



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

December 13, 2023

John Murante, Director
Nebraska Public Employees Retirement Systems
1526 K Street, Suite 400
Lincoln, Nebraska 68509-4816

Dear Mr. Murante:

We have audited 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, 2023, 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 December 13, 2023. 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 Public Employees Retirement System (NPERS) or other operational matter that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of NPERS management, is intended to improve internal control or result in other operating efficiencies.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following comment (Financial Statement Error) to be a significant deficiency.

The comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

Draft copies of this letter were furnished to NPERS to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this letter. The response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, 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, 2023.

Financial Statement Error

The State's Deferred Compensation Plan (Plan) is authorized by Internal Revenue Service Code § 457 and is a voluntary retirement savings plan that allows State employees to defer and invest a portion of their compensation for retirement. Ameritas Life Insurance Company (Ameritas) is a private sector administrator for the Plan, except for member accounts maintained at Empower Retirement Systems (Empower) – formerly Mass Mutual Retirement Services. As of February 2022, the Nebraska Public Employees Retirement Board (Board) approved the termination of the contract with Empower effective October 1, 2022. Upon termination of the contract, funds were liquidated and rolled over to Ameritas.

In our calendar year 2022 attestation of the Plan, the Auditor of Public Accounts (APA) identified a significant accounting error related to the transfer of assets from Empower to Ameritas. Specifically, \$19,854,534 in transferred liquidated assets were recorded as a disbursement from member accounts, causing benefit payments to be overstated.

NPERS staff failed to correct the error or to notify the Department of Administrative Services – State Accounting Division (State Accounting) that the Plan's financial information was incorrect. Having identified additional amounts that were recorded improperly from January 2023 to June 2023, the APA proposed a \$19,901,528 adjustment to the financial statements, which was recorded by State Accounting.

A proper system of internal controls requires procedures to ensure reliable financial information. Without such procedures, there is an increased risk for material misstatement of the State's financial statements.

We recommend NPERS implement procedures to ensure its financial activity is recorded properly to produce reliable financial information.

NPERS Response: We have reviewed our procedures with NPERS (Nebraska Public Employees Retirement System) staff to make sure that staff understand the importance of properly recording the financial activity of the agency.

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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 NPERS 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 NPERS.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State of Nebraska's internal control over financial reporting or on compliance. This letter is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Nebraska's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purposes.



Kris Kucera, CPA, CFE
Assistant Deputy Auditor