MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM

For the Year Ended June 30, 2023

Issued on December 20, 2023

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 7, 2023

Mr. Paul Turman, Chancellor
Board of Trustees
Nebraska State College System
1233 Lincoln Mall, Suite 100
Lincoln, Nebraska 68508

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, 2023, and have issued our report thereon dated December 7, 2023.

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 Nebraska State College System dated December 7, 2023.

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, fiduciary activities, and the discretely presented component units of the NSCS, as of and for the year ended June 30, 2023, 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 7, 2023. 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 the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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. 2023-001: 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 review of potential unrecorded assets, a payment for $234,000 at Peru State College (PSC) in July 2023 was identified as a fiscal year 2024 expense but was for work completed on a construction project during June 2023 and should be accrued as payable for fiscal year 2023. This caused Accounts Payable and Capital Assets to be understated.

- PSC did not complete necessary adjusting entries when recording the purchase of capital assets. As a result, Other Operating Revenue was overstated by $165,471; Supplies, Services, and Other expense was overstated by $158,472; and Cash was overstated by $6,999. When adding a capital asset to SAP, the NSCS accounting system, an entry is created to debit the appropriate asset account and credit a revenue account. At fiscal year-end, an adjusting entry is needed to eliminate the balance in the revenue account and the original expenditure entry created when the asset was purchased; however, this year-end entry was not made.

- Construction in progress for PSC was overstated by $162,180 due to expenditures from fiscal year 2022 that were included as fiscal year 2023 construction in progress activity but were not capitalized during fiscal year 2022. These items were correctly not capitalized in fiscal year 2022 and should not have been capitalized in fiscal year 2023. This caused Capital Assets in fiscal year 2023 to be overstated by $162,180 and Supplies, Services, and Other expense was understated by $162,180.

- PSC did not complete a necessary adjusting entry to reclassify $106,088 of write-offs and collection costs from Tuition and Fees revenue, where they are initially recorded in SAP as a decrease to revenue, to Supplies, Services, and Other expense. This caused Tuition and Fees revenue and Supplies, Services, and Other expense to be understated by $106,088.

- While adjusting the financial statements for other proposed adjustments, an error was noted in the revised net position calculation for PSC. This caused Invested in Capital Assets net position to be overstated by $360,976, Restricted for Other net position to be understated by $126,976, and Unrestricted net position to be understated by $234,000.

- During fiscal year 2023, the NSCS implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. As part of this implementation, the fiscal year 2022 financial statements were restated. However, when preparing the restated financial statements, the NSCS used an earlier version of the financial statements that did not include a proposed adjustment made during the fiscal year 2022 audit. This caused the following financial statement lines to be misstated:

Line Item	(Understated) / Overstated		
	CSC	PSC	Total
Tuition and Fees	$ (137,847)	$ (61,982)	$ (199,829)
Auxiliary Enterprises	$ (45,949)	$ (36,533)	$ (82,482)
Supplies, Services, and Other	$ (293,332)	$ (422,081)	$ (715,413)
Scholarships and Fellowships	$ 109,536	$ 323,566	$ 433,102

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.

> While the NSCS has improved procedures related to the preparation of its financial statements, we recommend the NSCS continue to strengthen procedures to ensure internally prepared information is complete and accurate upon submission to the auditors.

NSCS's Response: The NSCS understands that accuracy of the financial statements is important. The NSCS remains committed to finding ways to continue to improve on existing procedures for the financial statement preparation and review process prior to submission to reduce financial statement errors. To address some of the findings noted above:

- *Peru State College will review current processes and implement additional procedures to better document steps to ensure appropriate entries and adjustments are made to the financial statements.*

- *For future GASB implementations, the NSCS will implement a review process to ensure a restatement of prior year information agrees to the issued audit report.*

NSCS concurs with the statement that improved procedures are necessary to ensure accurate and complete financial statements, and we plan to work on improving our procedures and documentation this coming year by focusing on areas where errors and omissions were made this past year.

Comment No. 2023-002: Password Settings

The University of Nebraska (University) staff manage the Identity Management system used for setting a global password policy to authenticate to various applications, on behalf of both the University and the NSCS. Due to this arrangement, the NSCS cannot unilaterally implement a change to address issues noted with the University's Identity Management system.

The NSCS also manages various directories, where it establishes password settings used to authenticate to NSCS applications.

During our review of the University's Identity Management system and the NSCS directories, we noted instances of noncompliance with the National Institute of Standards and Technology (NIST) Digital Identity Guidelines and the NSCS Information Security Standards.

Additional detail was provided to the NSCS.

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

> We recommend the NSCS implement procedures to ensure its directories are set up in accordance with NSCS Information Security Standards. We also recommend the NSCS work with the University to ensure the University's Identify Management system is in compliance with NIST.

NSCS's Response: The University and NSCS continue to work together. To address some of the items noted above:

- *The University of Nebraska ITS and the NSCS have reviewed the NIST policy framework authentication and application settings.*
- *The University has implemented some changes to align with the NIST policy framework.*
- *The NSCS has implemented an annual review of the NSCS Information Security Standards and NIST policy framework to identify needed policy updates.*

Comment No. 2023-003: 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. In general, however, 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
Chadron State College (CSC)	6
Peru State College (PSC)	7
Wayne State College (WSC)	8
NSCS System Office	4
UNOP (University)	1

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

A secondary role allowed 25 of those 26 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
CSC	6
PSC	6
WSC	8
NSCS System Office	4
UNOP (University)	1

(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, documented, secondary review and 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 determines if current access is necessary based on how the roles are defined within SAP. The NSCS recognizes the increased risk and has implemented compensating controls to mitigate them, as noted above by the auditors.

<u>Comment No. 2023-004: Accounts Payable (A/P) Transactions</u>

During our audit of the A/P security roles in SAP, the NSCS's accounting system, we noted that eight 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, three of the eight users had the ability to create a purchase order, prepare the invoice related thereto, and post the transaction in both SAP and E1. Finally, seven of the eight users could set up a vendor in SAP.

The eight 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)	3
Wayne State College (WSC)	1
NSCS System Office	2

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

Location	# of Users
CSC	0
PSC	0
WSC	1
NSCS System Office	2

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

Location	# of Users
CSC	2
PSC	2
WSC	1
NSCS System Office	2

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 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.

A lack of segregation of duties in the A/P process allows a single individual to make purchases and pay vendors without a secondary review or approval. Additionally, some of those users had the ability to create new vendor records in SAP. This risk allows for the possible theft and misuse of State 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. We also recommend reviewing users with the ability to create vendors in SAP to ensure a proper segregation of duties exists.

NSCS's Response: The Colleges review the SAP and EnterpriseOne users' access for all accounting staff annually and makes changes as necessary to ensure adequate daily operations while still striving to meet 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 while considering the NSCS's small operating staff.

Comment No. 2023-005: Disaster Recovery Planning

The University maintains multiple disaster recovery and business continuity plans for the services it manages. These plans include significant IT infrastructure utilized by the NSCS but maintained and operated by the University. Due to this arrangement, the NSCS cannot unilaterally implement a change to address this item.

As part of our testing, we performed procedures to determine whether the University's disaster recovery plans had processes in place to meet specific management objectives identified in the COBIT 2019 Framework: Governance and Management Objectives. We noted the University had not completed certain activities associated with the Managed Continuity objective.

Additional detail was provided to the NSCS.

> We recommend the NSCS work with the University to ensure disaster recovery processes meet the Managed Continuity objective in the COBIT 2019 Framework: Governance and Management Objectives.

NSCS's Response: The NSCS will continue to work with the University to ensure the disaster recovery process meets the framework noted. The University has implemented the following procedures to address the issue noted:

- *The University ITS does schedule disaster recovery activities each month.*

- *The University ITS is reviewing disaster recovery plans submitted by application teams and is formally being reviewed by disaster recovery personnel this winter.*

- *University disaster recovery personnel have created a disaster recovery tracking register that is being used to plan and document relevant disaster recovery milestones including scheduled and completed review and testing dates and activities.*

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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

Zachary Wells, CPA, CISA
Assistant Deputy Auditor