



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 18, 2024

Tom Briese, State Treasurer
Nebraska State Treasurer
State Capitol, Room 2005
Lincoln, Nebraska 68509-4788

Dear State Treasurer Briese:

We have audited, 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, 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, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2024. In planning and performing our audit of the financial statements, we considered the State's system of 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 audit described above, we noted certain internal control or compliance matters related to the activities of the State Treasurer 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 State Treasurer'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Draft copies of this management letter were furnished to the State Treasurer 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 management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The response was not subjected to the other auditing procedures applied in the audit of 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, 2024.

Mutual Finance Assistance Fund Transfer Duplication

The State Treasurer duplicated two entries to record activity as a transfer into to the Mutual Finance Assistance Fund, which required a financial statement adjustment of \$4,979,280.

The Department of Insurance (Department) collects various fees and taxes. Neb. Rev. Stat. § 77-912 (Reissue 2018) requires the Department to transfer 10 percent of such taxes to the State Treasurer’s Mutual Finance Assistance Fund, which typically occurs in January of each year. The State Treasurer is responsible for ensuring the activity is properly recorded as a transfer into their Mutual Finance Assistance Fund.

In January 2024, the Department moved funds to the Mutual Finance Assistance Fund in two entries – one for \$2,159,280 and one for \$2,820,000. The State Treasurer properly changed the coding of the two entries to record the activity as a transfer in.

In April 2024, the Department moved another \$2,159,280 to the Mutual Finance Assistance Fund. When making its entry to record the activity as a transfer in, the State Treasurer inadvertently included the two amounts from the January entry, even though those entries had already been properly recorded, resulting in \$4,979,280 of overstated transfers into the Mutual Finance Assistance Fund.

As part of its year-end processes, State Accounting reviews the activity recorded as transfers and, when necessary, records entries to reclassify the transfers as a revenue in the correct fund. Because the transfers into the Mutual Finance Assistance Fund were overstated, State Accounting’s entry overstated the revenues. The Auditor of Public Accounts proposed, and State Accounting posted, an adjustment to reduce the revenues in the financial statements.

A proper system of internal controls requires procedures to ensure that all financial transactions are recorded appropriately in the accounting system for proper financial statement presentation. Without such procedures, there is an increased risk of material misstatement to the financial statements.

We recommend the State Treasurer implement procedures to ensure all financial activity is coded appropriately in the accounting system, and entries made are reviewed adequately for duplication errors.

State Treasurer Response: The Treasurer’s Office strives to ensure all financial activity is coded appropriately in the accounting system, and entries made are reviewed adequately for duplication errors.

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It should be noted that this letter is critical in nature, as it contains only our comment and recommendation and does not include our observations on any strengths of the State Treasurer.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* 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 State Treasurer 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 State Treasurer.

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 State’s internal control over financial reporting or compliance.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the State Treasurer, 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