



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Kelly Sudbeck, Chief Executive Officer/Executive Secretary
Nebraska Board of Educational Lands and Funds
555 North Cotner Boulevard
Lincoln, Nebraska 68505

Dear Mr. Sudbeck:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State), as of and for the year ended June 30, 2019, 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, we have issued our report thereon dated December 19, 2019. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Board of Educational Lands and Funds (Board) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

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 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 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.

Draft copies of this letter were furnished to the Board to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the 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 following are our comments and recommendations for the year ended June 30, 2019.

1. Land Not Recorded as Investments

The Board manages State-owned land for educational purposes. The Board buys and sells land throughout the year in accordance with State law. The land managed by the Board is not a capital asset; instead, the land is considered an investment in accordance with Governmental Accounting Standards Board (GASB) Codification section I50, Investments. As such, when land is either sold or purchased, the transaction should be recorded in the State's accounting system as an increase or decrease to long-term investments. However, the Board recorded these transactions to a revenue account. Additionally, the closing costs were not recognized as an expense and were instead netted against revenues. Revenues were overstated by \$1,878,597, which was properly adjusted for financial statement presentation by the Department of Administrative Services (DAS) for the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2019.

GASB Codification section I50, Investments, paragraph .108, states the following:

[I]nvestments should be measured at fair value Examples of investments that should be measured at fair value include investments in the following:

f. Land and other real estate held as investments by endowments (including permanent and term endowments) or permanent funds.

Good internal controls require procedures to ensure that transactions, including investment activity, are recorded properly in the State's accounting system so that the financial statements will be reflected accurately.

Without such procedures, there is an increased risk for material misstatement of the CAFR financial statements.

We recommend the Board work with DAS to implement procedures for ensuring that transactions, including investment activity, is recorded properly in the State's accounting system.

Board Response: The Board has reported the value of the land to DAS. The Board is waiting on DAS to determine how to report the land as an investment.

The Board has already met with DAS, and made subsequent phone inquiries, to begin the process of reporting the value of the Board's land onto the State's E-1 accounting system. Currently DAS includes the value of the Board's land during the CAFR report. The Board continues to wait for further instructions from DAS on how or when to make any investment entry.

The value of the adjustments the Board makes to reduce the fair market value of its property to account for lessee-owned improvements is obtained from actual information in the Board's records of lessee-owned improvements and their average value.

The value of the land was reported on the June 30, 2019, CAFR Cash and Investments Form.

2. Voyager Card Issues

For the purchase of fuel, service, maintenance, and repair of its vehicles and equipment, the State of Nebraska (State) uses Voyager Fleet Systems Inc. (Voyager) cards, which are essentially credit cards issued through US Bank. The Voyager cards are used for electronic purchases at Nebraska Department of Transportation gas pumps and hundreds of participating commercial vendors in Nebraska. The Voyager card can be used also in surrounding states.

We ran a report of all Voyager card transactions for the fiscal year ended June 30, 2019, and noted the following issues for the Board:

- Nearly all of the Voyager cards are assigned to a vehicle, a piece of equipment, or a State shop. Voyager cards assigned to a specific vehicle usually require the State employee to enter a vehicle identification number and the odometer reading of the vehicle before the card can be used. This serves as a monitoring tool to ensure the fuel purchased is for the proper vehicle. The Board made 490 fuel purchases, totaling \$22,029, without the odometer reading of the vehicle being entered at the time of purchase.
- Additionally, Neb. Rev. Stat. § 81-1019(1) (Reissue 2014), states, “Any person using a bureau fleet vehicle shall, whenever possible, obtain fuel from state-owned facilities.” The Department of Administrative Services – Transportation Services Bureau “Policies and Procedures,” Section 8, *Fuel*, also requires fuel purchases in Lincoln, NE, to be made from State-owned facilities, instead of commercial vendors. The State purchases bulk fuel at a reduced price; therefore, fuel purchased at State-owned facilities reduces costs incurred by agencies. Contrary to TSB policy, 22 fuel purchases, totaling \$987, made for bureau fleet vehicles in the City of Lincoln were not from State-owned facilities.
- We selected one Voyager card transaction for the purchase of new tires, totaling \$553, for a truck owned by the Board. We noted that no documented pre-approval for the purchase was on file, the invoice did not contain a “Paid with Voyager Card” notation, and the invoice was not signed by the driver in accordance with the Board’s policies, as follows:

REQUIRED APPROVAL: All expenditures other than standard and preventive maintenance items (oil changes, car washes, windshield wipers, fuel/air filters, fluid changes) must be approved in advance by the Trust's Lincoln Office.

SERVICE AND REPAIRS: the driver is to sign the invoice and note “Paid with Voyager Card” so it is clearly visible on the copy of the invoice.

A similar finding was noted during the previous audit.

Good internal controls require procedures to ensure that odometer readings are tracked when fuel purchases are made with Voyager cards, and fuel purchases in Lincoln, NE, are made at State-owned facilities, as well as at such facilities elsewhere whenever possible. Those same procedures should ensure adherence to Board policies.

Without such procedures, there is an increased risk for not only misuse or waste of public funds and resources but also noncompliance with State statute and/or administrative policies.

We recommend the Board implement procedures to ensure that odometer readings are tracked when fuel purchases are made with a Voyager card, and fuel purchases in Lincoln, NE, are made at State-owned facilities, as well as at such facilities elsewhere whenever possible. Additionally, those same procedures should ensure adherence to Board policies.

Board Response: The Voyager cards are assigned to specific Trust vehicles. The Board holds title to all of its vehicles and does not 'lease' vehicles from DAS – Transportation Services Bureau. The Board owns, controls and insures these vehicles and adopted a policy that the type of fuel used is discretionary with the Board and Field Representatives. It is policy that fuel purchased be limited to 40 gallons maximum and separate transactions are required for pickups and UTVs if filling up at the same time. The Board's Lincoln Office is not downtown and the seven State facilities with gasohol are not located conveniently to our offices or near the offices of the majority of our Field Representatives. Consequently, driving way North or way South in Lincoln to a 'state' facility for fuel would not be an economic use of an employee's time or the Trusts' funds. The majority of the Trust vehicles are assigned to Field Representatives who live in 10 separate locations throughout the State of Nebraska, which are not near Department of Road's facilities for fuel purchases. For the future, the Trust employees will be instructed to purchase fuel from 'state' facilities if they are near a location, the facility is open, and they are in need of fuel. In addition, Trust employees have been reminded that the odometer reading and signatures are necessary when purchasing fuel or other maintenance work, and all pre-approval records from the Lincoln Office will be maintained with the payment document. Department of Transportation facilities may not be available to our employees and are not open at all times. The assumption of the Auditor's Office that all of these facilities are available and contain fuel that can be used in all vehicles is inaccurate.

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Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Board and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to the Board.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Board, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be, and should not be, used by anyone other than the specified parties. However, this communication is a matter of public record, and its distribution is not limited.



Pat Reding, CPA, CFE
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