



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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December 13, 2023

Ellen Hung, State Investment Officer  
Nebraska Investment Council  
1526 K Street, Suite 420  
Lincoln, Nebraska 68508

Dear Ms. Hung:

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 Investment Council (Council) or other operational matter that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Council's 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 or significant deficiencies may exist that have not been identified.

Draft copies of this letter were furnished to the Council 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.

**Late Endowment Income Entries**

The Council is responsible for the investment management of State assets in accordance with the Nebraska State Funds Investment Act (Act), which is found in Neb. Rev. Stat. §§ 72-1237 to 72-1260 (Reissue 2018, Reissue 2022). Included in the invested assets are several endowment funds, which have separate trust funds in the State’s accounting system to record income and provide for quarterly distributions, as follows:

<b>Endowment Fund Name</b>	<b>Statutory Authority</b>	<b>Distribution Timing</b>
Bessey Memorial Fund	§§ 85-167 to 85-171	Quarterly
Agricultural College Endowment Fund	§§ 85-122 to 85-132	Quarterly
Permanent University Endowment Fund	§§ 85-122 to 85-132	Quarterly
Permanent School Fund	§§ 72-201 to 72-269	Quarterly
State Colleges Endowment Fund	§ 85-317	Quarterly
Veterans’ Aid Fund	§ 80-401	Quarterly
Early Childhood Education Endowment Fund	§§ 79-1101 to 79-1104.05	Quarterly
Excess Liability Endowment Fund	§§ 44-2801 to 44-2855	Quarterly
Agricultural Development Endowment Fund	§§ 2-2101 to 2-2107	Quarterly

The quarterly endowment income distribution entries are normally performed by Council staff prior to the end of the subsequent quarter. However, the endowment income earned in quarter 1 of 2023 (January to March 2023) was not received or distributed until August 2023, while the quarter 2 (April 2023 to June 2023) income earned was not received or distributed until October 2023. The delay in the receipt of these funds caused the cash balances to be understated at the 2023 fiscal year end.

At the end of the State’s fiscal year, the Department of Administrative Services – State Accounting Division (State Accounting) reviewed entries affecting the cash and investments account of the State and, if significant, would have prepared a year-end entry to reclassify the funds from investments to cash. Not having been informed by the Council of its late entries, however, State Accounting was unaware that additional entries were required for two of the endowment funds.

The Auditor of Public Accounts proposed the following entries, which were recorded by State Accounting:

<b>ACFR Fund</b>	<b>Description</b>	<b>Amount</b>
Excess Liability	Increase Cash	\$ 1,017,959
Excess Liability	Decrease Investments	\$ 1,017,959
Nebraska Veterans’ Aid	Increase Cash	\$ 687,926
Nebraska Veterans’ Aid	Decrease Investments	\$ 687,926

A proper system of internal control requires procedures to ensure income distribution entries are recorded timely. If circumstances arise to prevent the timely processing of such entries, NIC should notify State Accounting so it can determine the effect on the ACFR. Without such procedures, there is an increased risk of material misstatement of the State’s financial statements.

We recommend the NIC implement procedures to ensure the endowment income distribution entries are completed timely. If circumstances arise that prohibit this from happening, the NIC should communicate the delay to State Accounting so it can determine the effect on the financial statements.

*Council Response: Agency agrees that two quarters of income distribution entries for fiscal year 2023 (first and second quarters of 2023) were made after fiscal year-end. The second quarter was expected as entries are always made in arrears because of the timing of reports. The first quarter delay was caused by multiple corrections needed to fix errors with the income distribution report created by the custodian State Street.*

*NIC staff notified DAS, participating plans and the State Auditors of the income distributions at the time the income was recorded. Prior to this finding, NIC staff was not aware of the requirement to notify DAS when there are more than one quarter of distribution are recorded after fiscal year-end. Going forward, NIC Staff will inform DAS when more than one distribution is made after year-end.*

**APA Response:** The APA acknowledges receipt of the spreadsheet showing the quarterly income distributions from the NIC. However, the spreadsheet does not show the entries made in the accounting system and is not related to the APA's duties or responsibilities so it is not reviewed by the APA at that time. Only during the ACFR investment testing do we review the entries.

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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 Council 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 Council.

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