



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov

PO Box 98917

State Capitol, Suite 2303

Lincoln, Nebraska 68509

402-471-2111, FAX 402-471-3301

auditors.nebraska.gov

January 30, 2023

Randy Gerke, Director
Nebraska Public Employees Retirement Systems
1526 K Street, Suite 400
Lincoln, Nebraska 68509-4816

Dear Mr. Gerke:

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 Nebraska Public Employees Retirement System (NPERS) or other operational matter that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of NPERS management, are 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 NPERS 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, 2022.

Revised GASB 68 Report not Published Timely

NPERS contracted with an actuary to provide information required under the Governmental Accounting Standards Board (GASB) Statement No. 68, which established accounting and financial reporting requirements for governmental employers that provide pension benefits to their employees through a trust. The report is intended for use in the State's financial reporting for fiscal year 2022.

NPERS published the original GASB 68 report for the State Cash Balance Plan, dated July 14, 2022, to its website. While auditing the School, Judges and Patrol Retirement Plans, the Auditor of Public Accounts found that this GASB 68 report contained some figures that differed from those contained in the actuarial valuation report. Apparently, some inadvertent changes were made from the draft GASB 68 reports to the final reports.

On July 26, 2022, NPERS received from the actuary the revised GASB 68 report but failed to update its website with the revised report. In November 2022, when the Department of Administrative Services (DAS) accessed the information on the NPERS website for use in its preparation of fiscal year end 2022 pension entries, the original report published by NPERS was used.

As a result of having relied upon the inaccurate information posted by NPERS, DAS mistakenly understated the State Cash Balance Plan pension expenses and deferred inflows of resources by \$4.1 million.

A good system of internal controls requires procedures to ensure that accurate actuary information is published. Without such procedures there is an increased risk for inaccurate financial reporting.

We recommend NPERS implement procedures to ensure the reports published to its website are accurate – given that they are used by DAS for its year-end financial reporting – and communicate to DAS any changes made to those reports.

NPERS Response: NPERS has discussed the situation with Department of Administrative Services (DAS). NPERS has implemented procedures to send the reports directly to DAS, so they will not have to rely on the website for their information.

* * * * *

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 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.

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



Kris Kucera, CPA, CFE
Assistant Deputy Auditor