



NEBRASKA STATE COLLEGE SYSTEM
(A Component Unit of The State of Nebraska)

June 30, 2012

Independent Auditors' Report on the Schedule of Expenditures of Federal Awards

Independent Auditors' Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133

NEBRASKA STATE COLLEGE SYSTEM
(A Component Unit of The State of Nebraska)

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Independent Auditors' Report

The Board of Trustees
Nebraska State College System:

We have audited the accompanying schedule of expenditures of federal awards (the Schedule) of the Nebraska State Colleges (the Colleges) for the year ended June 30, 2012. This Schedule is the responsibility of the Colleges' management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Colleges' internal control over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the Nebraska State Colleges for the year ended June 30, 2012, in conformity with U.S. generally accepted accounting principles.

This report is intended solely for the information and use of management of the Nebraska State Colleges, the Board of Trustees of the Nebraska State Colleges, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Omaha, Nebraska
January 30, 2013

NEBRASKA STATE COLLEGE SYSTEM
(A COMPONENT UNIT OF THE STATE OF NEBRASKA)
COMBINING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2012

Federal Agency Cluster/Program	Pass-Through Entity	CFDA #	Wayne	Peru	Chadron	FY 2012 Expenditures
<i>U.S. Department of Education:</i>						
Student Financial Aid Cluster:						
Federal Supplemental Educational Opportunity Grant		84.007	\$ 60,329	\$ 42,321	\$ 50,777	\$ 153,427
Federal Work-Study Program		84.033	108,480	84,020	335,203	527,703
Federal Perkins Loans Outstanding		84.038	1,355,331	-	1,284,782	2,640,113
Federal Pell Grant Program		84.063	4,651,072	2,787,906	3,606,499	11,045,477
Federal Direct Student Loans		84.268	13,450,094	8,254,825	9,966,409	31,671,328
Teacher Education Assistance for College & Higher Education Grants (TEACH Grants)		84.379	31,002	-	-	31,002
<i>Total Student Financial Aid Cluster</i>			<u>19,656,308</u>	<u>11,169,072</u>	<u>15,243,670</u>	<u>46,069,050</u>
Trio Cluster:						
Trio – Student Support Services		84.042	286,974	264,158	249,280	800,412
Trio – Upward Bound		84.047	-	-	235,537	235,537
<i>Total Trio Cluster</i>			<u>286,974</u>	<u>264,158</u>	<u>484,817</u>	<u>1,035,949</u>
Coordinating Commission for Postsecondary Education						
Improving Teacher Quality State Grants (CCPE)		84.367	38,441	-	-	38,441
College Access Challenge Grant Program (CCPE)		84.378	21,500	17,500	4,750	43,750
<i>Total U.S. Department of Education</i>			<u>20,003,223</u>	<u>11,450,730</u>	<u>15,733,237</u>	<u>47,187,190</u>
<i>U.S. Department of Agriculture:</i>						
Plant & Animal Disease, Pest Control, & Animal Care		10.025	-	-	17,995	17,995
Soil & Water Conservation	Soil & Water Conservation	10.902	-	-	2,900	2,900
<i>Total U.S. Department of Agriculture</i>			<u>-</u>	<u>-</u>	<u>20,895</u>	<u>20,895</u>
<i>National Science Foundation:</i>						
Biological Sciences		47.074	34,746	99,801	-	134,547
Social, Behavioral, and Economic Sciences Office of Experimental Program to Stimulate Competitive Research	University of Nebraska – Lincoln (UNL)	47.075	13,740	-	-	13,740
	UNL	47.081	982	-	-	982
<i>Total National Science Foundation</i>			<u>49,468</u>	<u>99,801</u>	<u>-</u>	<u>149,269</u>
<i>U.S. Small Business Administration:</i>						
Small Business Development Centers	University of Nebraska – Omaha (UNO)	59.037	60,313	-	35,889	96,202
<i>Total U.S. Small Business Administration</i>			<u>60,313</u>	<u>-</u>	<u>35,889</u>	<u>96,202</u>
<i>U.S. Environmental Protection Agency:</i>						
Capitalization Grants for Drinking Water State Revolving Funds	Nebraska Department of Health & Human Services (DHHS)	66.468	-	4,950	-	4,950
<i>Total U.S. Environmental Protection Agency</i>			<u>-</u>	<u>4,950</u>	<u>-</u>	<u>4,950</u>
<i>U.S. Department of Energy</i>						
State Energy Program ARRA	Nebraska State Energy Office	81.041	101,322	-	-	101,322
<i>Total U.S. Department of Energy</i>			<u>101,322</u>	<u>-</u>	<u>-</u>	<u>101,322</u>
<i>U.S. Department of Health & Human Services:</i>						
Substance Abuse & Mental Health Services - Projects of Regional & National Significance - Center for Disease Control & Prevention – Investigations & Technical Assistance	Panhandle Mental Health	93.243	-	-	717	717
	DHHS	93.283	-	-	12,336	12,336
	University of Nebraska Medical Center (UNMC)	93.389	126,149	-	14,464	140,613
National Center for Research Resources Block Grants for Prevention & Treatment of Substance Abuse	Panhandle Mental Health	93.959	-	-	500	500
<i>Total U.S. Department of Health & Human Services</i>			<u>126,149</u>	<u>-</u>	<u>28,017</u>	<u>154,166</u>
<i>Corporation For National & Community Service:</i>						
Learn & Serve America – School & Community Based Programs	Nebraska Department of Education (NDE)	94.004	4,095	-	-	4,095
Learn & Serve America – Higher Education	Youth Service America	94.005	-	1,000	-	1,000
<i>Total Corporation For National & Community Service</i>			<u>4,095</u>	<u>1,000</u>	<u>-</u>	<u>5,095</u>
<i>National Aeronautics & Space Administration:</i>						
Goddard Space Flight Center Grant	UNO	n/a	-	-	15,888	15,888
<i>Total National Aeronautics & Space Administration</i>			<u>-</u>	<u>-</u>	<u>15,888</u>	<u>15,888</u>
Total Expenditures of Federal Awards			<u>\$ 20,344,570</u>	<u>\$ 11,556,481</u>	<u>\$ 15,833,926</u>	<u>\$ 47,734,977</u>

See accompanying independent auditors' report.

NEBRASKA STATE COLLEGE SYSTEM
(A Component Unit of The State of Nebraska)

Notes to Schedule of Expenditures of Federal Awards

June 30, 2012

(1) Summary of Significant Accounting Policies

Basis of Presentation

The purpose of the accompanying supplemental schedule of expenditures of federal Awards (the Schedule) is to present a detail of all programs classified by Federal grantor agency expended by the Nebraska State Colleges (the Colleges) for the year ended June 30, 2012. Because the Schedule presents only a selected portion of the operations of the Nebraska State Colleges, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Nebraska State Colleges. For the purpose of the Schedule, Federal awards have been classified into two types:

- Direct federal awards consisting of federal awards and federal student financial aid, and
- Pass-through funds received from nonfederal organizations made under federally sponsored programs conducted by those organizations.

Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers are available. Programs for which no CFDA numbers are available have been presented under the applicable caption in the Schedule showing the grantor agency number and grant identification number. Those programs without CFDA or grant numbers primarily represent pass-through funds for which such information was not available from the grantor.

The accounting principles followed by the Colleges' in each of these areas and used in preparing the accompanying Schedule are as follows:

Reporting Entity – The reporting entity for the Schedule includes the accounts for all of the divisions of the Colleges.

Total Federal Awards – Expenditures for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions and Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Moreover, expenditures include a portion of costs associated with general Colleges' activities which are allocated to federal awards under negotiated formulas, referred to as "indirect costs". Restricted grants and contracts and other agreements are recognized when funds are expended in accordance with grant provisions.

Expenditures are recognized on the accrual basis for awards made to students and allowable administrative expenses of conducting such programs. Grants with immaterial credit balances resulting from adjustments in the normal course of business to prior year expenditures have been eliminated.

NEBRASKA STATE COLLEGE SYSTEM
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Notes to Schedule of Expenditures of Federal Awards

June 30, 2012

(2) Student Financial Aid Loan Programs

The Colleges administers the following federally funded student loan programs:

	<u>CFDA number</u>		<u>Outstanding balances at June 30, 2012</u>	<u>Disbursements for the year ended June 30, 2012</u>
Federal Perkins Loan Program:				
Chadron	84.038	\$	1,266,833	209,304
Wayne	84.038		1,349,331	233,820

Balances and transactions relating to these programs are included in the Colleges' basic financial statements. The three Nebraska State Colleges (Wayne, Peru, and Chadron) participate in the Federal Direct Loan Program (including Federal Stafford and PLUS loans). As the Colleges receive these funds directly, the amount (\$31,671,328) is included in the Schedule.



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**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Board of Trustees
Nebraska State College System:

Compliance

We have audited the Nebraska State Colleges' (the Colleges') compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on each of the Colleges' major federal programs for the year ended June 30, 2012, except the requirements discussed in the second paragraph of this report. The Colleges' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Colleges' management. Our responsibility is to express an opinion on the Colleges' compliance based on our audit.

We did not audit the Colleges' compliance with the requirements governing the student loan repayments special test and provision compliance requirement at Chadron State College and Wayne State College in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by ACS Education Services, Inc. and University Accounting Services. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS Education Services Inc.'s and University Accounting Services' compliance with the requirements governing the functions that they perform for the Colleges for the year ended June 30, 2012 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ACS Education Services Inc.'s and University Accounting Services' compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described in the Compliance Supplement that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Colleges' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Colleges' compliance with those requirements.

In our opinion, the Nebraska State College System complied, in all material respects, with the compliance requirements referred to in the first paragraph above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and are which are described in the accompanying schedule of questioned costs as items 2012-1 and 2012-2.

Internal Control over Compliance

Management of the Colleges is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Colleges' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Colleges' internal control over compliance.

Requirements governing the student loan repayments special test and provision compliance requirement in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by ACS Education Services, Inc. and University Accounting Services. Internal control over compliance related to such functions for the year ended June 30, 2012 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ACS Education Service, Inc.'s and University Accounting Services' internal control over compliance related to such functions.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Colleges' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Colleges' responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management of the Nebraska State College System, the Board of Trustees of the Nebraska State College System, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Omaha, Nebraska
January 30, 2013

NEBRASKA STATE COLLEGE SYSTEM
(A Component Unit of The State of Nebraska)

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(1) Summary of Auditors' Results

Financial Statements

The financial statements of the Nebraska State College System were audited by the Nebraska Auditor of Public Accounts and were provided under separate cover. Certain items are summarized below:

- (a) An unqualified opinion was issued by the Nebraska Auditor of Public Accounts over the financial statements of the Nebraska State College System as of and for the year ended June 30, 2012.
- (b) The audit by the Nebraska Auditor of Public Accounts disclosed no material weaknesses in internal control over financial reporting as of and for the year ended June 30, 2012.
- (c) The audit by the Nebraska Auditor of Public Accounts disclosed no significant deficiencies over internal control over financial reporting as of and for the year ended June 30, 2012.
- (d) The audit by the Nebraska Auditor of Public Accounts disclosed no instances of noncompliance which were material to the basic financial statements of the Nebraska State College System as of and for the year ended June 30, 2012.

Federal Awards

Internal control over major programs:

- Material weaknesses identified: **No**
- Significant deficiencies identified that are not considered to be material weaknesses: **Yes**

Type of auditors' report issued on compliance for major programs: **Unqualified opinions**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: **Yes**

Identification of major programs:

- **Student Financial Assistance Cluster** (CFDA #84.007; 84.033; 84.038; 84.063; 84.268; and 84.379)
- **Trio Cluster** (CFDA #84.042 and 84.047)

Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **No**

NEBRASKA STATE COLLEGE SYSTEM
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Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(2) Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

The Nebraska Auditor of Public Accounts issued under separate cover the report in accordance with *Government Auditing Standards* for the year ended June 30, 2012. There was no significant deficiencies over internal control over financial reporting identified.

(3) Findings and Questioned Costs Related to Federal Awards

Finding 2012-1

Federal Agency: U.S. Department of Education

Federal Program Title: Federal Direct Student Loans (CFDA #84.268)

Grant Identification Numbers: N/A

Compliance Requirement: Special tests – Enrollment Reporting – All campuses

Criteria: CFR Section 685.309 requires that the College must complete and return their enrollment reporting roster file to the NSLDS (via National Clearinghouse) within 30 days.

Conditions Found: Students statuses listed on the roster submitted to the National Clearinghouse were not accurate.

Context: KPMG identified the following errors:

- Two out of twenty students selected for testing at Chadron
- Five out of twenty-five students selected for testing at Wayne
- One out of fifteen students selected for testing at Peru

Cause: Internal Controls over enrollment reporting were not properly executed.

Effect: Inaccurate rosters were sent to the National Clearinghouse, which are then forwarded to the NSLDS.

Recommendations: KPMG recommends that each campus address the ineffective control to ensure future compliance.

View of Responsible Officials and Corrective Action Plan: For Chadron, due to certain circumstances with one of the students noted, a delay occurred and the student's degree was not posted with the other degrees in the term batch. The student's degree was manually updated; however, Chadron was not aware at that time that the current graduation verification report within the student information system software was only set up for reporting one term. This new student information system has only been used for a couple years. Prior to use of this system, the old student information system's report went back several terms to gather degrees that were posted late. Since learning about this from the IT representative, Chadron has been more thorough in checking degree info prior to sending the report by its due date. With this practice

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Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Chadron has also been very cognizant to submit graduation info to the Clearinghouse if a degree is posted manually. For the other student noted, Chadron identified an error with their processing. Since the student was not graded with withdrawals (W's), the student information system maintained his enrolled status. Chadron will work with their IT department to correct this situation by the end of the current semester. Chadron has also changed some of its practices in regards to withdrawn students. These changes will allow for more efficient reporting.

For Wayne, these were all students that had zero GPAs at the end of the fall or spring semesters. Wayne thought this information would be reported to the Clearinghouse with the monthly reporting by the Records Office; however, this information was not picked up in the reporting. Financial Aid will need to report these students manually. Financial Aid will enter these students into the Clearinghouse website at the end of each term.

For Peru, the omission of the withdrawal info for the student noted was due to a coding error. All other students who withdrew in the same term were reported appropriately. The issue has been resolved and will not affect future reporting.

Finding 2012-2

Federal Agency: U.S. Department of Education

Federal Program Title: TRIO Cluster – Upward Bound (CFDA 84.047)

Grant Identification Numbers: P047A70491-11

Compliance Requirement: Earmarking

Criteria: 34 CFR sections 645.21 and 645.6 require that not less than two-thirds of the project's participants must be low-income individuals who are potential first-generation college students. The remaining participants must be either low-income individuals or potential first-generation college students.

Condition Found: Less than two-thirds of the projects participants are low-income, first-generation college students.

Context: The Upward Bound program was in place only at Chadron. There are 50 students participating in the Upward Bound Program at Chadron. Of those 50 students, only 27 are low-income, first-generation college students.

Cause: Internal controls over Upward Bound earmarking requirements were not properly designed to monitor compliance with earmarking at Chadron.

Effect: Earmarking requirement was not met for Upward Bound.

Recommendations: We recommend that Chadron State College address the ineffective control to ensure future compliance.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2012

View of Responsible Officials and Corrective Action Plan: Due to Upward Bound students who were both first generation and low income leaving the program due to graduation, moving out of the area, dismissed for academic requirements, and not interested in the program, Chadron numbers dropped. Chadron is in the process of building first generation and low income eligibility requirements for incoming students. Chadron has recently admitted 13 new students who are both first generation and low income to the Upward Bound program to make the earmark currently 75%.