



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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December 18, 2024

Tyler Cummings, Interim Director  
Nebraska Public Employees Retirement Systems  
1526 K Street, Suite 400  
Lincoln, Nebraska 68509-4816

Dear Mr. Cummings:

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 Nebraska Public Employees Retirement Systems (NPERS) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of NPERS management, are 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 Comment Number 1 (Deferred Compensation Plan 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 NPERS to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2024.

**1. Deferred Compensation Plan Issues**

NPERS failed to record properly investment activity reported by the custodial bank for the Deferred Compensation Plan (DCP). The following table shows the entry that should have been made and the original entry posted to the accounting system by NPERS:

Account Description	Actual Amounts	Original Entries	Variance
Long-Term Investments	\$ 34,381,959	\$ 33,629,697	\$ 752,262
Investment Income	\$ (1,451,027)	\$ (4,646,550)	\$ 3,195,523
Gain or Loss - Sale of Investments	\$ (33,259,774)	\$ (29,215,502)	\$ (4,044,272)
Investment Expenses	\$ 328,842	\$ 232,354	\$ 96,488

When informed of the error, NPERS attempted to correct it. Two entries were made and reversed on the same date in September 2024. On September 16, 2024, NPERS posted a third entry in the following net amounts:

Account Description	Original Variance	Third Entry	Revised Variance
Long-Term Investments	\$ 752,262	\$ 0	\$ 752,262
Investment Income	\$ 3,195,523	\$ 3,103,967	\$ 91,556
Gain or Loss - Sale of Investments	\$ (4,044,272)	\$ (3,200,839)	\$ (843,433)
Investment Expenses	\$ 96,487	\$ 96,872	\$ (385)

The third entry was also not completely correct, as the APA found mathematical errors in the calculations. However, the amounts for the financial statements were considered materially correct. It should be noted that NPERS recorded one final entry to correct the issue in October 2024, but did not record it as a fiscal year 2024 transaction. That entry is included below:

Account Description	Revised Variance	Final Entry	Final Variance
Long-Term Investments	\$ 752,262	\$ 0	\$ 752,262
Investment Income	\$ 91,556	\$ 91,556	\$ 0
Gain or Loss - Sale of Investments	\$ (843,433)	\$ (91,171)	\$ (752,262)
Investment Expenses	\$ (385)	\$ (385)	\$ 0

In addition to the errors noted above, the APA determined that NPERS recorded \$101,155 in investment income from one of the plan administrators incorrectly as a gain/loss on the sale of investments.

A proper system of internal control requires procedures to ensure staff have an adequate understanding of reports received from the custodial bank and plan administrators in order to record accurately investment activity contained in those reports to the accounting system.

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

We recommend NPERS implement procedures to ensure its staff have a proper understanding of reports received from the custodial bank and plan administrators to ensure that all investment activity is recorded accurately in the accounting system.

*NPERS Response: We have updated our procedures and have discussed with NPERS (Nebraska Public Employees Retirement System) public servants to make sure that they understand the importance of properly recording the financial activity of the Deferred Compensation Plan.*

## **2. Incorrect Judges Retirement Plan Appropriations**

For fiscal years 2024 and 2025, NPERS mistakenly requested appropriations of \$1,295,917 and \$1,370,712, respectively, for the Nebraska Retirement Fund for Judges (Fund).

Effective July 1, 2023, Neb. Rev. Stat. § 24-703(6)(a) (Cum. Supp. 2024) requires the State Treasurer to transfer each year from the General Fund to the Fund “an amount equal to five percent of the total annual compensation of all members of the retirement system . . .” The NPERS actuary determined not only that amount but also whether additional contributions, which typically would be funded through an appropriations request, were required. In the June 30, 2023, actuary report, the statutory transfer was calculated to be \$1,295,917, with no additional contributions needed.

Instead of having the State Treasurer transfer the funds, as required by statute, NPERS mistakenly requested the amount as an appropriation from the Legislature. When questioned later by the State Treasurer about the need for the mandatory transfer, NPERS responded incorrectly that it had been performed already.

For fiscal year 2025, which is included in the fiscal year 2024 accrual because it is for activity of fiscal year 2024, NPERS again mistakenly requested an appropriation from the Legislature, totaling \$1,370,712, when the actuary identified the amount as the statutory 5% transfer, with no additional contributions. On July 1, 2024, the State Treasurer also made a \$1,370,712 transfer to the Fund in accordance with statute. In summary, NPERS has access to an extra \$1,370,712 in the Fund – as both the statutory transfer and an unnecessary appropriation in that same amount were made thereto.

A proper system of internal controls requires procedures to ensure an appropriate understanding and implementation of statutes, so only required transfers under § 24-703(6)(a) – as opposed to unnecessary and duplicative legislative appropriations – are received by NPERS.

Without such procedures, there is an increased risk of material misstatement to the financial statements and noncompliance with State statute.

We recommend NPERS implement procedures to ensure a proper understanding and implementation of statutes, so only required transfers under § 24-703(6)(a) – as opposed to unnecessary and duplicative legislative appropriations – are received. Additionally, NPERS should consider not using the extra \$1,370,712 in appropriations, allowing it to lapse to the General Fund and advising the Legislature of the error.

*NPERS Response: NPERS is working with Department of Administrative Services Budget Office and the Legislative Fiscal Office to solve the issue of the Judges Retirement Plan.*

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It should be noted that this letter is critical in nature, as it contains only our comments and recommendations and does not include our observations on any strengths of NPERS.

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 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 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 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 NPERS, 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 blue ink color.

Kris Kucera, CPA, CFE  
Assistant Deputy Auditor