The University of Nebraska

Management Letter

For the Year Ended June 30, 2025

Issued on February 6, 2026

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 11, 2025

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, 2025, and have issued our report thereon dated December 11, 2025.

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 11, 2025.

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, fiduciary activities, and the discretely presented component unit of the University as of and for the year ended June 30, 2025, 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 11, 2025. 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, and the University of Nebraska Medical Center (UNMC) Science Research Fund, blended component units of the University (collectively identified as the Blended Component Units), as described in our report on the University's financial statements. The financial statements of the Foundation and the Blended Component Units were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include the results of the other auditors' 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 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.

Report on Compliance and Other Matters

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

University's Response to Findings

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

During our audit of the financial statements of the University of Nebraska (University), we noted errors that resulted in significant misstatements. The University adjusted its financial statements to correct the identified misstatements.

The following are the significant misstatements the University corrected:

- **UNOP Notes Payable:** Under the University's Internal Loan Program, University campuses and the University of Nebraska Office of the President (UNOP) can take out internal loans (reported as notes payable) from the University of Nebraska Facilities Corporation (UNFC). As UNFC is a blended component unit of the University, any net position associated with the internal loans should not be reported on the University's Statement of Net Position (SNP). UNOP is responsible for recording an entry to ensure net position associated with the internal loans is properly eliminated. However, when it posted the entry, UNOP did not eliminate a portion of the net position from the proper net position categories. This resulted in the following misstatements of net position amounts on the University's fiscal year 2025 SNP:

Net Position Category	Over (Under) Stated Amount
Unrestricted	$ 87,142,000
Plant Construction	$ (86,798,000)
Externally Restricted Funds	$ (344,000)

- **UNMC Capital Assets:** UNMC did not properly account for construction work in progress (CWIP). During testing, we noted that UNMC did not report miscellaneous projects with budgeted expenses between $500,000 and $5,000,000 as CWIP. Additionally, UNMC did not have adequate support for various amounts it reported as CWIP. These errors resulted in various financial statement errors, including a $21,715,566 understatement of fiscal year 2025 capital assets and a $26,846,845 understatement of fiscal year 2024 capital assets.

- **UNMC Statement of Cash Flows (SCF):** During our review of the SCF that UNMC prepared, we noted the following errors:

  - UNMC reported fiscal year 2024 non-cash transactions for one of its blended component units as fiscal year 2025 amounts. This resulted in the following misstatements of fiscal year 2025 non-cash transaction amounts:

Non-Cash Transaction Line	Over (Under) Stated Amount
Fair Value of Investment Transactions	$ 8,406,166
Unrelated Business Income Tax Transactions	$ (261,500)
Equity in Earnings Transactions	$ (60,862)

  - UNMC did not properly report fiscal year 2024 non-cash transactions for acquisitions of right-to-use (RTU) assets through subscription-based information technology arrangements (SBITAs). The amount the campus reported was understated by $1,729,043.

- **UNOP Trusteed Insurance Refunds:** UNOP misclassified $4,343,221 in refunds received under the University's trusteed insurance programs as reductions in claims paid expenses instead of as other income. This resulted in the following misstatements on the University's business-type activity statements:

- A $3,398,814 understatement of compensation and benefits expenses and an understatement of other operating revenues for the same amount on the Statement of Revenues, Expenditures, and Changes in Net Position (SRECNP).

- A $3,398,814 understatement of cash inflows for other receipts and an understatement of cash outflows for payments to employees for the same amount on the SCF.

This error also resulted in a $944,407 understatement of other additions and an understatement of claims paid deductions for the same amount on the University's Statement of Changes in Fiduciary Net Position (SCFNP).

- **UNOP Trusteed Insurance Net Position:** UNOP did not properly account for the impact of prior-year restatements when it calculated the University's fiscal year 2024 net position for the University's trusteed insurance programs. This resulted in a $4,101,001 overstatement of fiscal year 2024 restricted net position on the University's SNP and an offsetting understatement of unrestricted net position.

- **UNOP SCF:** During our review of the University-wide and stand-alone SCF UNOP prepared, we noted the following errors:

    - UNOP did not properly report fiscal year 2024 non-cash transactions for one of the University's blended component units on the University-wide SCF. This resulted in a $2,339,000 understatement of fiscal year 2024 debt forgiveness non-cash transactions.

    - UNOP did not properly quantify fiscal year 2025 cash flows associated with changes in accounts payable on its stand-alone SCF. This resulted in a $2,168,892 overstatement of cash outflows for payments to vendors and an understatement of cash outflows for payments to employees for the same amount.

- **UNMC Deferred Revenue:** The amount UNMC reported as fiscal year 2025 deferred revenue was overstated by $2,060,977, and fiscal year 2025 revenues were understated by the same amount because UNMC erroneously deferred revenue that was earned and, thus, should have been recognized during fiscal year 2025.

- **UNMC Accounts Receivable:** UNMC failed to record a $1,651,798 account receivable (and offsetting revenue) due from the City of Omaha as of fiscal year end.

- **UNO Accounts Receivable:** As noted in **Comment and Recommendation Number 6** ("Allowances for Doubtful Accounts and Write-Offs") below, UNO did not properly write off student accounts receivable or record an allowance for doubtful student accounts receivable in accordance with University policy. As a result, the campus overstated its fiscal year 2025 accounts receivable by $1,641,501 and overstated its fiscal year 2024 accounts receivable by $1,609,902. Additionally, it improperly recorded a fiscal year 2025 entry adjusting its allowance for doubtful accounts by debiting tuition and fees revenue instead of debiting allowance for doubtful accounts or bad debt expense, as required by University policy. This resulted in the campus understating tuition and fees revenue by $1,286,256 and understating supplies and services expenses by the same amount.

- **UNMC Fiduciary Statement Errors:** UNMC's ending net position on its Statement of Fiduciary Net Position (SFNP) and SCFNP did not agree. To correct the error, UNMC reduced the amount it reported as deposits held for others on its SFNP by $163,500.

- **UNL Fiduciary Statement Errors:** During our review of UNL's fiduciary statements, we noted the following errors:

- UNL improperly recorded $164,025 in disbursements as negative revenues, rather than expenses, resulting in both collected on behalf of student activities (additions) and remitted on behalf of student activities (deductions) being understated by $164,025.

- UNL did not properly account for student fees remitted to student organizations. This error resulted in the campus understating cash and cash equivalents by $275,039, overstating remitted on behalf of student activities (deductions) by $147,855, and understating beginning net position by $127,184.

In addition to the above audit differences, we also noted the following during our audit of the University's financial statements:

- **Investment Purchases and Sales:** The University did not have an adequate process in place to determine cash inflows from investment sales and cash outflows for investment purchases, as reported on the SCF, for investments managed at the University of Nebraska Foundation and for trusteed insurance program investments.

  The Foundation provided UNOP a spreadsheet summarizing the amount of University investment sales and purchases it made during fiscal year 2025. Per the Foundation's spreadsheet, the Foundation made $40,866,773 in University investment purchases during the year. However, the University reported $42,208,987 in purchases on its SCF, a difference of $1,342,214. Per the Foundation's spreadsheet, the Foundation had $73,879,516 in University investment sales during the year. However, the University reported only $23,209,067 in sales on its SCF, a difference of $50,670,449.

  On its SCF, UNOP reported $4,471,347 in fiscal year 2025 cash inflows from investment sales for the University's trusteed insurance programs. However, the bank statement for these programs reflected $7,754,674 in cash inflows from investment sales during the year. Thus, UNOP reported $3,283,327 less in inflows than were reflected on the statement.

  The University determined that if it used purchases and sales amounts per the above noted support, its financial statements would not properly balance. While the University used the investment purchase and sales amounts per the support as a starting point, it adjusted these amounts to ensure its financial statements were in balance. However, the University could not explain what caused the above-noted variances.

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 misstatements. Without such procedures, there is an increased risk that 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 the cost/benefit return of increasing resources to implement additional review processes.

2. Disclosure Errors

During our audit of financial statement disclosures provided by the University, we noted various significant errors. We proposed the University adjust its footnotes to correct the identified errors. The University did revise its footnotes to correct the identified errors.

The following are the significant disclosure errors the University corrected:

- **Commitment and Contingencies Disclosures:** The University did not properly quantify the amount of budgeted and remaining costs for UNMC and UNO constructions projects in its Commitments and Contingencies footnote. This resulted in the University overstating the amount it disclosed as budgeted (estimated costs) for construction of facilities by $84,759,000 and overstating the remaining costs to complete these projects by $65,554,000 as of June 30, 2025. The University additionally understated the amount it disclosed as budgeted for construction of facilities by $9,105,000 and the remaining costs by $7,404,000 as of June 30, 2024.

- **Restatement Disclosures:** The University did not properly quantify the effect restatements had on its Statement of Net Position as of June 30, 2024. While it properly disclosed the total amount it restated in its fiscal year 2024 net position, it did not properly disclose the restatement by net position category. Specifically, the University understated its invested-in-capital assets, net of related debt, net position restatement by $26,770,000; overstated its unrestricted net position restatement by $1,357,000; and overstated its expendable externally restricted funds net position restatement by $8,979,000.

A good internal control plan and sound accounting practices require financial information to be complete and accurate. This includes procedures to ensure financial statement disclosures are correct, and adjustments are made to rectify all known significant disclosure errors. Without such procedures, there is an increased risk that material misstatements may occur and remain undetected.

A similar finding was noted in the prior year.

> 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, and accompanying footnotes, accurately and in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). We will continue to explore the cost/benefit return of increasing resources to implement additional review processes.

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

The workflow in SAP, the University's 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 could complete 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 EnterpriseOne or E1, the State's accounting system) 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 559 users who could prepare and post GL entries in SAP without a system-required secondary review or approval. The 559 users are noted by location below, along with the GL document types they could prepare and post:

Campus	# of Users
UNK	6
UNL	263
UNMC	235
UNO	35
UNOP	20

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

A secondary role allowed 100 of those users to prepare and post additional GL document types. The 100 users are noted by location below, along with the GL document types they could prepare and post.

Campus	# of Users
UNK	6
UNL	36
UNMC	28
UNO	18
UNOP	12

(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. As of fiscal year end, the University is in the process of implementing a tool that can be used to identify potential segregation of duties conflicts within SAP security roles at the time of role assignment. The University is also in the process of developing a workflow in SAP that will require separate individuals to prepare and post journal entries.

> 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 recommend that the University continue to work on a system-based SAP solution as well.

Management Response: While the University believes its current review process of general ledger transactions does mitigate risk, we agree that having a workflow approval within SAP for general ledger entries is a sound business practice. We will evaluate the ability to implement a system workflow.

4. <u>Contract Issues</u>

During our review of the University's contractual service expenses, we noted the following issues:

<u>Contracts Not on the State Contracts Database</u>

During testing of 25 expenditures governed by contracts, three contracts and/or amendments were not included on the State Contracts Database, as required by State statute.

Neb. Rev. Stat. § 84-602.04(4)(a)(i) (Reissue 2024) requires the Department of Administrative Services' web site to contain the following:

> *(i) A database 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 database 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.

<u>*Contracts Not Approved by or Reported to the Board of Regents*</u>

During testing of expenditures governed by contracts, we noted one contract was not approved by the Board of Regents, and another contract was not reported to the Board of Regents, as required by Board of Regents Policies. UNL failed to obtain approval from the Board for a construction contract that totaled $11,469,301 after the campus amended the contract on June 14, 2023. UNK neglected to report a $1,750,000 construction contract signed on May 1, 2024, to the Board.

Board of Regents Policy 6.3.1 Section 4, (December 4, 2018) states, in relevant part, the following:

> *Pursuant to Section 6.4 of the Bylaws, the President shall have authority to approve and to execute:*
>
> > * * * *
> >
> > ***d.*** *Any contract for the procurement of construction services for a building, structure or other improvement to real property which does not exceed $5,000,000 in the aggregate. All such executed contracts in excess of $1,000,000 shall be reported to the Board of Regents at its next regular meeting.*

<u>*Legal Services Contract*</u>

The University paid a law firm a total of $757,464 during fiscal year 2025 for outside legal services. The University did not have a contract/engagement letter with the law firm on file for the services rendered. Additionally, previous contracts/engagement letters entered into with the law firm for a narrow scope of services were not entered into the State Contracts Database, as required by statute.

Section 2d of the University of Nebraska's Executive Memorandum No. 10 ("Policies and Procedures Concerning the General Counsel for the University, and Employment of Outside Attorneys") (June 2002) states, "Legal services to be rendered by any outside attorney shall be limited to the scope of services approved by the General Counsel, and such scope of services shall not be expanded without prior approval of the General Counsel."

Good business practices require that contracts/engagement letters be entered into prior to any payment for services rendered and those contracts/engagement letters be adequately maintained for subsequent review.

We recommend the University strengthen procedures to ensure the following:

- All applicable contracts are included on the State Contracts Database in a timely manner to comply with State statute.
- Contracts are approved by or reported to the Board of Regents in compliance with Board of Regents Policies.
- Contracts or engagement letters are executed and maintained on file for all legal services provided by outside legal counsel.

Management Response: The University continues to strive for full compliance and will continue to strengthen procedures in this area.

5. User Terminations

During our testing, we noted the following related to access of terminated users to information systems:

- For 3 of 25 terminated Nebraska Student Information System (NeSIS) users tested, access was not removed within three business days of the employees' last working dates. The time it took to remove access ranged from 4 to 209 business days. The three users included two at UNL and one at UNO. Two of the users (one at UNL and one at UNO) retained access because their termination was not reported timely. The other UNL user retained access while in an honorary (rather than functional) emeritus faculty role.

- For 3 of 25 terminated SAP users tested, access was not removed within three business days of the employes' last working dates. The time it took to remove access ranged from 19 to 63 business days. The three users were at UNL. Two of the users retained access because their termination was not reported timely. The other user retained access while on leave after her retirement date.

Access was not removed timely for these users for one or more of the following reasons:

1) The employee's termination was not reported timely via the human resource systems in accordance with the University's own Information Technology Standards.

2) Access was not disabled expeditiously, in accordance with the University's own Information Technology Standards, after the termination was reported.

3) Employees retained information system access after their last working dates while on leave or while in an emeritus faculty role. The University considers such employees to still be active University employees and stated such employees may **potentially** be utilized after their retirement date. However, the employees tested did not have any defined job functions or responsibilities after their retirement dates while taking leave or serving in an honorary emeritus faulty role and, thus, no longer had compelling business reasons to retain information system access.

Section 5 of the University of Nebraska's Executive Memorandum No. 16 ("Policy for Responsible Use of University Computers and Information Systems") (Revised May 11, 2022) states the following:

> *Unauthorized access to Information Systems is prohibited. . . . As individuals' relationships with the University change or terminate, their authorized access to systems, services, and data shall be adjusted in accordance with Board of Regents or other University polices.*

The "Information Systems" section of the University of Nebraska's Executive Memorandum No. 26 ("University of Nebraska Information Security Plan") (September 9, 2014) 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.

Section 4.1 of the University's ITS-02: Access, Identification and Authentication Standard (Revised March 12, 2024) states, in relevant part, "Access to University technology assets will only be provided to users based on business requirements, job function, responsibilities, or need-to-know."

Section 4.2.3 of this same standard states, in relevant part, the following:

> *In the event a user is terminated, the termination must be reported via the human resources management system within twenty-four (24) hours of the user's termination, and the user's access must be effectively disabled within the following twenty-four (24) hours. In the event of emergency termination, the user access must be disabled immediately.*

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

A similar finding was noted in our prior audits.

> We recommend the University strengthen procedures to ensure the appropriate staff is notified timely of all terminations of SAP and NeSIS users, thereby facilitating removal of access to those systems within three business days. The notification and removal processes should be properly documented.

Management Response: Management agrees with the recommendation and will strengthen procedures to ensure timely notification of SAP and NeSIS user terminations. Documentation of the notification and access removal process will be formalized to support removal of system access within three business days.

6. Allowances for Doubtful Accounts and Write-Offs

During our audit of the University's accounts receivable, we noted that the University was noncompliant with State statute and University policy requirements related to allowances for doubtful accounts and write-offs.

We noted the following issues:

- **Write-Offs Not Reported to State Claims Board:** University campuses were not presenting their write-offs to the State Claims Board, in violation of State statute. We verified with each campus individually that write-offs were not presented to the State Claims Board and used documentation provided during testing to discern the following write-offs that went unpresented:

Campus	Amount	
UNK	$	504,579
UNL	$	1,610,337
UNO	$	16,782,814
Total	**$**	**18,897,730**

- **Noncompliance with University Policy:** During testing we noted that UNO and UNMC procedures related to write-offs and calculation of doubtful student accounts were noncompliant with University policy. Specifically, we noted the following, by campus:
  - **UNO:** As of June 30, 2025, UNO maintained a balance of $16,782,396 in student accounts receivable more than a year old that had not been written off, in violation of University policy. Additionally, UNO's calculation of doubtful student accounts was made using a 13-year average of collectability instead of a 3-year average, in violation of University policy. Following our inquiry, UNO wrote off the student accounts receivable more than a year old, corrected its calculation of doubtful student accounts, and revised and restated its financial statements accordingly. As part of these revisions, one of UNO's correcting entries further violated University policy – see **Comment and Recommendation Number 1** ("Financial Statement Errors") for more information regarding the financial statement revisions and restatements made by UNO.
  - **UNMC:** We observed that UNMC does not write off student accounts and, as a result, does not calculate an allowance of doubtful student accounts, both in violation of University procedures.

Neb. Rev. Stat. § 81-8,297 (Reissue 2024) states the following, in relevant part:

> *The State Claims Board shall have the power and authority to receive, investigate, and otherwise carry out its duties with regard to . . . (5) all requests on behalf of any department, board or commission of the state for waiver or cancellation of money or charges when necessary for fiscal or accounting procedures. . . . All such claims or requests and supporting documents shall be filed with the Risk Manager and shall be designated by number, name of claimant as requester, and short title.*

Additionally, the University's Accounts Receivable Procedures (May 2009) note the following, in relevant part:

> *An allowance for doubtful student accounts will be determined for two receivable groups, those being non-summer session receivables and current year summer session receivables. An average of the percent not collected for each group the past three years will be applied to the current year end receivable for each group to determine the combined allowance for uncollectible accounts. A journal entry will be posted to adjust the current general ledger allowance for doubtful student accounts to this amount. . . .*
>
> *As a guide, student accounts should be written off if more than a year old and the student is no longer enrolled at the University. . . . A schedule of student accounts determined to be uncollectible and recommended for write-off will be prepared and signed by the director of student accounts. . . .*

Furthermore, a good internal control plan and sound accounting practices require policies and procedures to ensure compliance with State statute and University policy. Without such policies and procedures, there is an increased risk that material noncompliance and misstatements may occur and remain undetected.

> We recommend the University strengthen policies and procedures to ensure compliance with State statute and University policy for financial statement preparation.

Management Response: Management acknowledges the recommendation and will evaluate current policies and practices to identify opportunities to further strengthen them.

7. <u>Accounts Payable (A/P) Transactions</u>

During our audit of the A/P security roles in SAP, we noted that nine users had the ability to prepare an invoice, post it in SAP, and also approve and post it in E1. Additionally, one of the nine users could set up a purchase order in SAP. Finally, two of the nine users could set up a vendor in SAP.

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. Such a 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, one of those users had the ability to create new vendor records in SAP. This risk allows for the possible theft or misuse of State funds.

A similar finding was noted in our prior audits. As of fiscal year end, the University is in the process of implementing a tool that can be used to identify potential segregation of duties conflicts within SAP security roles at the time of role assignment. The University is also in the process of developing a workflow in SAP that will require separate individuals to prepare and post A/P transaction types.

> We recommend the University 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.

Management Response: The University is in process of implementing a tool which will identify potential segregation of duties conflicts within all security roles in SAP at the point of role assignment. Existing role assignments will also be evaluated, and any current conflicts addressed during implementation.

8. <u>SAP Ariba</u>

The University implemented a new electronic procurement system, SAP Ariba, during fiscal year 2024. During our review of user access to this system, we noted 10 users had access to approve their own invoices in SAP Ariba and approve and post them in E1 without a secondary person involved in the process.

Cost objects are used to assign approvers in SAP Ariba with a set or range of cost objects to approve. The University currently does not have a system-based control to prevent users from approving requisitions and invoices for cost objects they are authorized to approve. Thus, approvers could approve their own invoices and requisitions in SAP Ariba without a secondary person involved in the process. SAP Ariba transactions are entered into E1 through an interface process. The users noted above had the ability to approve and post transactions that flowed through the interface process in E1.

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. This risk allows for the possible theft or misuse of State funds.

A similar finding was noted in our prior audit.

> We recommend the University review the security design of the SAP Ariba A/P roles and implement controls that require separate individuals to prepare and approve SAP Ariba transactions. We also recommend reviewing users with the ability to approve vendors in SAP Ariba to ensure a proper segregation of duties exists.

Management Response: Management accepts the recommendation and has implemented automated reporting and follow-up to identify users with incompatible SAP Ariba A/P roles or vendor approval access. Management will review the reports on a periodic basis and take corrective action, as necessary, to ensure appropriate segregation of duties is maintained between transaction preparation, approval, and vendor setup functions.

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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 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.

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

Sincerely,

Mark Avery

Mark Avery, CPA
Assistant Deputy Auditor