MANAGEMENT LETTER
OF THE
NEBRASKA STATE COLLEGE SYSTEM

For the Year Ended June 30, 2024

Issued on December 6, 2024

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 2, 2024

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, 2024, and have issued our report thereon dated December 2, 2024.

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 2, 2024.

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, 2024, 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 2, 2024. 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 of 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 statement. 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.

Comment No. 2024-001: 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 the Peru State College (PSC) net position calculation, errors were identified in the calculation of Invested in Capital Assets, Restricted for Debt Service, and Restricted for Other net position. This also caused a variance in the Unrestricted net position. In total, Invested in Capital Assets net position was overstated by $620,000, Restricted for Debt Service net position was understated by $171,280, Restricted for Other net position was understated by $342,732, and Unrestricted net position was understated by $105,988.

- While testing adjusting entries for the fiscal year 2024 financial statements, an entry to reclassify $221,102 of revenue from Private Grants and Contracts to Capital Appropriations and Grants for Chadron State College (CSC) was determined to be reclassifying revenue recorded on the fiscal year 2023 financial statements. When reviewing the activity, it was determined the receipt was restricted for use on a specific project, and the amount that had not been expended as of June 30, 2023, should be recorded as Unearned Revenue. An adjustment was proposed to restate the fiscal year 2023 financial statements to reclassify $426,920 of Private Grants & Contracts revenue to Unearned Revenue. For fiscal year 2024, $96,666 of the Unearned Revenue balance was recorded to Private Grants and Contracts revenue, and $221,102 was recorded to Capital Appropriations and Grants.

- An error in the allocation of the CSC scholarship allowance caused Tuition and Fee revenue to be understated by $283,362 and Auxiliary Enterprises revenue to be overstated by $283,362.

- During testing of LB 309 expenditures, it was identified that PSC did not record $165,793 of expenditures for fiscal year 2024. As a result, Supplies, Services, and Other expense and State Grants and Contracts revenue were both understated by $165,793. Additionally, the classification of the revenue recorded for LB 309 projects included $31,390 recorded to Capital Appropriations and Grants revenue that should be to State Grants and Contracts operating revenue.

A proper system of internal control 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 their 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 and agrees that accuracy of the financial statements is important. The NSCS remains committed to finding ways to continue to improve existing procedures for the financial statement preparation and review process prior to submission to reduce financial statement errors. The NSCS plans to create strategies to specifically address the errors and omissions made this past year.

Comment No. 2024-002: 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 28 users with the ability to prepare and post GL entries in SAP without a secondary, system-required review or approval. The 28 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)	9
NSCS System Office	4
UNOP (University)	2

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

A secondary role allowed 27 of those 28 users to prepare and post additional GL document types. The 27 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	9
NSCS System Office	4
UNOP (University)	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 proper system of internal control requires a segregation of duties to ensure that no one individual can process a transaction from beginning to end. Additionally, a proper system of internal control 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 for 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. The NSCS will work with the University to see if there are workflows that can also be put in place.

Comment No. 2024-003: Accounts Payable (A/P) Transactions

During our audit of the A/P security roles in SAP, the NSCS's accounting system, we noted that nine 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 nine 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 nine users could set up a vendor in SAP.

The nine 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)	4
Wayne State College (WSC)	1
NSCS System Office	2

Three of the nine 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 nine 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 proper system of internal control requires a proper segregation of duties to ensure that no one individual can process a transaction from beginning to end. Additionally, a proper system of internal control 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 while considering the NSCS's small operating staff.

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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.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the NSCS's internal control over financial reporting or compliance. This letter is an integral part of an audit performed in accordance with Government Auditing Standards in considering the NSCS's internal control over financial reporting and compliance. Accordingly, this letter is not suitable for any other purposes.

Sincerely,

Zachary Wells

Zachary Wells, CPA, CISA
Assistant Deputy Auditor