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**Audit Report of the**  
**Nebraska Investment Council**  
**July 1, 2000 through June 30, 2001**  
**and the period July 1, 2001 through January 31, 2002**

**Report Highlights**

*Reissued May 22, 2002*

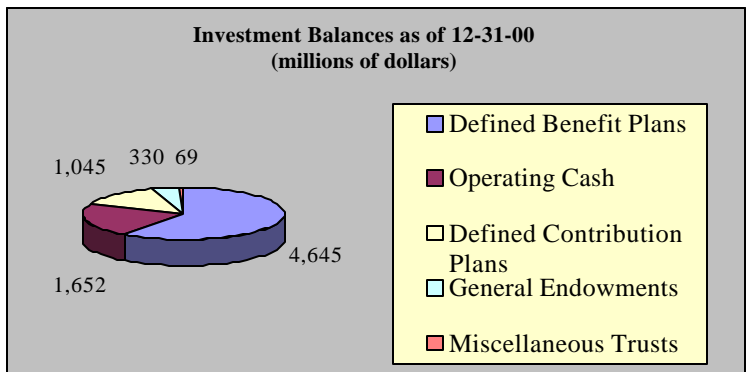
The Nebraska Investment Council provides investment management services for the State. A seven-member board governs the Council. The Council determines investment strategies and sets portfolio guidelines. It determines the allocation of funds among managers, and selects external managers, consultants, and the State Investment Officer.

Funds managed by the Council include: 1) the State's general and cash funds, 2) retirement funds for School employees (except for Omaha Public Schools), Nebraska State Patrol, and Judges, and 3) State trust funds, such as the Permanent School Fund, the Veterans' Aid Fund, and the Nebraska Tobacco Settlement Trust Fund. The Council is responsible for investing: 1) the Deferred Compensation Plan assets, 2) the State Employees and County Retirement Systems funds, and 3) funds of the College Savings Plan. Our report included three Comments and Recommendations based upon auditing standards relating to accounting practices, internal controls, and contracting. Specific areas of concern included:

- The Council earns "commission recapture dollars" through commission sales. The commission recapture balance had doubled from a balance of \$316,888 as of June 30, 1999 to a balance of \$634,598 as of June 30, 2001. The Council did not have written policies specifying the types of disbursements for which earned commission recaptures may be used, nor how the commission recapture dollars should be considered in the Council's operating budget. A current contract with an investment firm was not on file to support the commission recaptures being received.
- We reviewed the internal controls over the accounting for the operating disbursements, receipts, and fixed assets, and over investment policies and procedures to ensure compliance with those investment policies and procedures. We noted a general lack of segregation of duties, the lack of review/monitoring of internal controls, and a lack of internal control procedure documentation.

- In June 2001, the Council entered into a contract with WG Trading Company Limited Partnership in which \$160,000,000 of retirement funds were invested. The Council also entered into an agreement for investment management services with Westridge Capital Management, Inc., involving the investment of an additional \$40,000,000.

The Council requested that the Nebraska Attorney General (AG) give an Opinion of Counsel after the contract had been executed. The AG reviewed the contract and declined to give the requested Opinion of Counsel. The AG communicated to the Investment Council that, in his opinion, the partnership



agreement violated Neb. Rev. Stat. Section 72-1247 R.S. Supp., 2000 by allowing WG Trading Company to participate in certain investments that the Investment Council was statutorily prohibited from authorizing.

The Council asked the AG to authorize outside counsel. The AG approved the request to contract with a private law firm, of his choice. The firm's opinion was that the Council had the requisite statutory authority to enter into the contract with WG Trading Company. The AG disagrees with this opinion and has requested the immediate attention of the Nebraska Legislature. At the date of issuance of this report this issue has not been resolved, and has been referred to the Executive Board of the Legislature.

In addition to the above contracts, our review of six other investment manager contracts noted four of those contracts contained similar terms as used in the WG Trading Company contract.

We will withhold any recommendation for further action until the Legislature, the Investment Council, and the Attorney General's office resolve this issue.

We have detailed our findings in the Comments and Recommendations section of the report. See our website at [www.auditors.state.ne.us](http://www.auditors.state.ne.us).

