars for lodging claimed. When compared to the actual daily exchange rate, the employee was overpaid $21.

> We recommend the University implement procedures for the review of foreign travel to ensure documentation is properly translated and items are reviewed to ensure allowability and reasonableness.

***Management Response:*** *University policy is to reimburse employees for actual travel expenses if reasonable, appropriate, and beneficial to the University. Expenses are to be documented by receipts. It is our belief these policies meet the statutory provisions of the State.*

*We disagree with the auditor citing total spend with Travel and Transport and Hotels.com in the recommendation as it invites the reader to mistakenly extrapolate the findings to the total population, which is misleading.*

**APA Response: The APA believes including the total paid to Travel and Transport and Hotels.com provides perspective, as the finding of inadequate approval relates to purchases from these vendors.**

## 4. Expired Warrants

The University did not have procedures in place to properly follow up on unclaimed (non-negotiated) warrants before expiration. The APA judgmentally selected eight expired warrants for testing and noted all eight were not handled in compliance with Federal Regulations, Nebraska State statutes, or Attorney General Opinions.

The following criteria apply to Federal, Trust, and Cash fund warrants, respectively:

- Per 34 CFR § 668.164(h)(2) (July 1, 2013), if a school attempts to disburse the credit balance due to a student for Federal financial assistance by check, and the check is not cashed, the school must return the funds no later than 240 days after the date the school issued the check.

  Good business practice requires procedures to review Federal awards to determine if unclaimed warrants should be remitted to Unclaimed Property or the grantor.

- Per Neb. Rev. Stat. § 69-1307.01 (Reissue 2009) and Op. Att'y Gen. No. 98043 (October 26, 1998), monies received by the State on behalf of another entity are to be treated as unclaimed property and are not payable to the General Fund upon expiration of the warrants.

- Neb. Rev. Stat. § 77-2205 (Reissue 2009) requires the amount of a State warrant that remains uncashed for more than one year after issuance to be transferred to the State's General Fund unless "otherwise provided by law."

Of the eight expired warrants selected for testing, four were student Federal financial aid refund warrants (one each at UNL, UNMC, UNK, and UNO), two were trust fund warrants (one at UNO, one at UNMC), and two were non-student-aid Federal warrants (one at UNL, one at UNMC). The campuses did not follow-up on the warrants before they expired for all eight, therefore all lapsed to the General Fund.

During fiscal year 2014, UNK, UNL, and UNMC all had procedures in place to follow up with warrants before they expired; however, the procedures appear to be inadequate or were not followed for the warrants tested. UNO did not have procedures in place during the fiscal year to follow up on expired warrants.

We noted a similar finding in our prior audit.

> We recommend the University implement procedures to follow up on outstanding warrants before they expire one year after issuance. Further, the University should comply with Federal and State regulations to remit the money to the proper agency before expiration.

***Management Response:*** *The University will continue to examine older state warrants for cancellation prior to the expiration date of one year after issuance. Outstanding warrants that are for student financial aid or another support entitlement will be returned to the appropriate source.*

## 5. Outside Bank Account Activity

During fiscal year 2014, the balance in University outside bank accounts exceeded 2% of the balance in the University cash funds. In addition, we noted the activity in the accounts was excessive and indicative of depository accounts.

Neb. Rev. Stat. § 85-125 (Reissue 2014) and § 85-192 (Reissue 2014) establish cash funds at UNL and UNMC, and UNO, respectively. These statutes all state the funds shall be in the custody of the State Treasurer, except that there may be retained by the Board of Regents, "a sum not to exceed two percent of the fund, which shall be available to make settlement and equitable adjustments to students entitled thereto, to carry on university activities contributing to the fund, and to provide for contingencies."

Neb. Rev. Stat. § 85-128 (Reissue 2014) states:

> *The State Treasurer shall be the custodian of all the funds of the university. Disbursements from the funds named in sections 85-124 to 85-127 shall be made in accordance with the provisions of law relating to the disbursement of university funds in the hands of the State Treasurer as provided by law.*

During fiscal year 2014, the APA noted the following activity in outside bank accounts at each of the University campuses:

| | Credits | Debits |
|---|---|---|
| UNMC | $ 22,820,919 | $ 22,836,461 |
| UNO | $ 12,157,315 | $ 12,132,402 |
| UNL | $ 34,377,058 | $ 33,413,205 |

The amount of outside bank account activity dropped from the prior fiscal year at the UNL and UNO campuses. However, the amount of activity in the outside bank accounts was still excessive and more indicative of a depository account rather than an account for the settlement of operating expenses.

Additionally, the APA noted that UNO exceeded two percent of the cash fund during the month of August in fiscal year 2014:

| Month | 2% of Cash Fund (at month end) | Balance in Outside Accounts | Amount Over 2% of Cash Fund |
|---|---|---|---|
| August 2013 | $172,245 | $265,986 | $93,741 |

We noted a similar finding in our prior four audits.

We believe the University is not in compliance with State statute in the way it utilizes its outside bank accounts.

> We recommend that the University continue to work with the State Treasurer to determine the correct use of their outside bank accounts. We also recommend the University develop policies and procedures to ensure that the balances in the outside bank accounts are in compliance with State statute.

***Management Response:*** *The University will continue to monitor the use of outside bank accounts and to use them for the intended purpose of timely and equitable settlement with students, faculty, staff, vendors, and other external agencies. Efforts will be made to keep the balances in the accounts within the statutory 2% provision and to work with the State Treasurer's Office to reduce depository activity.*

## 6. Insufficient Pledged Collateral

Three campuses (UNO, UNL, and UNMC) did not acquire pledged collateral to cover their deposits when bank account balances exceeded the Federal Deposit Insurance Corporation (FDIC) coverage.

The FDIC's "Deposit Insurance for Accounts Held by Government Depositors" states, "[A]ll deposits, both time and savings deposits and demand deposits . . . are added together and insured up to $250,000."

Neb. Rev. Stat. § 77-2395 (Reissue 2009) states:

> *(1) If a bank, capital stock financial institution, or qualifying mutual financial institution designated as a depository furnishes securities pursuant to section 77-2389, the custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than one hundred two percent of the amount on deposit which is in excess of the amount so insured or guaranteed.*
>
> *(2) If a bank, capital stock financial institution, or qualifying mutual financial institution designated as a depository furnishes securities pursuant to subsection (1) of section 77-2398, the custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than one hundred five percent of the amount on deposit which is in excess of the amount so insured or guaranteed.*

*(3) If a bank, capital stock financial institution, or qualifying mutual financial institution designated as a depository provides a deposit guaranty bond pursuant to the Public Funds Deposit Security Act, the custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation, unless and until the depository has provided to the custodial official a deposit guaranty bond in an amount not less than the amount on deposit which is in excess of the amount so insured or guaranteed.*

A good internal control plan requires procedures to ensure all funds of the entity are fully covered through either FDIC coverage or pledged collateral, as required by the above statutory provisions, and would include obtaining confirmation from the third party banks holding the pledged securities.

We noted the following bank account activity in fiscal year 2014 for each campus:

| Campus | Bank | # of Days over FDIC Coverage | $ Balance | Collateral Obtained | FDIC Coverage | Amount over FDIC Coverage & Pledged Collateral |
|---|---|---|---|---|---|---|
| UNO | First National | 3 | $343,673 | $0 | $250,000 | $93,673 |
| UNO | Wells Fargo | 16 | $254,474 - $1,008,207 | $0 - $200,000 | $250,000 | $4,474 - $758,207 |
| UNL | Pinnacle Bank | 10 | $425,518 - $548,581 | $175,000 | $250,000 | $518 - $123,581 |
| UNL | First National | 11 | $308,860 - $1,452,660 | $0 - $1,165,000 | $250,000 | $31,576 - $169,186 |
| UNL | Platte Valley Bank | 5 | $262,265 - $365,992 | $0 | $250,000 | $12,265 - $115,992 |
| UNL | First Bank & Trust | 18 | $340,938 - $555,846 | $0 | $250,000 | $90,938 - $305,846 |
| UNL | Union Bank | 6 | $280,318 - $285,156 | $0 | $250,000 | $30,318 - $35,156 |
| UNMC | First National | 4 | $513,045 - $525,689 | $260,000 | $250,000 | $3,045 - $15,689 |

We noted a similar finding in our prior audit.

We recommend the University review bank account balances periodically to ensure pledged securities are maintained at all times to cover deposits, as well as obtain confirmation from the third party banks holding the pledged securities.

***Management Response:*** *The number of days that bank accounts were over FDIC coverage were relatively few when considering the scope of University operations and the transaction volumes. The University will continue its efforts to collateralize deposits in its efforts to be a reasonable and prudent steward.*

## 7. Group Health Trust Fund and Payroll Vendor Payments

Many years ago, the University established a Group Health Trust Fund (Trust Fund) to provide for the investment and administration of contributions made pursuant to the University's Health Insurance Program (Program). The University's Trust authorizes Blue Cross and Blue Shield of Nebraska (BCBSNE) and Caremark, the Program's third party administrators, to withdraw – with little, if any, oversight – funds directly from the Trust Fund for the payment of claims. In fact, under that broad grant of authority, those third parties withdraw funds directly from the Trust Fund without either prior or subsequent University approval for each transaction.

On March 29, 2012, the APA issued an Attestation Report of the University of Nebraska Health Insurance Program. Our finding in that report regarding the third party administrators' unrestricted access to the Trust Fund is far more detailed than the comparatively limited contents of this management letter. That prior report can be found on our website at:

**http://www.auditors.nebraska.gov/APA_Reports/2012/SA51-03292012-July_1_2009_through_June_30_2010_Health_Insurance_Program_Attestation_Report.pdf**

Since 2003, the State has utilized E1 accounting software to record all of its official financial records in one centralized system. However, for more than a decade, the University has relied upon its own separate software, SAP, which is then interfaced with E1, for accounting purposes.

Payroll vendor payments are set up differently in SAP than in E1. Payments made to vendors through the State's payroll process are recorded as vendor payments in E1. However, instead of generating vendor payments through SAP or E1 during the payroll process, the University sends payroll payment instructions directly to the State's bank, authorizing the automatic deposit of payments to the Trust Fund. As a result, a vendor payment entry is not created in either accounting system; rather, only a journal entry is made to record such payments. Because the University's accounting system does not record vendor payments to health insurance vendors, such as BCBSNE, the total amounts paid to these vendors cannot be determined or identified by general users of the two systems.

The following amounts were contributed by the employees and the University through the University payroll process between July 1, 2013, and June 30, 2014:

| Contributions | University |
|---|---|
| Health and Dental Insurance* | $ 112,386,194 |
| TIAA/CREF (Retirement) | $ 72,491,628 |
| All other contributions | $ 77,588,225 |
| **Total** | **$ 262,466,047** |

*The employee health insurance plan is self-insured. Currently, the University's health insurance contributions go into a separate bank account.

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 2014), the purpose of the accounting division of the Department of Administrative Services is:

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

When vendor payments do not originate from the State's accounting system, it is difficult for users of the system to ascertain the total amount paid to all vendors. This was noted as a finding in the prior four fiscal years' audits. University representatives indicated having explored the possibility of interfacing the payments from SAP to E1; however, they decided to continue with their current practice.

In addition to these concerns, the APA continues to question the underlying authority, statutory or otherwise, of the University to establish the Trust Fund outside of the custody and control of the State Treasurer. This skepticism is based upon both the relevant statutes and the Attorney General's opinions noted in the above-mentioned Attestation Report of the University of Nebraska Health Insurance Program, which the APA issued in 2012.

In the previous year, the University made reference to an informal Attorney General's opinion regarding the Trust Fund, Op. Att'y Gen. No. I-13015 (Dec. 20, 2013). We note, however, that this is merely an informal opinion and certainly far from conclusive; rather, it admits "there is no clear answer" to the questions posed "absent some definitive case law from the Nebraska Supreme Court."

Additionally, the University has always (and continues to) include the funds at issue on its own annual financial statements, reporting them as an Unrestricted Net Position, as well as reporting them to the Department of Administrative Services, which is tantamount to acknowledging the public nature of that money. Until the Nebraska Supreme Court rules on this matter, the APA will continue to question the propriety of allowing the Trust Fund to impede the ability of the State Treasurer to exercise fully his statutory authority as the custodian of University funds.

As of June 30, 2014, the Trust Fund had a balance of $150,828,581.

> We recommend the University work with the Department of Administrative Services to develop a process that allows vendor payments to be accurately recorded in the State's accounting system. We recommend also that the University consult with the State Treasurer – and, if necessary, seek jointly a formal opinion from the Attorney General – to resolve the ongoing issue regarding the legality of the Trust Fund's existence outside the custody and control of the State Treasurer.

***Management Response:*** *LB620 was approved by the 2013 Nebraska Legislature which provides that the University furnish an annual report to the Appropriations Committee on the status of the health plan. This provides an accounting and detailed, transparent look into the operations of the University's health plan.*

*The University considers the health trust fund ownership matter closed. The Attorney General's Office issued an opinion about the accounting and custody of the group health trust fund, which was furnished to the auditor. The opinion provides 1) the Group Health Trust funds are not monies of the State, 2) the establishment of the Trust is not contrary to laws designating the State Treasurer as custodian of University funds, and 3) the Trust falls under the power of the Board of Regents to govern the University of Nebraska.*

**APA Response: The issues raised regarding the ownership and custody of the Group Health Trust Fund have yet to be resolved definitively.**

## 8. Revenue Reconciliations & Collection Procedures

The University did not perform adequate reconciliations of the accounting system to outside systems at two campuses.

- UNMC did not perform a reconciliation of alternative loans from Education Loan Management Resources (ELM) to SAP until February 2014. Alternative loans were processed by ELM and disbursed to UNMC, and the funds were posted to SAP and to the student's account in the Nebraska Student Information System (NeSIS), which the University used to record, among other data, all tuition and fees charged to students. Additionally, it was noted that the reconciliation did not include an adequate review of the SAP balance.

- UNL and UNMC performed a reconciliation for student accounts receivable (A/R) in NeSIS to SAP, but the reconciliation was inadequate. UNMC's reconciliation process was ineffective, as it was unable to provide adequate supporting documentation to show that student A/R balances for third party payments and outside scholarships recorded in SAP agreed to the corresponding balances recorded in NeSIS. UNL's reconciliation process was also ineffective, as it was unable to reconcile the amount in SAP to the amount in NeSIS and, therefore, recorded a reconciling item of $500,952 in SAP for the variance between SAP and NeSIS.

- UNL performed a reconciliation of Perkins Loans from Campus Partners to SAP, but the reconciliation was not performed in a timely manner. UNL did not complete the reconciliation for the year ended June 30, 2014, until October 2014.

In addition, UNL did not adequately document collection procedures for one student. It was noted that the student had delinquent balances dating back to Spring 2013 but was still allowed to continue enrolling in classes and incurring further charges. This was allowed due to an agreement made during a phone conversation with the student's mother but was not documented by a signed agreement.

A good internal control plan and sound business practices require procedures to ensure a timely reconciliation of amounts tracked by an outside system to the accounting system is performed. Sound business practices and a good internal control plan also require individuals with delinquent balances not be allowed to incur further charges. Additionally, UNL student account billing policies state, "If any of your 'Account Balance' is from a previous billing period, your account is considered delinquent and we have placed a HOLD on your records." Further, the UNL list of sanctions for delinquent accounts notes that holds "prohibit future enrollment (including adds and section changes) until the accounts are brought current."

Without an adequate reconciliation process in place, there is an increased risk for misuse of funds or inaccurate reporting. When collection procedures are not in place and followed, there is an increased risk of student account balances remaining uncollectible.

We noted a similar finding in our prior audit.

> We recommend UNMC continue performing the alternative loans reconciliation and improve its current procedures to include a review of the SAP balance. We also recommend UNL and UNMC improve procedures to ensure accounts receivable balances entered in SAP accurately reflect balances in NeSIS. Further, we recommend UNL improve procedures to ensure the annual reconciliation of Perkins Loans is performed in a timely manner. Finally, we recommend UNL follow its billing policies and not allow students who owe money to the school to incur further charges unless a signed payment plan is on file.

***Management Response:*** *UNMC has implemented the use of the campus accounts receivable system to track third party payments. UNMC is implementing a process to create an efficient reconciliation process to ensure NeSIS and SAP balances are correct.*

*UNL will implement practices to ensure accounts are properly reconciled and that credit is only granted to students who have arranged for repayment plans.*

## 9. Audit Differences

A good internal control plan and sound accounting practices require financial information to be complete and accurate. This includes procedures to ensure the financial statements are correct, and adjustments are made to rectify all known significant ($1,000,000 or more) misstatements.

During our review of the financial statements, we noted several errors that resulted in significant misstatements. We proposed the University adjust its statements to correct all of the errors; however, the University only made some of the proposed corrections.

The following are significant misstatements the University corrected:

- An accounts payable amount of $1,014,166 tested at UNMC was recorded twice.
- One item for $1,141,090 at UNMC was not recorded as a payable but should have been.

- UNMC receipts of $1,053,949 for reimbursement of expenditures were recorded to Contractual Services on the financial statements, but the related expenditures were recorded to various expenditure financial statement line items.

- Two errors on a UNO workpaper resulted in an understatement of Supplies and Materials expenses and an overstatement of Repairs and Maintenance expenses, both for $1,967,686.

- The Statement of Cash Flows on the University-Wide Statement amounts of Proceeds from Sales of Investments, a cash inflow, and Purchases of Investments, a cash outflow, (both of which are reflected on the statement as Cash Flows from Investing Activities) were each understated by $26,353,000.

- Three line items on UNL's Statement of Cash Flows were misstated:
  - Outflows from payments to vendors (in the Cash Flows from Operating Activities section) was overstated by $4,796,334.
  - Outflows from interest paid on capital debt (in the Cash Flows from Capital and Related Financing Activities section) was understated by $4,796,334.
  - An accounts payable adjustment to reconcile operating loss to net cash used in operating activities was understated by $4,796,334.

The following are significant misstatements the University did not correct:

- U.S. Meat Animal Research Center (MARC) activity was moved from Agency Funds to Sales and Services of Auxiliary Operations in fiscal year 2014, but the fiscal year 2013 amounts were not restated for consistent financial statement presentation. Therefore, fiscal year 2013 revenues were understated by $8,183,146, expenditures were understated by $7,809,646, and unearned income was overstated by $373,500.

- UNMC had erroneously capitalized expenditures on a specific project in fiscal years 2012, 2013, and 2014. When it corrected the error, UNMC expensed the entire project amount of $5,420,872 to fiscal year 2014. However, $2,848,281 of those expenditures were incurred in fiscal year 2013; consequently, the 2013 expenditures were understated.

- UNCA recorded $1,106,927 to Supplies & Materials expense on the financial statements; however, that amount should have been reported as a Benefits expense.

- The value of the University of Nebraska's reimbursement account of employee deductions was not recorded on its financial statements. Therefore, Cash and Accounts Payable were understated by $2,135,936 for fiscal year 2013 and by $1,687,582 for fiscal year 2014.

Without strong internal control procedures and accounting practices to ensure financial information is complete, accurate, and in accordance with accounting standards, there is a greater risk material misstatements may occur and remain undetected.

We recommend the University implement procedures to ensure financial information is complete, accurate, and in accordance with accounting standards. We further recommend the University make financial statement adjustments for all known significant misstatements.

***Management Response:*** *The preponderance of the items listed by the auditor were corrected and inclusion of them in the letter is misleading to the reader of the letter and should be removed.*

*We disagree with the description of the final four bulleted items as significant. Three of the items have no bottom line impact and the net effect would "gross up" balances in the statement of net position. The other item, when gauged against any measure of materiality, does not rise to the level of "significant."*

**APA Response: While the uncorrected misstatements may not individually reach a level of materiality, the amounts are significant and would impact the caption lines of the financial statements. Additionally when several errors of this magnitude are noted, the adequacy of internal control procedures over the financial statement preparation is brought into question.**

**10. General Ledger Transactions in SAP**

A good internal control plan requires proper segregation of duties to ensure no one individual can process a transaction from beginning to end. A good internal control plan also includes adequate security controls, through the design, creation, approval, and assignment of user roles, to prevent users from performing functions that do not allow for a proper segregation of duties.

The workflow in the SAP system does not require separate preparers and posters of General Ledger (GL) type transactions. As a result, certain individuals throughout the University had the capability of completing GL transactions from beginning to end without a documented secondary review and approval in SAP. The University did have a policy in place to review any journal entries (JE), payroll journal entries (PJ), NIS (refers to E1) journal entries (ND), University-only journal entries (UU), and non-Federal ACH receipt (CN) transactions over $49,999, or $499 when involving Federal funds, to address this inherent system weakness. We noted a similar finding in our prior audit.

During our audit of the GL security roles in SAP, we identified 556 users with the ability to prepare and post GL entries in SAP without a secondary review or approval. The 556 users capable of preparing and posting GL transactions without a secondary review or approval are noted by location below, along with the GL document types they could prepare and post:

| Campus | # of Users |
|---|---|
| UNK | 5 |
| UNL | 293 |
| UNMC | 183 |
| UNO | 64 |
| UNCA | 11 |

(Document Types: JE, IB-Internal Charges Batch, IC-Internal Charges Online, and PJ)

A secondary role allowed 78 of those users to prepare and post additional GL document types. The 78 users capable of preparing and posting additional GL document types without a secondary review or approval are noted by location below, along with the GL document types they could prepare and post:

| Campus | # of Users |
|---|---|
| UNK | 5 |
| UNL | 29 |
| UNMC | 25 |
| UNO | 15 |
| UNCA | 4 |

(Document Types: CN, ND, UU, UA-Accrual Journal Entry, and TN-Interstate Billing Transaction)

When individuals are able to complete GL transactions without a documented secondary review and approval prior to posting the transaction to the GL, there is a greater risk of erroneous or inappropriate GL transactions 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 University has a policy to review higher risk general ledger transactions 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 general ledger entries. Nevertheless, we continue to recommend that the University modify its role configuration for the 556 users identified, so that those users will not have the ability to post any GL transaction types in SAP without a secondary review and approval.

***Management Response:*** *The University disagrees with this recommendation. Certain journal entry transaction codes are reviewed if the entry is posted to Federal funds and the dollar amount exceeds $500 and reviews all other entries if the dollar amount exceeds $50,000. Departments verify charges, including journal entries that post reducing the risk of inappropriate entries. Risk is further mitigated by the fact that journal entries primarily relate to cost distribution rather than adjusting the values of monetary assets. It should also be noted the audit found no errors related to this comment.*

## 11. <u>NeSIS 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 eight University users at UNCA 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. Those users were IT staff with a high level of access. In addition, there were seven users (four at UNMC and three at UNL) with the ability to create a scholarship, configure the scholarship parameters, and then award that scholarship to a student in NeSIS. There was one additional user at UNMC who had access to create a scholarship, award a scholarship, and set up a student. We noted a similar finding in our prior three audits.

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 the University 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 the user can also create a student in NeSIS.

***Management Response:*** *The campuses are redesigning security to address the segregation of duties requirements for scholarship award processing. Once completed, these new security roles will be offered and implemented for all campuses.*

## 12. User Terminations

The University of Nebraska Executive Memorandum No.16 (Section 5) states:

> *Unauthorized access to information systems is prohibited . . . . When any user terminates his or her relation with the University of Nebraska, his or her ID and password shall be denied further access to University computing resources.*

InCommon Identity Assurance Profiles: Bronze & Silver, Section 4.2.4.2, states "The IdPO shall revoke Credentials within 72 hours after being notified that a Credential is no longer valid or is compromised." Human resource staff are involved in notifying the Identity Provider Operator (IdPO) of terminations and should work to achieve access removal within a 72 hour period.

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

For 11 of 22 terminated users tested, NeSIS roles were not removed in a timely manner (three business days or less). Additionally, UNL's process for removing access was not sufficient to ensure the timely removal of access for terminated users. See table below:

| Employee | Campus | Business Days Access Was Active Past Termination |
|---|---|---|
| 1 | UNK | 4 |
| 2 | UNL | 37 |
| 3 | UNL | 34 |
| 4 | UNL | 22 |
| 5 | UNL | 16 |
| 6 | UNL | 14 |
| 7 | UNL | 6 |
| 8 | UNO | 26 |
| 9 | UNO | 20 |
| 10 | UNO | 16 |
| 11 | UNO | 16* |

*User access had not been removed as of the date of testing, or 16 business days from termination.

Additionally, two external NeSIS users working at UNO did not have their access removed when they ceased working at UNO. The individuals were from the U.S. Department of Veterans Affairs.

Finally, for 4 of 13 SAP terminations tested, access was not removed within three business days. The time it took to remove access ranged from four to eight business days and involved three UNL employees and one UNK employee. We noted a similar finding in our prior three audits.

Failure to terminate networks and applications timely creates the opportunity for unauthorized processing of transactions.

> We recommend the University implement a formal procedure at each campus to ensure the appropriate staff is notified of all terminations in order to remove NeSIS and SAP access within three business days and that this procedure be documented. We recommend the process include entering termination dates – when they are known – in SAP prior to the actual termination.

***Management Response:*** *An enhanced Terminated User Report has been developed and will be used by the NeSIS security coordinators to assist them in de-provisioning NeSIS end-users. Once tested and finalized, this report will provide the NeSIS security coordinators with up to date information of HR actions pertaining to NeSIS business end-users, thus allowing improved, timelier information to determine when to remove NeSIS access.*

## 13. <u>NeSIS Improper Access</u>

A good internal control plan includes a periodic review of NeSIS user access to ensure users are restricted to access that is required for their job function.

During a review of individuals with access to other users' accounts, it was noted that there were two users (UNK Student Records staff) with access to any staff user ID from any campus (excluding certain IDs with roles on a global exception list). This is a function to which only the UNCA NeSIS functional coordinators or security team should have access.

During a review of powerful roles, a student records role was identified that had significant access to modify enrollment data across all campuses without any tracking or logging of the activity. This role was initially intended to be utilized on a temporary basis, as needed; however, most of the 13 University users with this role had it for nearly two years (7 UNO, 2 UNK, 2 UNL, and 2 UNMC). We noted a similar finding in our prior three audits.

Allowing security access to users who do not require this access as an essential part of their job duties increases the risk of unauthorized modifications being made to the system. Designing powerful user roles with access across all campuses, as well as failing to implement a way to track user activity prevents accountability for user actions.

> We recommend the University periodically review lists of users with elevated or privileged access to the NeSIS system. We also recommend reviewing the design and use of the enrollment page role allowing update access across all campuses.

***Management Response:*** *Access to the security views identified in the observations were removed. Currently, each campus is allowed to determine who should have the ability to update SACR Security. There are queries that can be run to show who has access to different levels of applying SACR security, which should be reviewed annually by each campus Security Coordinator. This communication has gone out to the campuses. Also, there is a NeSIS customization pending review and approval that will allow for a qualified user to check this role out and it will be removed nightly.*

## 14. <u>Business Continuity and Disaster Recovery Plans</u>

A good business continuity plan, which encompasses a disaster recovery strategy, includes making available reliable and useful information for decision making when faced with a disaster or other event causing, or creating the potential for, a loss of business continuity. A good business continuity plan also includes remote locations in varying states of readiness, in relation to IT-related business risks, which allow for the continued use, quick resumption, or controlled shutdown of vital services.

The University of Nebraska Computing Services Network (UNCSN) disaster recovery plan did not include server-specific data, such as configuration files or locations, recovery file locations, dependencies between applications, etc. That information was maintained separately by each managing team. There was no central repository where teams could place such pertinent disaster recovery information. The UNCSN datacenter operations command center did not have an operational backup site for managing the datacenter in case of a disaster, emergency evacuation, or other event. A draft business continuity plan had been started. Likewise, a backup site 2.5 miles away from the primary command center had been identified, but it was not functional with required equipment or monitoring software.

When reliable and useful information and backup sites are not available for business continuity purposes, there is an increased risk of downtime, or even extended downtime, of vital University services.

> We recommend the University continue improving business continuity and disaster recovery plans to include a central, backed-up repository of all reliable and useful information for resuming University information technology resources. We also recommend continuing to work toward establishing a hot site, where UNCSN datacenter operations can continue monitoring IT systems remotely in a time of disaster, emergency evacuation, or other events.

***Management Response:*** *Computing Services Network has an IT disaster recovery plan to follow in the event of a major disaster and also has a full functioning 'hot-site' at the UNMC data center. The disaster recovery site at UNMC contains disaster recovery equipment for both the SAP and NeSIS ERP systems. Progress has been made to centralize all technical processes and detailed disaster recovery plans in a common database for disaster recovery planning and testing. CSN currently does not have comprehensive Business Continuity of Operation plan to accompany its IT disaster recovery plan but a continuity of operations and disaster recovery position has been proposed to develop and support business continuity and disaster recovery planning.*

## 15. <u>NeSIS Data Extraction</u>

A good internal control plan includes adequate policies and procedures to ensure student information is safeguarded against security risks associated with storing extracted data from NeSIS. Safeguards include an inventory of data locations, an inventory of data stored by departments, preventing student information databases from residing on mobile computing devices (including laptops, tables, phones, and flash drives), and adequate logical and physical controls.

The University allowed department-level staff to extract student information from NeSIS (via WebFOCUS) for use in their own databases. This data was used for analysis, reporting, statistics, etc., and may have been combined with data from other department sources. There was no policy or process in place to document who extracted data, what was extracted, where the data was stored, or how the student data was protected from security threats. We noted a similar finding in our prior audit.

A lack of policies and procedures for safeguarding student information introduces an increased risk for lost, stolen, and hacked data.

We recommend the University create policies and procedures to ensure student information extracted to department-level databases is adequately safeguarded.

***Management Response:*** *A policy has been written by the University Security Council for the appropriate data classification, access and extraction that will be used by all campuses to protect sensitive and confidential data. This policy seeks to ensure the privacy and protection of the data when it is extracted and downloaded by authorized users throughout the NeSIS community.*

* * * * *

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 University.

Draft copies of this management letter were furnished to the University administrators to provide them with an opportunity to review and respond to comments and recommendations contained herein. 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 Regents of the University of Nebraska, others within the University, 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,

Mark Avery

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Audit Manager