NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 30, 2023

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

Dear Mr. Sudbeck:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund (except the Enterprise Fund – Unemployment Insurance), and the aggregate remaining fund information of the State of Nebraska (State), and we were engaged to audit the business-type activities and the Enterprise Fund – Unemployment Insurance, as of and for the year ended June 30, 2022, 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 January 30, 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 Board or other operational matter that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of Board 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 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 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 will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2022.

Beginning Balance Land Valuation Adjustment

The Board serves as the trustee of the lands contributed to the State in 1867 by the Federal government. The Board is a landowner and land manager, collecting rent on thousands of leases. The endowed land is reported as an investment in the footnotes to the Annual Comprehensive Financial Report (ACFR).

Annually, the Board provides support for the number of acres and the value of the land. Prior to fiscal year 2022, the value of tenant-owned improvements on this land had been deducted from the total land value. In fiscal year 2022, the Board changed its valuation calculation and determined that the tenant-owned improvements should not be deducted because they were not originally included in the value of the land, or they did not affect the land value. In the prior fiscal year, $29.8 million in tenant-owned improvements were deducted from the land value and should not have been. Therefore, a beginning balance adjustment was required.

The Board failed to notify the Department of Administrative Services (DAS) of the change in the land value calculations. Therefore, the beginning balance was not adjusted until the APA notified DAS of the change. DAS posted a $29.8 million adjustment to the beginning balance.

A good internal control plan requires procedures to ensure amounts reported to DAS for inclusion in the ACFR are accurate, and significant changes in the valuation of land is properly communicated. Without such procedures, there is an increased risk for improper reporting on the State's financial statements.

> We recommend the Board implement procedures to ensure any significant changes in its valuation of land is reported to DAS for proper inclusion in the ACFR.

Board Response: Any adjustment of land value this agency deems appropriate, is only determined at the time we complete the ACFR report; furthermore, the adjustment at issue here constitutes less than a 2% change in the total value reported. Going Forward, any significant change in land value, not related to general market value fluctuations, will be reported specifically to DAS Accounting, in addition to the ACFR report.

APA Response: We understand that the percentage change might appear insignificant relative to the total land value. The financial statements have varying levels of materiality, however, and any adjustment to the valuation methodology should be communicated to DAS to allow that agency, in fulfilling its responsibility for preparing the ACFR under § 81-1125.01(2), to determine the significance to the financial statements of such modification.

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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 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.

This communication is intended solely for the information and use of management, the Board, 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.

Kris Kucera

Kris Kucera, CPA, CFE
Assistant Deputy Auditor