



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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April 28, 2022

Kelly Sudbeck, Executive Secretary  
Nebraska Board of Educational Lands and Funds  
555 North Cotner Blvd.  
Lincoln, Nebraska 68505

Dear Mr. Sudbeck:

We were engaged to audit 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, 2021, 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, and we have issued our report thereon dated April 28, 2022. In connection with our engagement to audit the financial statements, 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, 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 engagement to audit the financial statements as described above, we noted a certain internal control or compliance matter 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. The comment and recommendation, which has been discussed with the appropriate members of the Board management, is intended to improve internal control or result in other operating efficiencies.

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 a 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 comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such response was not subjected to the auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on it. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2021.

### **Support for Tenant Owned Land Improvements**

The Department of Administrative Services, State Accounting Division (State Accounting), prepares the State of Nebraska Annual Comprehensive Financial Report (ACFR) and requires all State agencies to determine and report amounts not reported in the State's accounting system at the end of the fiscal year on an accrual response form.

Each year, the Board reports to State Accounting the value of State-owned land that is not recorded in the State's accounting system. This amount is determined by taking the appraised value of the land less any tenant-owned land improvements. When reviewing the tenant-owned land improvement calculations, it was noted that the Board did not maintain support for the number of mills or sub pumps counted. Likewise, most of the rates used in the calculation, such as rates used for fence labor or fence materials, were similarly undocumented. In addition, the Board provided support for the calculation of irrigation improvements; however, the support dated back to 2011, over 10 years ago.

The total value of tenant-owned improvements for the fiscal year was reported at \$29,838,440.

A good internal control plan requires procedures for ensuring that support is maintained for all components of calculations used to report accurate and complete financial information to State Accounting.

Without such procedures, there is an increased risk of material misstatements occurring and remaining undetected.

We recommend the Board implement procedures for ensuring that support is maintained for all components of calculations used to report accurate and complete financial information to State Accounting.

*Board Responses: The Board of Educational Lands and Funds holds as trustee, approximately 1,270,000.00 acres of land across the State of Nebraska. The Board employs 9 Field Representatives who live in the areas they manage. Part of their employment responsibilities is to keep abreast of the replacement values of wells, pumps, fences, and any other costs associated with managing agricultural real estate. They do so through their own independent research, and as a result of working with hundreds of tenants when giving tenants permission to place improvements on our properties, or other improvement projects. Tenants are required to obtain quotes to begin the projects, and submit invoices when the project is complete. Therefore, a huge portion of every Field Representative's responsibilities deals with the cost and value of improvements on our properties. As a result, the Field Reps are essentially qualified appraisers. All values are documented since this office maintains files with all receipts and costs of every project, whether approved or denied, as proof of cost and value of each improvement.*

*Since this agency manages over 1.2 million acres, which we are required to appraise for the purpose of the reporting to DAS - State Accounting each year, we are forced to use certain general assumptions, and generalized values and costs to efficiently and economically appraise our property. Further, any value placed on our property is its' value at that precise moment, and is typically obsolete within months.*

*This agency supports our assumptions of value through our employee's experience as appraisers, and the bids and receipts from hundreds of completed and rejected projects.*

**APA Response: The APA acknowledges the use of general assumptions and values to calculate the accrual; however, the determination of those assumptions and values should be documented to ensure the accrual calculation is accurate, complete, and adequately supported so the estimates can be recalculated.**

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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 suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.

A handwritten signature in blue ink that reads "Kris Kucera". The signature is written in a cursive style with a large initial 'K'.

Kris Kucera, CPA, CFE  
Assistant Deputy Auditor