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University of Nebraska
Internal Control Plan

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Introduction. The University of Nebraska has adopted this internal control plan to achieve the following goals:

- Safeguard University assets – well-designed internal controls protect assets from accidental loss or loss from fraud
- Ensure the reliability and integrity of financial information – internal controls ensure that management has accurate, timely, and complete information, including accounting records, in order to plan, monitor and report business operations
- Ensure compliance – internal controls help to ensure the University complies with the many federal, state, and local laws and regulations affecting the operations of our business
- Promote efficient and effective operations – internal controls provide an environment in which managers and staff can maximize the efficiency and effectiveness of their operations
- Accomplishment of goals and objectives – internal controls provide a mechanism for management to monitor the achievement of operational goals and objectives

Management is responsible for maintaining an adequate system of internal control and communicating the expectations and duties of staff as part of the control environment. 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.

This Internal Control Plan is applicable to the University of Nebraska System and its four campuses.

Balancing Risk and Control. Risk is the probability that an event or action will adversely affect the organization. The primary categories of risk are errors, omissions, delay, and fraud. In order to achieve goals and objectives, management needs to effectively balance risks and controls. Therefore, control procedures need to be developed so that they decrease risk to a level where management can accept the exposure to that risk. By performing this balancing act, "reasonable assurance" can be attained. As it relates to financial and compliance goals, being out of balance can cause the following problems:

Excessive Risk	**Excessive Controls**
Loss of assets, donors, or grants	Increased bureaucracy
Poor business decisions	Reduced productivity
Noncompliance	Increased complexity
Increased regulations	Increased cycle time
Public scandal	Increase of no-value activities

In order to achieve a balance between risk and controls, **internal controls should be proactive, value-added, cost-effective and address exposure to risk.**

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 should 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 override. 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 are fully described in the next sections.

Control Environment

Management's perspective. A Board of Regents whose members are elected by Nebraska voters governs the University of Nebraska. 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 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 that 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 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 that emphasizes and demonstrates to all levels the importance of establishing and following acceptable business practices.

Organizational structure. The University of Nebraska's organizational chart depicts how the University is organized and the various offices that are responsible for the management of the University. The campus administrative offices 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 https://nebraska.edu/-/media/projects/unca/offices-policies/business-and-finance-office/docs/accounting-finance/acfr-2022.pdf (page 6)
- ITS Incident Management https://nebraska.edu/-/media/projects/its/docs/incident-management-quick-reference-guide.pdf

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
- Identifies essential duties for all jobs and provides for handicapped accommodation as necessary

New employees are encouraged to participate in new employee orientation programs. Employees are introduced 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 that 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.

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 that 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 that 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

Control Activities

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 existing 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 https://nebraska.edu/regents/bylaws-policies-and-rules. 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 https://nebraska.edu/bylaws-and-policies/accounting-and-finance-policies.html?redirect=true

- Accounts Receivable and Write-off Policy
- Capitalization Policy
- Emergency Cash Funds Policy
- Federal Debarment and Suspension
- Journal Entry Review
- Sensitive Equipment Policy
- Uniform Guidance Procurement Policy
- Warrant Cancellation Policy

In addition to the above, supplementary policies and procedures are maintained at the campus level.

Organizational philosophy. The University's management promotes a work place environment that 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. Individuals (or groups) wishing to report suspected University-related misconduct may use the University online reporting system/hotline. Reports made on the hotline will be directed to a designated University official. Individuals may also report suspected University-related misconduct to a supervisor, campus Ombudsperson, or Compliance Office.

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 workpapers. Preparation of audit workpapers with critical examination is a detective exercise that 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. Detailed internal control memos are reviewed annually by the campus fiscal offices as part of the Auditor of Public Accounts spring audit testing. The internal control memos include various revenue streams (tuition, athletics, grants, etc.), various expense categories, cash, investments, capital assets, debt, inventory and other assets, and payroll.

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.

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.