



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

Dear Mr. Sudbeck:

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 a certain internal control or compliance matter related to the activities of the Nebraska Board of Educational Lands and Funds (Board) or another operational matter that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Board's 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 (Accounting Issues) to be a significant deficiency.

This 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 management letter were furnished to the Board 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.

Accounting Issues

The Auditor of Public Accounts (APA) identified multiple errors in financial statement coding and accrual entry preparation made by the Board. The table below summarizes over \$8 million in errors made by the Board for the fiscal year ending June 30, 2024. The APA proposed, and the Department of Administrative Services – State Accounting Division posted, adjustments to correct the financial statements.

Description of Issue	Amount
The Board failed to accrue for the 2023 tax return credit filed in 2024 of \$2,657,570, which caused an adjustment of \$2,657,570 to the Permanent School Fund and the General Fund.	\$ 5,315,140
The Board mistakenly recorded the receipt of the 2022 tax return credit of \$2,351,536 as a negative expenditure, when it should have been a prior-period adjustment.	\$ 2,351,536
The Board overstated the fiscal year 2024 adjustment to land by \$1,006,329 due to multiple data entry errors when preparing the entry.	\$ 1,006,329
Total Adjustments	\$ 8,673,005

A proper system of internal control requires procedures to ensure that not only the proper amounts are recorded in the accounting system but also the internal calculations are correct and agree to supporting documentation.

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

We recommend the Board implement procedures to ensure any property tax credits received are properly coded and accrued, and internal calculations are correct and agree to supporting documentation.

Board Response: The Board did not accrue the anticipated tax return credit as a receivable in 2023 as we did not anticipate the journal entry process of the return credit had changed to an actual receipt in the accounting system until August 24, 2023. We will report the adjustment going forward.

The Department of Revenue created a journal entry in 2022 and neither agency recognized the transaction as a prior year adjustment.

The Board implemented a new reporting format for the land market report and will update those processes to address and correct data entry errors.

APA Response: The journal entry process that the Board is referring to was performed in October 2022 and is not the subject of the comment above. The 2022 tax return credit was received in August 2023 as a receipt transaction and not a journal entry and should have been reported as a prior year transaction. Additionally, the Board would have been aware of the receipt process as of August 2024 when receivables were required to be reported to State Accounting for the 2023 tax return credit.

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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 Board.

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 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.

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 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.



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