The University of Nebraska

Management Letter

For the Year Ended June 30, 2020

Issued on February 12, 2021

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 14, 2020

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, 2020, and have issued our report thereon dated December 14, 2020.

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 the knowledge of the University's organization gained during our work to make the following comments and recommendations, which 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 University dated December 14, 2020.

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, 2020, 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 14, 2020. 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 University Technology Development Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, 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 the Foundation, the University of Nebraska Facilities Corporation, the University Dental Associates, the UNeHealth, the UNMC Science Research Fund, and the Nebraska Utility Corporation 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.*

We did note certain other matters that we reported to management, which are included in the following Schedule of Findings and Responses.

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. 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 audit of the financial statements, we noted errors that resulted in significant misstatements. We proposed the University adjust its statements to correct all of these errors. The University did adjust the statements for all corrections proposed.

The following are significant misstatements the University corrected:

- The University improperly presented $395,342,000 in net assets in the unrestricted component of net position instead of in the net investment in capital assets component of net position on its Statement of Net Position. During the fiscal year ended June 30, 2020, the University of Nebraska Facility Corporation (UNFC) issued two bonds. A portion of the proceeds was used to defease bond obligations the University previously held under the Master Trust Indenture (MTI). As part of the refinancing, UNFC created a note receivable from the University for the bonds it defeased on the University's behalf. The campuses, in turn, reduced their bonds payable and created offsetting notes payable to UNFC. The notes receivable and notes payable should have offset and been eliminated from financial statement presentation. However, UNFC and the campuses did not present the notes consistently on their respective Statements of Net Position. UNFC classified the notes as reductions in unrestricted net position, while the campuses classified the notes as reductions in their net investment in capital assets. The University did not post a reclassification entry to correct this, which led to unrestricted net assets being overstated by $395,342,000 and net assets invested in capital assets being understated by the same offsetting amount. While completing a final analytical review of the University's financial statements, the APA noted a very large and unexpected decrease in the University's net assets invested in capital assets. The APA reached out to the University, noting that the decrease was interesting given it could not be explained in terms of changes in total capital asset and bond obligations of the University. The APA asked if, as part of the debt refinancing, the University had changed how it was presenting a portion of its debt. The University indicated it would look into the APA's comment. The following day, the University discovered the cause of the error and posted a reclassification entry to correct it.

- On its Statement of Cash Flows, the University improperly classified a $21,274,000 cash inflow as a cash outflow (an audit difference of $42,548,000) and did not properly record several transfers among University entities. To correct these errors, the University made several adjustments to the Statement, including a $35,763,000 increase to the amount it classified as a cash outflow from defeasance of bonds.

- The University failed to accrue a liability for the Federal Capital Contribution (FCC) to its Perkins Loan program. In connection with the close-out of the Perkins Loan program, the University will be required to return its FCC to the Federal government. During campus journal entry testing, the APA noted that a campus had recorded its fiscal year 2020 return of excess Perkins Loan funds as an expense. In light of the decision of Congress not to renew the Perkins Program after September 30, 2017, the APA questioned whether this recognition was appropriate. The APA reviewed *NACUBO Advisory Guidance 18-03, Perkins Loan Program Close-Out*, which states, in relevant part, the following:

  > *Now that the Perkins Program has ended, public institutions for which the FCC is material and included in restricted net position should reclassify the balance to a liability. This reclassification should be made whether or not the organization intends to hold the portfolio or liquidate it immediately or in the future.*

  The APA brought this guidance to the University's attention and verified the University had not recorded a liability as required by the guidance. Following discussion with the APA, each campus determined the proper initial liability to accrue as of June 30, 2018. The campuses restated both their fiscal year 2018 and

2019 financials to reflect the initial liability as well as any changes in the liability. Ultimately, on a University-wide basis, the University adjusted its Statement of Net Position as of June 30, 2019, to add $23,977,000 in accrued liabilities ($5,561,000 current and $18,416,000 non-current) associated with the Perkins Loans Program close-out.

- UNO improperly classified $5,398,831 in CARES Act revenue as operating, instead of non-operating, Federal grants revenue. Paragraph A19 of *Technical Bulletin 2020-1 Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases* states, in part, the following:

  > *[A] significant portion of the resources provided pursuant to the CARES Act is provided as reimbursements of costs incurred, which result in subsidies (rather than payments for services), and, as a result, are identified as nonoperating revenue.*

- The University of Nebraska-Medical Center (UNMC) improperly classified $2,011,222 in expenditures as prepaid expenditures as of June 30, 2020. The expenditures were both incurred and paid during the fiscal year ended June 30, 2021, and, thus, they should not have been recorded as prepaid as of June 30, 2020.

- UNO improperly recorded its fiscal year ended June 30, 2020, scholarship allowance, which caused tuition and fees revenue to be understated by $1,821,656 and sales and services of auxiliary operations revenue to be overstated by the same amount. Tuition and fees and sales and services of auxiliary operations revenue amounts are presented net of scholarship allowances for internal (University-provided) scholarships. UNO reflected its entire fiscal year 2020 scholarship amount as a reduction in tuition and fees revenue; instead, $1,821,656 of the total should have reduced sales and services of auxiliary operations revenue, given that this portion was for student center, housing, and parking revenue that is reflected on this line item.

- UNMC overstated its loss on disposal of assets by $1,418,661 because it improperly included an asset that was not a true asset disposal. The asset was created in error and was retired to remove it from the campus's asset listing.

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.

A similar finding was noted in our prior audits.

> We recommend the University strengthen procedures to ensure financial information is complete, accurate, and in accordance with accounting standards.

Management Response: *The University strives to present financial statements accurately and in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). We will continue to explore additional review processes, but there does not seem to be a significant return on the application of additional resources. However, as two of the audit differences noted related to the consolidation of the statements, we will perform an additional review step prior to providing draft statements to the APA.*

2. <u>General Ledger Transactions in SAP</u>

The workflow in the SAP accounting 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 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.

During our audit of the GL security roles in SAP, we identified 580 users with the ability to prepare and post GL entries in SAP without a system-required secondary review or approval. The 580 users are noted by location below, along with the GL document types they could prepare and post:

Campus	# of Users
UNK	5
UNL	278
UNMC	240
UNO	40
UNCA	17

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

A secondary role allowed 79 of those users to prepare and post additional GL document types. The 79 are noted by location below, along with the GL document types they could prepare and post:

Campus	# of Users
UNK	5
UNL	32
UNMC	19
UNO	15
UNCA	8

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

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

A good internal control plan requires a 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.

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 was noted in our prior audits.

> 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 580 users identified, so those users will not have the ability to post any GL transaction types in SAP without a system-required secondary review or approval.

Management Response: *The University has previously conducted a cost/benefit analysis of implementing workflow within the SAP system to require review and approval of general ledger entries by a secondary approver. Given the significant estimated cost that would be required to implement workflow, we determined implementation is not justified at this time. We will continue our policy to review higher-risk general ledger transactions as a mitigating control.*

3. Contracts Not on the State Contracts Database

During testing of 60 expenditures governed by contracts, 13 contracts and/or amendments were not included on the State Contracts Database, as required by State statute. The contracts and/or amendments not included on the State Contracts Database were seven at UNMC, three at UNL, and three at UNCA.

Neb. Rev. Stat. § 84-602.04(4)(a)(i) (Supp. 2019) requires the Department of Administrative Services' web site to contain the following:

> *A data base that includes a copy of each active contract that is a basis for an expenditure of state funds, including any amendment to such contract and any document incorporated by reference in such contract. For purposes of this subdivision, amendment means an agreement to modify a contract which has been reduced to writing and signed by each party to the contract, an agreement to extend the duration of a contract, or an agreement to renew a contract. The data base shall be accessible by the public and searchable by vendor, by state entity, and by dollar amount. All state entities shall provide to the Department of Administrative Services, in electronic form, copies of such contracts for inclusion in the data base beginning with contracts that are active on and after January 1, 2014 . . . .*

A similar finding was noted in our prior audits.

> We recommend the University include all of its contracts on the State Contracts Database in a timely manner to comply with State statute.

Management Response: *The University will strive to continue filing contracts in the State Contracts Database on a timely basis. In addition, Internal Audit & Advisory Services will continue testing as time permits.*

4. University Password Settings

The University's Identity Management system, known as SailPoint, is used for setting a global password policy. In addition, the University also established password settings and authenticates to SAP through a central active directory. UNK, UNL, and UNO also use the central active directory to authenticate to NeSIS. UNMC uses a separate active directory to authenticate to NeSIS.

During our review of the University'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 password by providing answers to three of those questions, generated randomly.
- The University passwords that are stored in SailPoint were not salted and hashed, which are methods of encryption. The University's active directory is hashed but not salted.
- The University 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

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 outline 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, SP800-63B, 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 hash 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 was noted in our prior audits.

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

Management Response: *The University of Nebraska has adopted two-factor authentication for all users to mitigate the risk of single-factor memorized secrets. The University is currently moving to remove the knowledge-based questions as a part of the password reset process. Users can currently reset their passwords with their NUID and a secondary or personal email account. The next step in the process - to move away from knowledge-based questions - may occur this spring as university IT leaders meet with campus academic leaders to discuss no longer collecting the question and answer sets during the admissions process. In addition, users would be required to provide a secondary or personal email address that could be stored in University ERP systems that could be used in the password reset process.*

All passwords stored within the University Identity Management system are encrypted using industry standards, and this is needed to provision the multiple authentication stores 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 store.

ITS will review the policy framework regarding the application session activity time-period taking into consideration the other management tools and security safe-guards in place against the risk.

5. User Terminations

Seven of 25 terminated SAP users tested did not have access removed within three business days of the employees' last working date. The time it took to remove access ranged from 4 to 48 business days. The seven users included one at IANR, four at UNL, one at UNMC, and one at UNO.

Eight of 25 terminated NeSIS users tested did not have access removed within three business days of the employees' last working date. The time it took to remove access ranged from 5 to 33 business days. The eight users included one at IANR, one at UNK, three at UNL, and three at UNO.

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

> *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.*

The University of Nebraska Executive Memorandum No. 26 ("Information Systems" section) states, in relevant part, the following, "Access to covered data and information via the University's computer information system is limited to those employees who have a business reason to know such information."

InCommon Identity Assurance Profiles: Bronze & Silver (February 11, 2013), 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 responsible for notifying the Identity Provider (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.

> 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: *Both NeSIS and NeBIS have reviewed the terminated users with elevated access and the elevated access has been removed. A committee was formed to review the business practices, procedures and policies and the recommendations of the committee are under consideration and analysis.*

* * * * *

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 the 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 they 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, CPA
Assistant Deputy Auditor