University of Nebraska
Internal Control Plan

Introduction

Background. The University of Nebraska has adopted this internal control plan to safeguard the assets of the University of Nebraska. The University's assets include cash, supplies and materials, inventories, capital assets, and enterprise resource planning systems and related electronic databases. Capital assets are comprised of tangible items such as moveable equipment, infrastructure, buildings, and facilities and intangible assets including patents, royalties, copyrights, and discoveries.

Other assets include a dedicated and talented faculty to carry out the instruction, research, and extension programs. Administrative and support staff manage the financial and logistical services necessary to maintain a motivated and trained workforce and to manage finances and the physical facilities. Viable on-going concern departmental entities (master trust indenture members) that generate net revenues for debt service on outstanding revenue facility bonds.

The University's reputation is dependent on its integrity and the image projected by its employees. A viable internal control plan can contribute toward the protection of its reputation and assets.

What are internal controls? Internal controls are an integrated system to assess risks, determine how to mitigate those risks, and protect resources. An internal control plan is a system of checks and balances and includes established ways to prevent and detect intentional and unintentional errors. Controls can be designed to be preventive or detective. Everyone at the University is responsible to conduct University business responsibly according to the provisions of its internal controls.

An internal control system, no matter how well conceived and operated, can provide only reasonable--not absolute--assurance to management and the board regarding achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the system. Another limiting factor is that the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

An internal control plan can be viewed as an effort to ensure employees, including management, conduct business in an effective and efficient manner to safeguard the University's assets and interests, to avoid waste, abuse, and fraud, to maintain an on-going and viable entity, to maintain records and a general ledger that support accurate financial reporting, and to prevent illegal activity.

The five elements of an internal control plan include the (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring the effectiveness of the plan. Each of these elements is discussed in the following pages.

Why have internal controls? Internal controls are a factor in assuring the continuation of the University as an on-going concern. By following an internal control plan, the University community can prevent waste, abuse, and fraud and ensure resources are available to carry out the University's mission. Internal controls contribute to good business practices that protect economic resources and enhance the University's reputation and good will.

Financial reporting. An internal control plan includes transaction controls to ensure personnel and financial activity is properly recorded in the general ledger. An accurate general ledger supports the preparation of the University's financial statements. Complete and accurate financial statements prepared in accordance with U.S. generally accepted accounting principles convey the University's financial health to federal awarding agencies, revenue bondholders, and the general public. Procedures and responsibilities are established and maintained to facilitate a timely review of external financial statements prior to audit. Any required adjustments are made promptly to ensure the auditor can issue an unmodified opinion on the statements.

Compliance. The University receives awards which support its research program. Awards have requirements which must be met to fulfill the terms of the awarding agencies and individual award documents. An internal control plan includes practices and procedures to ensure the University meets the conditions stipulated by the awarding agencies.

Control Environment

Management's perspective. The University of Nebraska is governed by a Board of Regents whose members are elected by Nebraska voters. The Board appoints a chief executive officer – the president of the University of Nebraska – who is the single administrative officer responsible to the Board. The president's office provides overall leadership to the University in academic affairs, budget development, business and finance, audit and advisory services, physical planning, policy development, external affairs, diversity and equity, and legal affairs.

The President and the Board of Regents have set forth a strategic framework and priorities which guide the University in serving its constituency through quality teaching, research, and outreach and engagement. Among those priorities are:

- Enrollment - Growing enrollment through a number of initiatives including the college-going rate;
- Tuition - Keeping tuition increases as low as possible and thereby keep the cost of education more affordable;

- Graduation - Increasing the graduation rate;
- Research – Bolstering current endeavors and fostering new activities that will allow the University to earn greater success in attracting research funding;
- Administrative costs – Focusing on minimizing administrative costs in both the academic and business enterprises; and
- Faculty salaries – Continuing to pursue and identify resources that can be earmarked to enhance faculty salaries to facilitate even greater successes in recruitment and retention.

The University's administration, comprised of its President, the chancellors of the four campuses, and the Board of Regents, supports good business and ethical practices as evidenced by the University's strategic framework and priorities. The Board of Regents bylaws, policies, and standing rules are the underlying documents which set the tone at the top of the University's internal control framework. These documents may be viewed at the University of Nebraska website at: http://www.nebraska.edu/board/bylaws-policies-and-rules.html.

Council of Business Officers. The Council of Business Officers, comprised of the four vice chancellors for business and finance of the campuses and the vice president for business and finance, is charged with the responsibility to ensure internal controls are identified and documented for the business services and finance activities at the University of Nebraska. This responsibility includes supporting the effort to establish appropriate internal control policies, monitoring the effectiveness of internal control policies, and promoting high ethical and integrity standards as provided for in the University's Bylaws "Code of Ethics" section 1.10.1 *General Guidelines for the Board and its Employees*. The Council of Business Officers is actively involved in promoting a culture within the University's staff which emphasizes and demonstrates to all levels the importance of establishing and following acceptable business practices.

Organizational structure. The University of Nebraska's organization chart depicts how the University is organized and the various offices that are responsible for the management of the University. The campus administrations monitor continuity of operations plans that identify key personnel responsible for the viability and on-going operations of the University to ensure its business continuity. The information technology backup and continuity plan depicts actions to be taken if a catastrophic loss of administrative systems were to occur.

- Organizational Chart (http://nebraska.edu/docs/finance/CAFR2014.pdf. (Page 10)
- Continuity of Operations Plan (to be referenced to a Risk Manager's task force web site under construction.)
- IT Backup and Continuity Plan (Accessible at a CSN email or web site..)

Human resources. The University of Nebraska is an Equal Opportunity Employer that promotes diversity and inclusion by providing equal opportunities for employment. Employees are hired from selected candidates having a wide range of backgrounds and experiences as evidenced by the following actions:

- Publicly posts jobs and adopts hiring policies and procedures to ensure fairness and equality in the employment process;
- Makes employees and potential applicants aware of job openings and requirements for each position;
- Adopted a prescribed hiring process so that interested applicants have the same opportunity; and
- Identifies essential duties for all jobs and provides for handicapped accommodation as necessary.

New employees are encouraged to interactively participate in new employee orientation programs. Employees are exposed to the University community and environment. Training is available for the use of administrative systems, such as SAP, if the employee is required to use them in performing their job duties. Employees may join or attend campus or university-wide system user groups including Business Community User Group (BUCG), the Finance Team, and similar groups. All of these groups promote interactive discussions about administrative processes and conducting university business.

Employees participate in annual performance reviews, affording opportunities for informative and interactive discussion between employees and supervisors.

SAP training. Training programs include these and other sessions:

- SAP overview
- Navigating SAP and SAPPHIRE and buying and receiving goods and services. (SAPPHIRE is a website available through the SAP administrative system which includes policies and guides of how to process transactions)
- Parked documents and procurement card reconciliation
- Reporting, gl-account posting, and expense reconciliation
- SAP inquiry, hands-on session designed for someone who receives monthly print outs or runs and prepares reports from the system
- Human resource training
- SAP training classes offered at each campus

Risk Assessment

Evaluation process. Risk assessment is a process that identifies the possibilities that certain events or circumstances may occur and the probabilities of their occurrence, thereby preventing the University from achieving its mission and objectives. Consideration is given to cost effective measures which can be taken to mitigate identified risks and to permit the University to fulfill its fiscal and financial responsibilities, objectives and goals. The campuses are required to conduct an annual risk assessment.

Identify risks. Identify possible adverse events or circumstances which may happen for each area - processes, transactions, functions and systems.

Risk evaluation. Evaluate the severity of each risk, the likelihood it may occur, and how material or great the error or possible loss may be.

Mitigation costs. Weigh the cost of a risk event with the expense of implementing mitigating controls. An organization cannot guarantee a risk will never occur but must adopt practical controls to reduce the risk of a negative event from occurring to a reasonable and acceptable level.

Business process risks. The following business processes are identified as having potential risks to the University's financial and fiscal objectives and goals.

- Cash and cash handling, cash held by banks in deposits, as trustees, and the state treasurer
- Investments and their maturities, interest rates, credit ratings, concentration, custodial, and foreign currency risks
- Inventories and other assets
- Outstanding debt and lease obligations
- Fixed assets
- Net assets (includes state aided and non-state aided revolving balances, and restricted operating and plant fund projects.)
- Revenues
- Operating expenses
- Human resources, payroll and benefits liability
- Purchasing card transactions
- Business continuity and interruption

<u>Control Activities</u>

Control activities are policies, practices, and procedures established by the University to mitigate identified risks to fiscal operations and to financial and reporting activities. Control activities exiting for basic financial, Federal, and bond indebtedness activities are as follows:

- Cash and cash equivalents
- Investments
- Inventory and other assets
- Debt and leases
- Fixed Assets
- Net assets
- Revenues
- Operating expenses (includes indirect costs, P-Card purchases, and Federal grant fiscal management compliance)
- Payroll and benefits liability

- Human Resources appointments and expense distribution, personnel action forms (PAF) approval process including e-PAF's.
- Debt service and bond covenant compliance
- Business service centers
- Davis-Bacon Act
- Matching requirements
- Suspension and debarment
- Project reporting
- Sub-recipient monitoring
- Effort Certification and monitoring of payroll on Federal awards
- Monitoring activities by the Board of Regents and Audit Committee of the Board.

Information and Communication

Policies. The Board of Regents bylaws, policies, and standing rules are available on the UNCA website at http://www.nebraska.edu/board/bylaws-policies-and-rules.html. Those documents are included by reference in the University's internal control plan.

- Board of Regents Bylaws
- Board of Regents Policies
- Board of Regents Standing Rules

Operating, accounting, and fiscal policies are filed at http://nebraska.edu/bylaws-and-policies/accounting-and-finance-policies.html.

- Capitalization Policy
- Debarment Policy
- Accounts Payable Policy, including the daily payment process and accrual review at year-end
- Additional policies to be added.

Organizational philosophy. The University's management promotes a work place environment which freely accepts communication up and down the organizational chart. It is essential employees have freedom to communicate ideas, suggestions, and possible wrongdoing within the organization, with the intent being to make the organization stronger by strengthening its internal controls. The Council of Business Officers support communication of possible fraud and wrongdoing to an official whistleblower hotline, or to their respective campus offices.

Whistleblower. Official whistleblower channels are currently available to report serious waste, fraud, and abuse in instances when the person may fear retribution. Those channels are as follows:

- Members of the Board of Regents
- State Ombudsman
- Any elected official

Internal audit. Audit and Advisory Services is available to assist with monitoring control activities and to serve as a communication channel to the Audit Committee of the Board of Regents.

Monitoring

Management. Management is responsible for:

- Monitoring the overall effectiveness of the University's controls on an on-going basis;
- Monitoring key risks;
- Evaluating each key risk and mitigating controls separately;
- Implementing compliance and practice standards;
- Conducting appropriate training and education;
- Developing open lines of communication;
- Conducting effective and comprehensive internal audits of internal controls;
- Reporting internal control deficiencies in a timely manner to an appropriate management level – take appropriate action promptly;
- Reporting deficiencies to the audit committee of the Board of Regents if appropriate;
- Verifying Internal Audit and Advisory Services submits required reports to the Audit Committee of the Board of Regents and the President.

Fiscal office. The campus fiscal offices are responsible for the review of transaction flows for possible gaps in internal controls. The following and other pertinent questions should be asked:

- Are there ways users can circumvent the system and thereby pay someone who should not be paid?
- Can a user pay someone as a vendor when the payment should be made via the payroll system and taxes withheld?
- Are cash revenues properly receipted and recorded?
- Are cash balances reconciled to the State Treasurer, trust accounts, and other cash accounts held by banks?
- Are year end accruals for accounts receivables, accounts payable, deferred revenue and deferred charges properly recorded?
- Are expenses, including payroll recorded properly?
- Are reviews and crosschecking of transactions made to identify variances in data integrity and possible fraud?

Audit papers. Preparation of audit working papers with critical examination is a detective exercise which can identify a possible circumvention of internal controls. The following questions and others should be asked during the preparation of the financial statements:

- Do the general ledger balances appear reasonable?
- Does there appear to be out of the ordinary activity?

- Is a critical review made of the general ledger trial balance and the draft statements?
- Are the statement preparation working papers examined for completeness and do they support reasonable financial statements?
- Were capital assets captured according to the capitalization policy?

The fiscal office may detect whether internal controls are effective during the year end closing process. The year-end closing process typically includes interviews with college deans, directors, and departmental chairpersons regarding budgetary balances, deficits, and revolving cost center balances. The fiscal office staff can gain an understanding of how effectively the entities manage and control their fiscal affairs by considering budget and cash balances. The number and types of corrections, and the timeliness of those requested at year end closing, is an indication of how diligently the entities have reviewed their budgets and transactions during the year. The year-end closing interview can be an important tool to evaluate whether internal controls are designed effectively.

The fiscal office and senior management will seriously examine incidents of fraud, waste, and abuse that have been reported and take appropriate action to modify internal controls to prevent a reoccurrence, with the assistance of Audit and Advisory Services.

Internal control reviews. The controllers/fiscal managers group examines and updates business processes and control activities at least annually to determine whether the internal controls are effective. Identified risks, and the steps taken to mitigate those risks, are periodically shared with the individual campus vice chancellors for business and finance and the Council of Business Officers for evaluation of whether control activities are adequate.

Internal controls are periodically reviewed by financial services and fiscal staff to determine whether financial activities, the general ledger, and the statements are presented fairly. These reviews prompt any necessary changes to further mitigate risks.

Retroactive Payroll Transfers. The sponsored program finance offices will periodically review a retroactive payroll transfer report to verify Federal direct and pass through funded grants and contracts are properly charged for the salaries and wages and that personal activity reports are accurately certified.

The sponsored program finance offices review retroactive PAF changes for adjustments that are older than 60 days to verify Federal direct and pass through funded grants and contracts are properly charged for salaries and wages, and that PARs-Personal Activity Reports are accurately certified. A "Retroactive Payroll Justification Form-Funding Update" PAF form is reviewed and either signed as approved or rejected and returned. A copy of the form is kept in the project file. The form also prompts a review and completion of any PAR-Personal Activity Report. The SAP Retro Payroll Monitoring Report was developed as an additional control. The report is run after every payroll period to ensure all retroactive adjustments have been reviewed and documented. A copy of the report is archived on the shared drive for audit purposes.

Colleges and departments. Timely examination and reconciliation of transactions by colleges and departments is an effective first line defense against fraudulent and erroneous transactions. Transactions which have posted in error, or should not have posted at all, to cost centers and grant projects are suggestive of a department's indifference to processing transactions accurately or attempts to process fraudulent transactions. An on-line or timely review and reconciliation of month-end ledgers facilitate the early detection of errors or fraud. Segregation of duties, as staffing levels permit, is necessary to ensure transactions are processed accurately. Control activities must be implemented, after weighing the cost-benefit analysis, to ensure business activity is conducted properly.