

**MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM**

For the Year Ended June 30, 2019

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Issued on January 27, 2020



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

December 12, 2019

Mr. Paul Turman, Chancellor
Board of Trustees
Nebraska State College System
1327 H Street, Suite 200
Lincoln, Nebraska 68508-3751

Dear Mr. Turman:

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, 2019, and have issued our report thereon dated December 12, 2019.

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.

The following is a summary of our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Our complete report can be found with our report on the financial statements of the NSCS dated December 12, 2019.

We have audited in accordance with 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 NSCS, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the NSCS's basic financial statements, and have issued our report thereon dated December 12, 2019. 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 activity of the Nebraska State College System Revenue and Refunding Bond Program, as described in our report on the NSCS's financial statements. The financial statements of these entities and program 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 NSCS'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 NSCS's internal control. Accordingly, we do not express an opinion on the effectiveness of the NSCS'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 NSCS's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency or 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 NSCS'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

We did note certain other matters that we reported to management of the NSCS, which are included below. The NSCS's responses to our findings are described below. The NSCS's responses were not subjected to the auditing procedures applied in the audit of the financial statements; accordingly, we express no opinion on them.

BASIC FINANCIAL STATEMENTS COMMENTS

Comment No. 2019-001: Financial Statement Errors

During our audit of the financial statements of the Nebraska State College System (NSCS), we noted errors that resulted in significant misstatements. We proposed the NSCS adjust its financial statements to correct the identified misstatements. The NSCS did adjust the financial statements for all proposed adjustments.

The following are the significant misstatements the NSCS corrected:

- During the fiscal year ended June 30, 2019, the NSCS reclassified revenues from Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, and Nebraska Opportunity Grants from Operating Revenues to Non-Operating Revenues in accordance with generally accepted accounting principles. However, the amounts reclassified were incorrectly netted with the scholarship allowance. As a result, an additional \$7,261,274 of Federal grants and \$904,614 of State grants for the fiscal year ended June 30, 2019, and \$6,899,678 of Federal grants and \$817,450 of State grants for the fiscal year ended June 30, 2018, should have been reclassified from Operating Revenues to Non-Operating Revenues.
- When preparing the Statement of Cash Flows, Wayne State College (WSC) incorrectly included Scholarships and Fellowships Expense and Utilities Expense as Payments to Suppliers. This caused Payments to Suppliers to be overstated by \$4,048,151, Payments to Utilities to be understated by \$2,121,567, and Other Payments to be understated by \$1,926,584.
- Chadron State College (CSC) correctly calculated a Scholarship Allowance for Auxiliary Enterprises of \$599,828. However, when preparing the Statements of Revenues, Expenses, and Changes in Net Position, CSC omitted the adjusting entry. As a result, the Auxiliary Enterprises revenue and Scholarships and Fellowships expense were both overstated by \$599,828.
- WSC payments of \$148,000 in digital advertising were incorrectly recorded as Supplies, Materials, and Other expense but should have been recorded as Contractual Services expense. The digital advertising payments were made on the same contract as radio and television advertising that was recorded as Contractual Services expense.
- The NSCS Statement of Cash Flows did not adjust the Payments to Suppliers for write-offs of student accounts recorded as Bad Debt Expense. Additionally, CSC did not adjust the Payments to Suppliers for the change in Allowance for Doubtful Accounts recorded to Bad Debt Expense. In total, this caused the Payments to Suppliers to be overstated and the Tuition and Fees, Sales and Services of Auxiliary Enterprises, and Capital Facilities Fees to be understated. See the table below for the amount adjusted for the fiscal years ended June 30, 2019, and June 30, 2018:

	<u>FYE 6/30/2019</u>	<u>FYE 6/30/2018</u>
Tuition and Fees	\$ (70,622)	\$ (203,009)
Payments to Suppliers	\$ 114,856	\$ 285,021
Sales and Services of Auxiliary Enterprises	\$ (35,841)	\$ (78,470)
Capital Facilities Fees	\$ (8,393)	\$ (3,542)

- During the fiscal year ended June 30, 2019, CSC performed an eliminating entry to remove internal conferencing activity as the revenues and expenses are between departments within CSC. An eliminating entry was not performed for the fiscal year ended June 30, 2018. As a result, the Auxiliary Enterprises revenue and Supplies, Materials, and Other expense lines were both overstated by \$272,229 for the fiscal year ended June 30, 2018.

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. Without such procedures, there is an increased risk that material misstatements may occur and remain undetected.

A similar finding has been noted since the fiscal year 2016 audit. The fiscal year 2017 finding was a material weakness. The fiscal year 2018 finding was a significant deficiency.

We recommend the NSCS implement procedures to ensure internally prepared information is complete and accurate upon submission to the auditors.

NSCS's Response: The NSCS remains committed to finding ways to continue to improve on existing procedures for financial statement preparation in order to reduce financial statement errors. With strong accounting teams now in place, the NSCS will continue to provide training opportunities, when available and where necessary, to ensure staff are informed and up to date on the proper financial statement line item handling of transactions.

Comment No. 2019-002: Expense Issues

During testing of expense transactions, the APA noted several concerns. Those concerns related to improper coding issues, vendor selection issues, and several contract issues. All of these concerns are described in more detail below.

Improper Coding

During testing, the APA noted that 4 of 40 expense transactions were coded improperly. Additionally, during testing of journal entry transactions, one of four transactions was coded improperly. The details of these documents are described below:

1. An \$11,709 payment for music filing equipment at CSC was recorded as a Supplies, Materials, & Other expense, but it should have been capitalized. This resulted in an overstatement of expenses and an understatement of capital assets.
2. The entries to record the revenue from student fees used to fund study abroad scholarships and record the scholarship payments created a double entry of revenues and expenses. After discussion with Peru State College (PSC), an adjusting journal entry was prepared to eliminate the duplicate revenues and expenses. However, when reviewing the year-end adjusting journal entries, the APA noted that the eliminating entry was recorded twice, which resulted in revenues and expenses being understated by \$14,600.
3. Payments for \$148,000 in digital advertising at WSC were recorded incorrectly as Supplies, Materials, & Other expenses; they should have been recorded as Contractual Services expenses. The digital advertising payments were made on the same contract as payments for radio and television advertising, which were recorded as a Contractual Services expense. The financial statements were adjusted to correct this error.

4. Adequate documentation was not available to support the allocation of \$13,775 in information technology expenses at WSC between Revenue Bond and State funds.
5. WSC did not have adequate documentation to support the allocation of \$926,541 in utility expenses between Revenue Bond and State funds. The expenses were allocated 25% to the Revenue Bond and 75% to State funds.

NSCS Board Policy 7002 states, in relevant part, the following:

Equipment items acquired by the Colleges with a cost exceeding five thousand dollars (\$5,000), and having an economic useful life of two (2) years, will be capitalized at net invoice price plus freight, installation charges, and trade-in allowance, if any.

A good internal control plan requires procedures to ensure that all expenditures are classified correctly for financial statement presentation, and any allocations made by management are documented properly.

Without such procedures, there is an increased risk that the financial statements will be incorrect or misleading.

A similar finding was noted in the prior two audit reports.

We recommend the NSCS establish procedures for reviewing expenditures to ensure all applicable expenses are capitalized, per Board policy. Additionally, we recommend the NSCS implement procedures to ensure all expenses are classified correctly for financial statement presentation. We also recommend the NSCS maintain documentation to support the allocation of expenses between funding sources.

NSCS's Response: The NSCS continues to work to improve consistency of financial statement presentation and to ensure expenditures are properly classified. WSC has implemented procedures to support the allocation between Revenue Bond and State funds.

Vendor Selection

For 3 of 16 expense documents tested, the purchase did not follow Board Policies for vendor selection. Details of these documents are provided below:

1. One contract over \$100,000 was not competitively bid. The original bid for this contract was over \$100,000; however, PSC worked with the contractor to lower the total costs to \$99,640. Three months later, a change order occurred to add \$21,577 in costs, which had been included in the original contract bid, to the contract.
2. CSC did not have a sole source approval or documentation to support the forgoing of bidding on a contract for woodchips used to fuel the campus. This vendor was paid \$411,117 during the fiscal year.
3. No sole source form was completed for the purchase of music filing equipment at CSC, which was similar to what was already installed at the campus. While the sole source appears reasonable and was approved by the Vice President for Administration and Finance, there was no documentation to support any consultation with either the Vice Chancellor for Facilities and Information Technology or the Vice Chancellor for Finance and Administration.

NSCS Board Policy 7010 states, in relevant part, the following:

Documentation to purchase based on sole source without competitive bids or proposals shall be documented by the College unit or department, and approved by the Vice President for Administration and Finance in consultation with either the Vice Chancellor for Facilities and Information Technology, or the Vice Chancellor for Finance and Administration.

* * * *

A single feasible or sole source exists when . . . based on current research, it is determined that only a single distributor services the region in which the supplies are needed.

NSCS Board Policy 8064 states that contracts over \$100,000 must follow formal bidding requirements, including advertising and public notice of the request for proposals and a formal bid evaluation.

Good internal control and sound business practices require procedures to ensure adherence to all Board policies governing bidding procedures. Without such procedures, there is an increased risk for not only improper bidding practices but also loss of NSCS funds.

We recommend the NSCS follow sole source or formal bidding procedures in accordance with Board policy.

NSCS's Response: The NSCS has considered the contract for wood chips to be similar to a contract for other utility type contracts as it is used as a fuel source in the boiler plant. The NSCS will review Board policies and procedures to better clarify vendor selection.

Contract Issues

During testing of expenses, the APA noted the following contract issues:

1. For 1 of 19 expense documents, a contract was not obtained in accordance with Board Policy. The expenditure for legal services did not have a contract established despite there being an ongoing legal relationship between NSCS and the law firm. CSC paid the vendor \$22,513 during the fiscal year.
2. Five of 16 contracts tested were not presented to the Board in accordance with Board Policy. The contracts not presented to the Board are as follows:
 - a. A \$12,750 contract for the installation of a suspended ceiling at the Rangeland Center at CSC.
 - b. A contract for woodchips at CSC, from which the vendor received payments of \$411,117 during the fiscal year.
 - c. A \$99,640 contract for the AV Larson renovation project at PSC.
 - d. A \$12,575 contract for construction on a batting cage at PSC.
 - e. A four-year contract worth \$106,200 with the National Research Center for College and University Admissions for membership and a data platform service at WSC.

3. For 2 of 18 contracts tested, the contract was not included on the DAS State Contracts Database in compliance with State statute. The contracts were a contract at CSC for woodchips and a contract at WSC with the Wayne State Foundation.

NSCS Board Policy 7015 states, in relevant part, the following:

A contract is necessary whenever a legal relationship is established consisting of rights and duties that go beyond the sale transaction details.

* * * *

Certain contracts do not require review and approval by the Board. An exempt contract shall be defined as any of the following . . . 9. Any contract for the purchase of installation services including repairs or maintenance agreements or movable equipment including information technology products and services, licenses and maintenance agreements where the total cost does not exceed one hundred thousand dollars (\$100,000). In cases of multiple-year contracts, contract amendments, contract extensions, contract renewals, and contracts with optional years, the one hundred thousand dollars (\$100,000) limit only applies to any given one (1) year period as defined in the contract documents. 10. Any contract for the purchase of utilities, gasoline, oil, or diesel fuel used in the regular course of business operations . . .

* * * *

A list of the exempt contracts over fifty thousand dollars (\$50,000), authorized and signed by the College or System Office, shall be provided to the Board of Trustees for information in the proper format.

NSCS Board Policy 7016 states, in relevant parts, the following:

The hiring and retention of . . . legal counsel . . . for durations greater than five (5) days for any College or the System Office, shall be approved by the Chancellor The Chancellor shall determine if a service contract is necessary.

NSCS Board Policy 8065 states, in relevant part, the following:

Contracts for construction-type projects of less than one hundred thousand dollars (\$100,000), architectural/engineering contracts whereby the fee is less than seventy thousand dollars (\$70,000) and contract change orders amounting to less than fifty thousand dollars (\$50,000) shall be reported by the College at the next Board meeting in a format developed by the System Office.

Sound business practices and good internal controls require procedures to ensure that contracts are: 1) properly obtained; 2) presented to the Board in accordance with Board policy; and 3) sent to DAS for inclusion on the DAS State Contract Database, per State statute. Without such procedures, there is an increased risk of not only noncompliance with Board policy and State statute but also loss of NSCS funds.

Similar issues were noted in the prior two audit reports.

We recommend the NSCS implement procedures to ensure contracts are properly obtained, presented to the Board in accordance with Board policy, and sent to DAS for inclusion on the DAS State Contract Database, per State statute.

NSCS's Response: The NSCS will review procedures to ensure contracts are presented to the Board in accordance with Board Policy and included on the DAS State Contracts Database when necessary.

Comment No. 2019-003: Other Operating Revenue Issues

During testing of cash counts and athletic camp receipts, the APA noted concerns over the lack of a second individual's involvement in the receipt and counting of cash. Those concerns are described in more detail below.

- At CSC, only one person is involved in the initial cash count, which is verified the next business day. The APA tested one deposit of cash collected at concessions for a basketball tournament and noted that an individual signed off on performing the cash count. However, the next day the cash count was changed to remove \$100. It was noted that the cash was miscounted the night before. Without two individuals performing the initial cash count or procedures that would allow the review performed the following day to ascertain that the initial cash amount was reasonable and accurate, there is an increased risk that miscounted cash could actually have been misappropriated.
- At PSC, adequate documentation was not available to verify that two individuals were involved in the initial cash count.
- During testing of camp receipts at CSC and WSC, the APA noted that adequate documentation was not available to verify two individuals were involved in receipting the camp fees for walkup registrations.

Additionally, during testing of Other Operating Revenues, the APA noted concerns with receipts received for incorrect amounts and the timely deposit of receipts. Both concerns are described in more detail below.

Four of 31 revenue transactions tested were not received for the correct amount, as follows:

1. One receipt for concession sales and gate receipts at CSC included a concessions drawer with a variance of \$45 that was not adequately explained.
2. A receipt for \$1,365 of shirts sold during an athletics fundraiser at CSC did not include documentation to support the rate charged or the number of shirts sold.
3. A receipt for camp registrations at CSC included 10 individuals paying less than the required rate. A camp brochure was not updated, which resulted in eight individuals paying a total of \$140 less than the required rate. Additionally, two registrations were paid at a discounted rate for relatives of a CSC coach. The two registrations paid a total of \$250 less than the required rate but no additional approval was documented for this discounted rate.
4. During testing of a receipt for purchases at the WSC Instructional Resource Center, the APA noted that one item was not correctly calculated based on rates charged. The order should have totaled \$7 but was incorrectly charged for \$4.

One of 22 receipts tested was not deposited timely. A \$3,552 receipt for the CSC Child Development Center was received between December 9 and December 10, 2018, but it was not deposited until some four business days later on December 14, 2018.

Neb. Rev. Stat. § 84-710 (Reissue 2014) states, in relevant part, the following:

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

A good internal control plan requires procedures to ensure that funds received are for the correct amounts, agree to adequate supporting documentation, and are deposited timely. Those same procedures should ensure also that there is a documented segregation of duties when collecting monies. Without such procedures, there is an increased risk for the loss of revenues.

Similar findings were noted in the prior two audit reports.

We recommend the NSCS implement procedures to ensure that funds received are for the correct amounts, agree to adequate supporting documentation, and are deposited timely. Those same procedures should also ensure that there is a documented segregation of duties when collecting monies.

NSCS's Response: The NSCS continues to look for ways to improve the documentation associated with revenue collections. Some of the items noted are minimal and the risk of lost revenue may not warrant the cost of additional staff. The Colleges will review each area, as well as procedures for long and short amounts that occur to document identification of such. The Colleges will work with the departments that handle receipts to document reconciliation of all money received.

Comment No. 2019-004: Lack of Secondary Review and Controls

Exempt employees at the NSCS had no documented supervisory approval of hours worked. The SAP system (NSCS's accounting software) requires a supervisor's approval of leave used for exempt employees; however, if no leave was used, approval is not required.

A good internal control plan requires procedures to ensure that no one person is in a position both to perpetrate and to conceal errors or irregularities. Such procedures should also require a documented review of time worked to ensure the accuracy of work hours recorded. Without adequate secondary reviews or comparable controls, there is an increased risk that errors or irregularities will occur and go undetected.

A similar finding was noted in the prior two reports.

We recommend the NSCS implement procedures to ensure that supervisors approve the hours worked for all employees.

NSCS's Response: The NSCS uses Employee Self Service (ESS), which allows supervisors to approve and track leave on a daily basis (as opposed to waiting until the end of the month with leave sheets). Manager's Self-Service (MSS) provides an additional tool to easily see what leave has been approved and confirm that an individual's leave has been approved if they are absent. As the employees referred to by the APA are FLSA exempt, and the employees are certifying their 40 hours work week in accordance with state statute, we believe that there are proper controls in place. Also, as supervisors have access to do an ongoing review of individual's time and/or leave, this gives them adequate oversight and controls to ensure leave is appropriately recorded if used.

APA Response: If an employee did not request leave during the pay period, there was no documented supervisory review of hours worked to ensure the hours paid were proper.

INFORMATION TECHNOLOGY (IT) COMMENTS

Comment No. 2019-005: State Colleges Password Settings

The State College's Identity Management system, known as SailPoint, is used for setting a global password policy. In addition, the State Colleges also establish password settings and authenticate to SAP through a central active directory. CSC and PSC also use this central active directory to authenticate to NeSIS. WSC uses a separate active directory to authenticate to NeSIS.

During our review of the State College's password settings in SailPoint and the central active directory, we noted the following settings were not in compliance with the National Institute of Standards and Technology (NIST) Digital Identity Guidelines:

- Users are allowed to select prompts from a set of six questions and to reset their passwords by providing answers to three of those questions, generated randomly.
- The State Colleges passwords that are stored in SailPoint were not salted and hashed, which is a method of encryption.
- The State Colleges re-authentication settings for SAP and NeSIS were inadequate. Users were not required to re-authenticate to SAP and NeSIS until after 9 and 12 hours of inactivity, respectively.

During our review of WSC's password settings in its active directory, we noted the following settings were not in compliance with NIST Digital Identity Guidelines:

- The passwords that are stored at the eDirectory were not salted and hashed, which is a method of encryption.

University of Nebraska (University) staff manage the SAP and NeSIS applications on behalf of both the University and State Colleges. The University's Password Policy, Version 1.1 (Revised March 4, 2014), states the following:

Any credential which identifies a subject or service account should follow recommendations outlined in National Institute of Standards (NIST) 800-63-2 [2], [3] using a token method and the level of entropy or randomness as outlined in §§ 6.1.2 and 6.3.

NIST has since issued Special Publication (SP) 800-63-3 in June 2017, which supersedes NIST SP 800-63-2. Additionally, SP 800-63-3, SP 800-63A, SP 800-63B, and SP 800-63C provide technical guidance to agencies for the implementation of digital authentication.

NIST SP 800-63B (June 2017), § 5.1.1.2, states, in relevant part, the following:

Memorized secret verifiers SHALL NOT permit the subscriber to store a "hint" that is accessible to an unauthenticated claimant. Verifiers SHALL NOT prompt subscribers to use specific types of information (e.g., "What was the name of your first pet?") when choosing memorized secrets . . . Verifiers SHALL store memorized secrets in a form that is resistant to offline attacks. Memorized secrets SHALL be salted and hashed using a suitable one-way key derivation function. Key derivation functions take a password, a salt, and a cost factor as inputs then generate a password hash. Their purpose is to make each password guessing trial by an attacker who has obtained a password as file expensive and therefore the cost of a guessing attack high or prohibitive.

NIST SP 800-63B (June 2017), § 4.2.3, states, in relevant part, the following:

Reauthentication of the subscriber SHALL be repeated following any period of inactivity lasting 30 minutes or longer. The session SHALL be terminated (i.e., logged out) when either of these time limits is reached.

Good internal control includes system-enforced password parameters to ensure users meet minimum password standards. Inadequate password settings increase the risk of unauthorized users gaining access to sensitive information contained in both the NeSIS and SAP applications.

A similar finding has been noted since the fiscal year 2011 audit.

We recommend the NSCS work with the University to strengthen its password parameters to achieve compliance with NIST standards.

NSCS's Response: The University of Nebraska and Nebraska State College System continue to expand adoption of two-factor authentication to mitigate the risk of single-factor memorized secrets. The University is revising its password policy and implementing technical changes to align with the latest recommendations in NIST 800-63-3.

All passwords stored within the SailPoint Identity Management system are encrypted using AES 128 bit keys, and this is needed to provision the multiple Active Directory accounts needed for authentication. The University is working to consolidate authentication stores and once this is complete will be able to remove the encrypted passwords, leaving only the hashed passwords in the single Active Directory.

The University will work to adjust session lengths and re-authentication timeouts based on the different Authenticator Assurance Levels.

In February of 2019, Wayne State College participated in the Federation project within PeopleSoft, disconnecting WSC's eDirectory system from that environment. In December of 2019, WSC decommissioned its eCampus portal, thus eliminating the last system which used eDirectory for authentication. While eDirectory is still in place for directory object creation, no systems are authenticating to it, passwords are no longer synced to it, and LDAP services are not publicly visible.

Comment No. 2019-006: General Ledger Transactions in SAP

The workflow in the SAP system does not require separate preparers and posters of General Ledger (GL) type transactions, primarily journal entries that do not result in vendor payments. As a result, certain individuals throughout the NSCS could complete GL 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 GL transactions.

During our audit of the GL security roles in SAP, we identified 26 users with the ability to prepare and post GL entries in SAP without a secondary, system-required review or approval. The 26 users are noted by location below, along with the GL document types they could prepare and post:

Location	# of Users
Wayne State College (WSC)	8
Peru State College (PSC)	7
Chadron State College (CSC)	6
NSCS System Office	3
UNCA (University)	2

(Document Types: JE – Journal Entry, IB – Internal Charges Batch, IC – Internal Charges Online)

A secondary role allowed 25 of those users to prepare and post additional GL document types. The 25 users capable of preparing and posting additional GL document types without a secondary, system-required review or approval are noted by location below, along with the GL document types they could prepare and post:

Location	# of Users
WSC	8
PSC	7
CSC	5
NSCS System Office	3
UNCA	2

(Document Types: CN – ACH Receipt, ND – NIS Journal Entry*, UU – University Only Journal Entry**, UA – Accrual Journal Entry, PJ – Payroll Journal Entry, TC – Interstate Billing Transaction)

**NIS refers to the State's EnterpriseOne accounting system.*

***Role is used for College Only Journal Entries; however, the document type is also used by the University of Nebraska, which shares the SAP environment with the State Colleges.*

A good internal control plan requires a proper segregation of duties to ensure that 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.

When individuals are able to complete GL transactions without a system-required secondary review or approval prior to posting the transaction to the GL, there is a greater risk for error and inappropriate GL transactions to occur and remain undetected. Additionally, in the absence of an adequate segregation of duties, there is an increased risk of loss, theft, or misuse of funds.

A similar finding has been noted since the fiscal year 2014 audit.

We recognize that the NSCS has worked to implement compensating controls to mitigate the risks related to the SAP system's lack of an established workflow, which would automatically require a segregation of duties in the preparation and posting of GL entries. Nevertheless, we continue to recommend that the NSCS work on a system-based SAP solution as well.

NSCS's Response: The Colleges review the users' access annually and determine if current access is necessary based on how the roles are defined within SAP. As noted above by the auditors, the NSCS has compensating controls in place.

Comment No. 2019-007: Accounts Payable (A/P) Transactions

During our audit of the A/P security roles in SAP (the NSCS’s accounting system), we noted that 12 users had the ability to prepare an invoice, post it in SAP, and also approve and post it in EnterpriseOne (E1), the State’s accounting system. Additionally, 4 of the 12 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. Finally, 8 of the 12 users could set up a vendor in SAP.

The 12 users who could prepare invoices and post them in SAP and E1 are noted by location below:

Location	# of Users
Chadron State College (CSC)	2
Peru State College (PSC)	7
Wayne State College (WSC)	0
NSCS System Office	3

Four of 12 users identified above could also prepare a purchase order, as noted by location below:

Location	# of Users
CSC	1
PSC	0
WSC	0
NSCS System Office	3

Eight of the 12 users identified above could also set up a vendor in SAP, as noted by location below:

Location	# of Users
CSC	2
PSC	3
WSC	0
NSCS System Office	3

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.

A good internal control plan requires procedures to ensure a proper segregation of duties with regard to the A/P roles in SAP, so no single individual can process a transaction from beginning to end. Those same procedures should also include adequate security controls, through the design, creation, approval, and assignment of user roles, to prevent users from performing other functions in SAP – such as preparing invoices and purchase orders or creating vendors – without a proper segregation of duties. Without such procedures, there is an increased risk for the theft or misuse of NSCS funds.

A similar finding has been noted since the fiscal year 2014 audit.

We recommend the NSCS 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. Those same procedures should also include adequate security controls, through the design, creation, approval, and assignment of user roles, to prevent users from performing other functions in SAP – such as preparing invoice and purchase orders or creating vendors – without a proper segregation of duties.

NSCS's Response: The Colleges review the SAP and EnterpriseOne users' access for all accounting staff annually and make changes as necessary to ensure adequate daily operations while still meeting best practices for internal control. The NSCS agrees that this deserves continued efforts and will continue to seek solutions that will further diminish risk and take into account the NSCS's small operating staff.

Comment No. 2019-008: Change Management

The University of Nebraska (University) manages and performs SAP and NeSIS application changes on behalf of the NSCS. As such, the University is responsible for setting change control policies and procedures and ensuring SAP and NeSIS application changes are made in accordance with these policies and procedures. During testing of changes made to SAP and the NSCS's instance of NeSIS, we noted that several SAP and NeSIS application changes were not documented and approved in accordance with the University's Change Control Policy (IT-02).

The University Change Control Policy (IT-02) was approved by the University's president on April 17, 2017. Section II of IT-02 states the following, in relevant part, the following:

All changes to information systems (hardware and software) and networking components or architecture should follow a change management process. These changes include developing, testing, deploying, and maintaining systems and services, as well as all forms of change that may impact the physical location, configuration, and administration of assets associated with the computing and networking environments.

Section III(A) of IT-02 lists various responsibilities of system owners or system administrators, including "Approval of the Change Request by the Change Advisory Board." However, the Change Advisory Board (CAB) did not begin approving SAP changes until September 2018, and NeSIS changes were not approved until October 2018. As a result of the CAB not approving changes until September and October 2018, 9 of 22 SAP changes and 3 of 18 NeSIS changes tested were not approved by the CAB.

Another responsibility of system owners or system administration listed in Section III(A) of IT-02 is Completion of a Change Request Form. Information Technology Services (ITS) implemented a Request for Change (RFC) form to standardize the change management documentation process. The SAP team indicated that they adopted the RFC process in September 2018. However, during testing we noted that 6 of 19 SAP changes tested that were implemented after this date were not documented on an RFC form.

The SAP and NeSIS teams considered several of the changes we tested out of the scope of IT-02. One such change was an emergency change for which the NeSIS team did not obtain CAB approval. However, Section III(B) of IT-02 states, "The normal change management request process will be followed by completing a system change request documenting the need for an emergency change."

To clarify what types of changes were within the scope of IT-02, ITS issued multiple procedure documents during 2019. These documents also provided that the business or ITS representative who initiates a request for change is responsible for completing the RFC form and ensuring that proper approval is obtained for the change. During testing, we noted that changes completed subsequent to the approval of these documents were properly documented and approved by the CAB, when required.

Good internal control requires procedures to ensure that IT change control policies are stated clearly and communicated effectively. Those same procedures should ensure also that SAP and NeSIS application changes are properly documented and approved, as required by IT policies and procedures. Without such procedures, there is increased risk of noncompliance with IT change control policies.

We recommend the NSCS evaluate the weaknesses noted and, if determined to be necessary, work with the University to ensure changes made to SAP and the NSCS's instance of NeSIS are done in accordance with University policies.

NSCS's Response: The NSCS does not have authority nor control over University of Nebraska internal policies such as IT-02. We have communicated with the University on this matter, and below is the information they provided:

"University of Nebraska ITS is responsible for the change control process and has procedures in place to comply with IT-02. These procedures have been amended as the process is solidified, NeSIS and NeBIS have worked with ITS to ensure changes are submitted/approved according to the policy and procedures."

Comment No. 2019-009: NeSIS Business Continuity Planning

The University is responsible for implementing policies and procedures to ensure SAP and the NSCS's instance of NeSIS would be available in the event of failure or a disaster. The University has not completed periodic testing of its procedures to restore NeSIS functionality at its backup site in the event the application fails at its main location. The University indicated it has not completed a full failover test of NeSIS from its primary site to its secondary site since September 2015. Additionally, the University did not document that test.

COBIT 2019 Framework, Governance and Management Objectives, DSS04.02 Maintain business resilience, states, in part, the following:

Evaluate business resilience options and choose a cost-effective and viable strategy that will ensure enterprise continuity, disaster recovery and incident response in the face of a disaster or other major incident or disruption . . .

- 1. Identify potential scenarios likely to give rise to events that could cause significant disruptive incidents.*
- 2. Conduct a business impact analysis to evaluate the impact over time of a disruption to critical business functions and the effect that a disruption would have on them.*
- 3. Establish the minimum time required to recover a business process and supporting I&T, based on an acceptable length of business interruption and maximum tolerable outage.*
- 4. Determine the conditions and owners of key decisions that will cause the continuity plans to be invoked.*
- 5. Assess the likelihood of threats that could cause loss of business continuity. Identify measures that will reduce the likelihood and impact through improved prevention and increased resilience.*
- 6. Analyze continuity requirements to identify possible strategic business and technical options.*
- 7. Identify resource requirements and costs for each strategic technical option and make strategic recommendations.*
- 8. Obtain executive business approval for selected strategic options.*

COBIT 2019 Framework, Governance and Management Objectives, DSS04.03 Develop and implement a business continuity response, states, in part, the following:

Develop a business continuity plan (BCP) and disaster recovery plan (DRP) based on the strategy. Document all procedures necessary for the enterprise to continue critical activities in the event of an incident . . .

* * * *

3. *Define the conditions and recovery procedures that would enable resumption of business processing. Include updating and reconciliation of information databases to preserve information integrity.*

COBIT 2019 Framework, Governance and Management Objectives, DSS04.04 Exercise, test and review the business continuity plan (BCP) and disaster response plan (DRP), states, in part, the following:

Test continuity on a regular basis to exercise plans against predetermined outcomes, uphold business resilience and allow innovative solutions to be developed . . .

1. *Define objectives for exercising and testing the business, technical, logistical, administrative, procedural and operational systems of the plan to verify completeness of the BCP and DRP in meeting business risk.*
2. *Define and agree on stakeholder exercises that are realistic and validate continuity procedures. Include roles and responsibilities and data retention arrangements that cause minimum disruption to business processes.*
3. *Assign roles and responsibilities for performing continuity plan exercises and tests.*
4. *Schedule exercises and test activities as defined in the continuity plans.*
5. *Conduct a post-exercise debriefing and analysis to consider the achievement.*
6. *Based on the results of the review, develop recommendations for improving the current continuity plans.*

Good internal control requires procedures/hardware to be thoroughly tested to ensure the timely resumption of business processing in the event of application disruption or failure. When processes intended to be used in the event of critical application failure or disaster have not been thoroughly tested, there is an increased risk of prolonged discontinuation of government processes in the event of application disruption or failure.

We recommend the NSCS evaluate the weakness noted and, if determined to be necessary, work with the University to ensure the University performs periodic testing of its procedures to restore NeSIS functionality at its backup site.

NSCS's Response: The NSCS does not have authority nor control over University Disaster Recovery planning and testing for the NeSIS system. We have communicated with the University on this matter, and below is the information they provided:

“University of Nebraska ITS is responsible for the Disaster Recovery planning of the NeSIS system... A live exercise of the NeSIS system was performed on Jan 2, 2020 utilizing a full copy of the Production environment data recovered to the Quality environment. The objectives of this exercise were:

- *Identify and document minimum critical server environment requirements to operate production environment at our alternate location*
- *Identify and document system configuration changes required to operate production environment at our alternate location*
- *Establish and document communication channels and roles between technical staff, functional staff, and the Incident Management channel*

- *Document sequence of steps and dependencies necessary to recover at our alternate location including key decision points, communication check points, and testing check points*
- *Identify testing scenarios both at the technical and functional level that should be performed before start-up of our production environment at our alternate location*
- *Document wall clock time of the recovery effort to begin business impact discussions with our customers”*

* * * * *

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 of 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 they 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,



Zachary Wells, CPA, CISA
Audit Manager