

**STATE OF NEBRASKA
PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
AND THE DEFERRED COMPENSATION PLAN
AGREED-UPON PROCEDURES REPORT**

JULY 1, 2006 THROUGH OCTOBER 31, 2006

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Issued on July 12, 2007

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EXECUTIVE SUMMARY

The Nebraska Public Employees Retirement Board (the Board) was created in 1971 to administer Nebraska retirement plans for school employees, State employees, judges, and the State Patrol. The Board assumed administration of the retirement system for Nebraska counties in 1973. The agency for the administration of the retirement systems and under the direction of the Board is known as the Nebraska Public Employees Retirement Systems (NPERS). Effective September 30, 2006, the NPERS Director resigned. The Board named an interim director until the current director was hired on January 3, 2007.

The Board utilizes a contract to provide record keeping and administrative services for the State Employees Retirement Plan, County Employees Retirement Plan, and the State of Nebraska Deferred Compensation Plan.

A contract was established between the Board and Ameritas Life Insurance Corporation (Ameritas) in 1964. Effective July 1, 2006, the Board contracted with Union Bank and Trust Company (Union Bank). On September 7, 2006, Union Bank withdrew from the contracted agreement. An interim contract was signed between the Board and Ameritas to reconstruct plan participant records. Ameritas agreed to completely rebuild all member accounts, as opposed to simply converting the member accounts from Union Bank; therefore, errors were anticipated in the reconstruction of the accounts due to the limited notice given to Ameritas, the size and complexity of the task, the time constraints involved, and the timing and format of the data provided by Union Bank. There have been no concerns in our audit reports regarding the processing of transactions by Ameritas in at least the last 5 years.

State Street Bank and Trust Company (State Street Bank) is the custodial bank, which is the bank that holds the assets.

This engagement was agreed-upon between the Board and the Nebraska Auditor of Public Accounts. We did not examine or cause to examine State Street Bank, Ameritas, or Union Bank. All of these entities were cooperative with our inquiries. Any attempt to infer conclusions regarding State Street Bank, Ameritas, or Union Bank as a result of the findings noted in this report would be inaccurate. The comments and recommendations noted in this report are directed to the Board.

In order to determine whether member accounts had been properly recorded from July 1, 2006, through September 30, 2006, and the subsequent reconstruction period through October 31, 2006, we performed procedures as agreed-upon by the Board. These procedures included a statistical random sample of member accounts, testing of high risk member accounts, and a review of reconciliation procedures between the record keepers and State Street Bank.

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The sample of member accounts was selected from the population of all account balances. We obtained an electronic data file of account balances from NPERS' PIONEER system as of June 30, 2006. We also obtained electronic files as of September 30, 2006, from both Union Bank and Ameritas. These files were merged to get a total number of member accounts of 29,895. We determined a statistical sample size of 375 member accounts which should provide 95% assurance of the sample results.

Based on our findings, we believe discrepancies in member accounts occurred because of NPERS' lack of understanding and monitoring of the record keeping process. Additionally, discrepancies occurred due to the lack of timely remittance of member contributions by the counties, and due to errors in processing transactions by Union Bank and/or Ameritas. Our key findings include:

- Of the statistical sample of 375 member accounts tested, 28 member accounts contained errors, for an overall error rate of 7.47%. Twelve of the errors were due to the timing of county contributions - a problem that has persisted for a number of years and has not been addressed by NPERS. Excluding the 12 county contribution timing errors, the overall error rate is 4.27%. All of these errors were found in member accounts where a transfer, allocation, employer forfeiture or distribution transaction occurred during the time period under review. Therefore, excluding the county timing errors, 95.73% of member accounts tested had no errors. (See Exhibit A for summary of errors)
- Errors in the statistical sample of member accounts ranged from understatements of \$2,128 to overstatements of \$441. Also included in the errors were 5 under or overstatements between \$100 and \$500; 4 under or overstatements between \$25 and \$100; and 17 under or overstatements less than \$25. These errors represent account balances that are overstated or understated as of October 31, 2006, or actual payments made to members that were overstated or understated.
- The sample found a 95% likelihood that 1,144 to 3,022 member account balances have errors. Excluding the county contribution timing errors, there is a 95% likelihood that 670 to 1,883 member account balances have errors.
- Additional errors were found in member accounts from test work outside of the statistical sample of 375 member accounts. Errors in member accounts as a result of this testing ranged from understatements of \$4,111 to overstatements of \$4,407. Also included in the errors were 3 understatements between \$1,800 and \$2,825; 9 under or overstatements between \$100 and \$850; and 29 under or overstatements less than \$100. Again, errors represent account balances that are overstated or understated as of October 31, 2006, or actual payments made to members that were overstated or understated. (See Exhibits B through D for summary of errors.)

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Our summary findings included:

- 1. Transfers and Allocation Changes.** Transfers are movement of funds by the members between the different investment options available in the defined contribution plan. Allocation changes refer to the investment option that contributions are allocated to. Transfers between investment options were not properly or timely recorded by Union Bank, and transfers and allocation changes were not properly or timely rebuilt by Ameritas. NPERS did not ensure transfers and allocation changes requested by members were processed accurately, even after specific issues were brought to their attention. Of 25 transfers tested, 18 had errors that ranged from understatements of \$2,128 to overstatements of \$4,407. Also included in the errors were 2 understatements between \$600 and \$750; 2 overstatements between \$100 and \$150; and 12 under or overstatements up to \$58. In at least one instance, NPERS instructed Ameritas not to record a transfer in a member's account, even though it was processed at Union Bank at the direction of the member. NPERS actually contacted the member and he gave NPERS permission not to recreate the transfer. Our recalculation of this member's account reflected a transfer of \$102,404 on July 27, 2006. Our calculation was within \$2 of the transfer performed by Union Bank. However, Ameritas recorded a transfer of \$16,954 on July 27, 2006. This is a difference of \$85,450 in transfers on that day. Due to this difference, the balance in the member's account at Ameritas as of October 31, 2006, was \$4,407 higher than our calculated balance since the transfer was not properly recorded by Ameritas, per NPERS' instruction.
- 2. Distributions:** It did not appear NPERS was aware of the significance of the problems with the payment of distributions. Errors in members' accounts were caused by timing related to when distributions were recorded in the record keeping system and when the check was actually written by Union Bank. Union Bank indicated there was a delay so that NPERS could approve the distribution before the check was written. Errors in members' accounts were also caused by timing issues related to the rebuilding of distribution transactions by Ameritas; and issues related to Union Bank posting contributions in the wrong accounts. These issues caused members to either be due additional monies or owe monies to the Plans, ranging from understatements of \$4,111 to overstatements of \$523. Also included in the errors were 3 understatements between \$1,800 and \$2,825; 1 understatement of \$528; an overstatement of \$117; an understatement of \$114; and the remaining understatements or overstatements between \$2 and \$91. One member's annuity was not calculated on the correct account balance, as Union Bank closed the member's account on August 7, 2006; therefore, the member stopped earning interest on this day. However, Union Bank did not disburse the funds for the annuity until September 19, 2006. This timing error, along with other errors in the account, resulted in the member being owed \$4,111 at October 31, 2006.

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- 3. Contributions:** Members had contributions withheld from their pay that did not post timely to their account with the record keeper, causing the members to lose potential earnings. The majority of these members were in the County Employees Retirement Plan. In our prior audit report, we noted the Board did not set procedures or define a date on which information and money should be received from the counties.
- 4. Reconciliation Procedures:** Since the assets of the Plan are held by State Street Bank and the record keeping function was performed by Ameritas and Union Bank, NPERS should reconcile, or agree, the amounts held by the record keeper to the bank assets. NPERS did not provide a reconciliation of the assets between the record keeper and the bank while Union Bank held the contract. We determined unknown variances existed between Union Bank and State Street Bank. At September 30, 2006, the defined contribution accounts at the record keeper were \$9,433 less than the assets on hand at the bank. Additionally, NPERS has not reconciled the contribution and withdrawal activity in the cash balance option from the record keeper to State Street Bank since the inception of the cash balance option in 2003. This has been communicated to NPERS in prior audits. The net contributions and withdrawals recorded by Union Bank for the cash balance option were \$158,794 lower than the net contributions and withdrawals reported by State Street Bank. Finally, there are also unknown variances between Ameritas and the custodial bank after the Plans were reconstructed.
- 5. Daily Pricing Procedures:** Each member has an account maintained by the record keeper, who is responsible for recording the activity in the account. When monies are recorded in a member account (for example a contribution from their pay), the monies are used to purchase shares in the investment funds elected by the member or in the cash balance option. The dollar value of the member accounts is determined by the number of shares held and the daily share prices. Each night the record keeper (Union Bank) and the custodial bank (State Street Bank) determined the new daily share prices. NPERS was unaware of daily share pricing issues at Union Bank affecting member accounts, and did not have an understanding of the procedures used to calculate the share prices. The pricing of shares is a significant part of the valuation of assets of the Plans and of the valuation of member accounts.
- 6. Information Technology:** NPERS did not have documentation from Union Bank to indicate their record keeping system had been adequately tested to ensure data could be accurately and completely converted from Ameritas. Prior to the contract with the Board, Union Bank administered plans with an average plan size of 50 members, a total of over 22,000 participants. NPERS plans were significantly larger with more than 29,000

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accounts. No parallel testing was done to ensure Union Bank could handle the record keeping activity. Parallel testing would involve running the new system simultaneously with the old system, prior to conversion, to confirm the new system and its applications functioned properly.

- 7. Union Bank SAS 70 Audit Report:** Statement on Auditing Standards (SAS) 70 provides guidance an independent auditor should consider when auditing the financial statements of an entity that uses a service organization to process certain transactions. Part of the understanding of key controls at the service organization is obtained when an independent auditor reports on the processing of transactions by a service organization. Union Bank is considered a service organization under SAS 70. Union Bank implemented a new record keeping system in May 2006 that had not been audited prior to the contract with NPERS. Union Bank only receives a SAS 70 audit for the period October 1 through March 31 annually. Therefore, the controls of Union Bank's record keeping system had not been reviewed during the contract period with the Board.
- 8. Interim Agreement:** NPERS did not have procedures to determine whether the reconstruction of member accounts by Ameritas was complete and accurate. We determined whether the member accounts were rebuilt properly by Ameritas. From the statistical sample of 375 and the additional accounts tested, there were 49 member accounts tested with errors, due in part to the rebuilding of the account at Ameritas. See the Exhibits Section of the report for specific findings related to the reconstruction of the accounts.
- 9. Procedures for Annuity Option:** Prior to the contract with Union Bank, Ameritas notified State Street Bank of the annuities purchased each day. The annuities purchased were not traded between Ameritas and State Street Bank. State Street Bank retained and invested the annuity money in order to fund future benefit payments to members. This process was not detailed in the contract between Union Bank and the Board. From July 1, 2006, through September 30, 2006, when a member elected an annuity option, Union Bank cleared the members' accounts and traded the funds with State Street Bank. Union Bank retained the balances of members electing the annuity option during the contract period. Our calculation indicates Union Bank owes the Plans \$56,554 for members' accounts which were retained by Union Bank after the member account was closed. Additionally, the Plan lost potential earnings of approximately \$89,000 on the annuity monies held by Union Bank and not invested.

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- 10. Forfeitures:** Members who terminate before they are vested have the employer share of their account forfeited. The forfeited accounts are generally used by NPERS to pay administrative expenses. NPERS indicated no directive was given to Union Bank to forfeit any accounts when members terminated. During the contract period Union Bank forfeited 12 member accounts. NPERS did not perform timely procedures to determine if the accounts forfeited were correct. Subsequently, NPERS identified 96 members whose accounts should have been forfeited between July 1, 2006, and September 30, 2006. We noted errors with the accounts that were forfeited by Union Bank that had not been identified by NPERS. Due to errors noted, Union Bank owes the Plan \$7,622. Additionally, one member is due \$834.
- 11. Review of Independent Accountant's Report Findings:** Findings noted by Hayes and Associates, who was hired by the Board, were not addressed by NPERS. The findings noted by the independent accountant indicated specific areas of concern related to the processing of transactions by Union Bank. For example, the independent accountant noted that one member had received payments not due to the member. The member received \$7,288 more than the member was owed. Union Bank processed systematic withdrawal payments in July based on a listing of members provided by NPERS. Some of the members' account balances had been exhausted prior to the Union Bank contract; therefore, they were not entitled to further payments. However, they were still included on the listing. At least two members contacted NPERS to indicate they had received payments they were not entitled to. NPERS has not determined the total amount overpaid to members and has not requested repayment from members that were overpaid.
- 12. Record Keeping Fees:** Due to errors in the recording of distributions and contributions, fees charged to member accounts and maintained by the record keepers were not always recorded properly.
- 13. Proper Accounting of Age-Based Account:** A new investment option for defined contribution members was created effective July 1, 2006. The age-based account is invested with an asset allocation and investment strategy that changes based upon the age of the member. The asset allocation and asset classes utilized in the investments move from aggressive, to moderate, and then to conservative as retirement age approaches. The implementation of the account did not create any new funds at State Street Bank; instead it utilized the existing aggressive, moderate, and conservative pre-mix funds already established. However, the new age-based account requires an added record keeping function to ensure members' investments are properly transferred through the pre-mix funds as a member nears retirement age. The Ameritas record keeping system has not been updated for the separate, automated tracking of the age-based account.

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Pursuant to Nebraska law, the Board is responsible for the proper administration, record keeping, and safeguarding of member accounts. These critical responsibilities cannot be delegated to contractors, although contractors can be engaged to assist the Board in carrying out its functions. NPERS lacks a sufficient understanding of the record keeping process, a deficiency that contributed to the error rate in member accounts. We recommend NPERS obtain a thorough understanding of record keeper procedures sufficient to provide adequate oversight and monitoring of member accounts. At a minimum NPERS should review all transfers, allocation changes, and distributions for the period; and work with Union Bank and Ameritas to reconcile existing variances and correct member accounts.

Draft copies of this report were furnished to the Board to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination. The Board's responses can be found on pages 17, 19, 22, 23, 26, 27, 30, 32, 34, 36, 38, 42, 44, 46, 48, and 49 of this report.

We appreciate the cooperation and courtesy extended to our staff during the course of the engagement.

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BACKGROUND SECTION

Background Information

The Nebraska Public Employees Retirement Board (the Board) was created in 1971 to administer Nebraska retirement plans for school employees, State employees, judges, and the State Patrol. The Board assumed administration of the retirement system for Nebraska counties in 1973. The agency for the administration of the retirement systems and under the direction of the Board is known and may be cited as the Nebraska Public Employees Retirement Systems (NPERS). Effective September 30, 2006, the NPERS Director resigned, the Board named an interim director until the current director was hired on January 3, 2007.

The Board utilizes a contract to provide record keeping and administrative services for the State Employees Retirement Plan, County Employees Retirement Plan, and State of Nebraska Deferred Compensation Plan. Prior to June 30, 2006, the record keeping and administrative services agreement was between the Board and Ameritas Life Insurance Corporation (Ameritas). Ameritas had been the record keeper since 1964. Effective July 1, 2006, the Board contracted with Union Bank and Trust Company (Union Bank) for the record keeping and administrative services. On September 7, 2006, Union Bank withdrew from the administrative services agreement. An interim agreement was signed between the Board and Ameritas to reconstruct plan participant records for all activity between July 1, 2006, and September 30, 2006. Effective October 1, 2006, Ameritas resumed the contractual relationship with the Board for a 5-year period. There had been no concerns in our audit reports regarding the processing of transactions by Ameritas in the last 5 years.

State Street Bank and Trust Company (State Street Bank) is the custodial bank for the Retirement Plan assets. They have custody of the Plan assets. State Street Bank works with the investment funds managers to determine the current day balances for each investment option.

Description of Systems

The PIONEER (Pension Information of Nebraska for Efficient and Effective Retirement) system is used by NPERS for benefits administration. PIONEER was implemented in 2003. Information was downloaded from the record keeper daily to the PIONEER system prior to the Union Bank contract.

Union Bank used the Relius Administration system (Relius) to record and maintain individual participant data. Union Bank also used the Multiple Application User Interface (Maui) for the accounting of the trust accounts. Union Bank developed the Trust Connect Bridge to interface

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pricing and trade information from the Maui application to the Relius application on a daily basis. This bridge was used to keep the assets in balance with the records. However, since Union Bank was not the custodian of the assets for the NPERS plans, this bridge was not utilized.

Ameritas uses OmniPlus (Omni) and the Deposit Administration system for participant record keeping and plan administration purposes. Omni is a participant record keeping system from a vendor package. Omni is used to track participant level information, while the Deposit Administration system tracks plan level information. The Deposit Administration system is a proprietary application of Ameritas and issues disbursement checks and is used for trust reporting. The OmniPlus and Deposit Administration systems are kept in balance by the Deposit Administration/OmniPlus Interface.

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SAMPLING SECTION

Description of Sampling Approach

The population from which the sample was selected was defined as all members with account balances at June 30, 2006, and September 30, 2006. Files were merged to get the total number of member accounts of 29,895.

In order to test the account activity and to determine the fair presentation of the balances as of October 31, 2006, a statistical sample of a fixed size (attribute sampling method) was used. The Texas State Auditors Office Statistical Tools Version 2.1 was used to determine the appropriate sampling parameters and sample size.

With the parameters for the sample having a margin of error rate of 1% and an estimated attribute error rate of 1%, we determined the sample size should be 375 member accounts. This sample size should provide 95% assurance of sample results.

Sample Selection

In order to select a random sample of 375 member accounts during the period July 1, 2006, through October 31, 2006, we requested and obtained an electronic data file that contained the member account balances as of June 30, 2006 from PIONEER and as of September 30, 2006, from Ameritas and Union Bank.

To determine the completeness of the data files obtained, we performed a comparison of the member accounts from Ameritas and Union Bank to the member accounts reported in the State of Nebraska Public Employees Retirement System Service Report from Ameritas for the year ending December 31, 2005, for the State, County, and Deferred Compensation Plans.

After determining the files represented all member accounts from July 1, 2006, through September 30, 2006, we ran the statistical tool program to select a random sample of 375 members.

Our sample was distributed as follows:

Plan	Number of Member Accounts	Member Accounts Tested
County Employees' Cash Balance	4,033	55
County Employees' Defined Contribution	4,330	49
State Employees' Cash Balance	8,508	96
State Employees' Defined Contribution	9,912	131
Deferred Compensation	3,112	44
Total	29,895	375

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In determining whether the members' selected for testing appeared to be representative of the population, we compared our statistical sample of 375 member accounts to the distribution of members between plans as noted above. In addition, we ensured the number of counties and health districts tested were representative of the population of counties and health districts participating in the Plan. We tested 48 out of 91 counties and 1 out of 18 health districts.

Based on our analysis of the information presented above, it appears the sample selected is an appropriately distributed random sample that is representative of the entire population.

Attributes Tested

Each account selected in the sample was examined for all activity for the period including contributions, distributions, fees, earnings, transfers, and allocation changes.

Contributions are supported by NIS or county/health district payroll reports. Distributions are supported by member requests. Fees are supported by record keeper contracts. Earnings are supported by the daily valuations by the record keeper. Cash Balance member earnings are based on the daily crediting rate established by State statute. We used the daily share prices determined by Ameritas in calculating the member account balances.

We examined the member accounts for the following 5 attributes and are reporting the results as shown in the right side columns.

Attribute	Total Errors/ Sample (NOTE 1)	Error Rate
Determined all contributions were properly posted to the member account.	1 / 307	0.33%
Determined all distributions were properly and timely paid.	4 / 6	66.67%
Ensured fees were properly charged in accordance with the contractual agreements for the period July 1, 2006, through October 31, 2006.	1 / 375	0.27%
Determined all contributions, transfers, allocation changes, and fees were recorded timely to the member account.	20 / 375	5.33%

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Attribute	Total Errors/ Sample (NOTE 1)	Error Rate
Determined earnings were properly calculated based on the net asset value provided by Ameritas; member account activity for the period was mathematically correct; and the balance at October 31, 2006, was materially correct.	38 / 375	10.13%
Total Errors	64 / 1,438	4.45%

There were a total of 64 errors for the five attributes tested for each item sampled (total attributes tested = 1,438). This results in an overall error rate of 4.45%.

Note 1: No exception was taken to errors less than \$3. See Exhibit A for listing of all exceptions and errors.

Sample Results

The sampling parameters and sample size table used provide a 95% assurance that the sample results reported below are accurate within a $\pm 2.64\%$ margin of error.

The sample results for each attribute tested are shown in the table above that lists the attributes. The error rate for each attribute is shown.

There were 28 accounts (of the 375) that contained at least one error. This results in an overall member error rate of 7.47%.

Confidence Level	Confidence Interval	Confidence Interval for Population
95.00%	4.83% to 10.11%	1,444 to 3,022

There is a 95% likelihood that 1,444 to 3,022 member account balances are in error.

Of the 28 accounts that contained at least one error, 12 accounts had an error due to the timing of county contributions. The member error rate excluding errors due to the timing of county contributions is 4.27%, accurate within a $\pm 2.03\%$ margin of error.

Confidence Level	Confidence Interval	Confidence Interval for Population
95.00%	2.24% to 6.30%	670 to 1,883

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Errors in the statistical sample of member accounts ranged from understatements of \$2,128 to overstatements of \$441. Also included in the errors were 5 understatements or overstatements between \$100 and \$500; 4 understatements or overstatements between \$25 and \$100; and 17 understatements or overstatements less than \$25. These errors represent current account balances that are overstated or understated, or actual payments made to members that were overstated or understated. The projected error for the entire population, using sample activity of \$2,009,771 and total activity of \$135,544,602, is a total of \$148,172 in understated account balances and a total of \$145,676 in overstated account balances.

Additional Testing of Record Keeper Identified Variances

On October 1, 2006, the record keeping duties reverted back to Ameritas from Union Bank. Ameritas completely rebuilt the accounts from July 1, 2006, based on records provided by Union Bank and NPERS, as opposed to simply converting the member accounts from Union Bank. Ameritas then created a list of member accounts that matched the social security number of Union Bank account balances. Per Ameritas, the total "matched" accounts were 29,203. There were several other member accounts at Ameritas that did not match a Union Bank social security number and several member accounts at Union Bank that did not match an Ameritas social security number. Ameritas compared the balance at September 30, 2006, for each "matched" account. There were 27,334 member accounts with a variance less than \$25. The remaining 1,869 member accounts had variances greater than \$25, up to approximately \$32,000. We tested five of the member accounts with the largest variance for the same attributes listed above. There were two accounts (of the five) that contained at least one error, for the five attributes tested for each item sampled. See Exhibit B.

In addition, Ameritas made corrections to 34 member accounts identified as having incorrect balances, after October 18, 2006. From this we tested all 34 of the accounts for the same attributes listed above. All 34 accounts contained at least one error, for the 5 attributes tested. See Exhibit C.

Additional Transfer Testing

The random sample of 375 member accounts and the additional testing of record keeper files identified variances in eight member accounts who had transfers and/or contribution allocation changes. Seven of the eight accounts had errors, an 87.5% error rate. Due to this error rate we tested additional accounts with transfers. We determined 251 members requested transfers and 224 members requested contribution allocation changes during the period July 1, 2006, through September 30, 2006. We tested an additional 17 of these accounts for a total of 25 member accounts tested with transfers and/or allocation changes between investment options. Eleven of the additional members tested included errors. Therefore, a total of 18 of 25 member accounts contained errors, a 72% error rate. See Exhibit D.

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Other Procedures Performed

In addition to the procedures noted above we also performed reconciliation procedures of assets between the record keepers and the custodial bank. We noted various issues such as the beginning balance recorded by Union Bank on July 1, 2006, did not agree to the ending balance of Ameritas on June 30, 2006. Additionally, the Union Bank recorded Plan assets and activity did not agree to the assets and activity recorded by State Street Bank at September 30, 2006. After the reconstruction and correction of member accounts by Ameritas there is also a variance between the Plan assets recorded by the record keeper and State Street Bank. See Comment Number 4 for further details.

Conclusion

During the examination all findings were discussed with NPERS. An exit conference was held June 29, 2007, with NPERS to discuss the results of our examination. Those in attendance for the Nebraska Public Employees' Retirement Systems were:

<u>NAME</u>	<u>TITLE</u>
Denis Blank	NPERB Chairman
Don Pederson	NPERB Member
Glenn Elwell	NPERB Member
Phyllis Chambers	Executive Director
Teresa Zulauf	Internal Auditor
Randy Gerke	Deputy Director/Accounting and Finance Manager
Jane Bond	Benefits Manager

All information received by June 29, 2007, was considered and incorporated as appropriate.

This report is intended solely for the information and use of the Board; however, this report is a matter of public record and its distribution is not limited.

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COMMENTS AND RECOMMENDATIONS

1. Transfers and Allocation Changes

Members of the defined contribution option of the State and County Employees Retirement Plans and the Deferred Compensation Plan have the option of investing in 12 different investment funds. Members can allocate their contributions to any of the investment funds and can also transfer balances between the 12 investment funds. Members are able to make these changes via the internet, the telephone, or manually using a pre-printed form.

Union Bank recorded the transfer and contribution allocation change requests through their Voice Response Unit (VRU). Union Bank provided NPERS with VRU records in two different formats, PDF and Excel, which listed transfer and allocation change activity for the period July 1, 2006, through September 30, 2006. While both files were from the VRU records, neither of the files contained all of the activity for the period. To recalculate all of the activity for certain members, we also used Relius, which contained VRU transaction history for individual member accounts. NPERS provided both file formats, PDF and Excel, to Ameritas in order to rebuild the Plans. However, Ameritas did not have access to the VRU transaction history in Relius. Per inquiry of NPERS staff, and per our review of the files provided by Union Bank, the files were provided to NPERS in piecemeal between October 1, 2006, and October 18, 2006. Ameritas used the PDF files first and then received the Excel files. It did not appear that NPERS or Ameritas compared the two files to ensure all the activity received had been properly rebuilt. Additionally, Union Bank had allowed members to transfer funds in increments of less than a full percentage point. Ameritas' system did not allow transfers in increments of less than a full percentage. This also caused problems and differences when Ameritas reconstructed members' accounts.

NPERS did not perform a thorough review of transfers after they became aware of issues with the reconstruction of transfers with Ameritas.

In our initial random sample of 375 accounts (**Exhibit A**), we tested three accounts that had requested transfers between July 1, 2006, and September 30, 2006. All three accounts had errors between the balances at Ameritas and our calculated balances. The errors ranged from understatements of \$2,128 to overstatements of \$10 in the account balances at October 31, 2006. Although there were some contribution timing issues noted in the three accounts, the majority of the errors were due to errors in the reconstruction of the transfers.

In the additional testing of 39 member accounts (**Exhibits B and C**), there were five additional accounts tested that had requested transfers. Four of the five accounts tested had errors between the balances at Ameritas and our calculated balances. The errors ranged from understatements of \$745 to overstatements of \$4,407 in members' account balances.

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1. Transfers and Allocation Changes (Continued)

NPERS was aware of some of the issues regarding transfers, as there was correspondence between NPERS and Ameritas regarding certain members and how to record the transfers processed by Union Bank. In at least one instance, NPERS instructed Ameritas not to record a transfer in a member's account, even though it was processed at Union Bank. NPERS actually contacted the member and the member gave NPERS permission not to recreate the transfer. Our recalculation reflected transfers into the stable value fund of \$102,404 on July 27, 2006. Our calculation was within \$2 of the transfer performed by Union Bank. However, Ameritas recorded a transfer into the stable fund of \$16,954 on July 27, 2006. This is a difference of \$85,450 in transfers on that day. Due to this difference, the balance in the member's account at Ameritas as of October 31, 2006, was \$4,407 higher than our calculated balance since the transfer was not properly recorded by Ameritas, per NPERS instruction. The transfer included a sizable amount from higher-earning investment options to the stable value fund, which is a very conservative investment option. The investment options the member moved from incurred significant earnings through October 31, 2006. However, the member's money was not in those funds and earned considerably less while with Union Bank. Although, on the surface, this error appears to have no effect to other members of the Plan, the additional earnings given to this member that were not actually earned would come from other member accounts, as this is a defined contribution plan and the only plan assets are in member accounts. This obviously would also affect the variance between the record keeper and State Street Bank, as the money actually earned the lower stable value return, but was reconstructed as though it had higher earnings from the other investment options.

After our initial testing, and after obtaining a better understanding of the transfer processing at Union Bank and then at Ameritas when accounts were reconstructed, we concluded that accounts with transfer and allocation change activity were at a higher risk for errors in the account balances. We reviewed the files provided by Union Bank and determined there were a total of 251 members who requested transfers and 224 members who requested contribution allocation changes between July 1, 2006, and September 30, 2006. We selected an additional 17 accounts with transfers to test and noted 11 of 17 members tested (**Exhibit D**) had errors between the Ameritas account balances and our calculated account balances, ranging from understatements of \$58 to overstatements of \$142 in member account balances. Contribution timing issues also contributed to two of these members' account variances; however, the majority of the errors are due to transfer issues.

The problems noted during testing included transfers requested by the member that were not properly or timely recorded by Union Bank, and transfers and allocation changes not properly or timely rebuilt by Ameritas. See corresponding Exhibits as described above for details.

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1. Transfers and Allocation Changes (Concluded)

Members can elect specific sources of funds to transfer, such as employee or employer funds. The files provided by Union Bank did not indicate which source of funds the member had requested for transfer. Therefore, Ameritas made decisions that were not outlined in the Interim Agreement regarding how to process the transfers among the sources of funds.

Good internal control requires NPERS to ensure accounts reconstructed by Ameritas were recorded correctly.

Because transfers and allocation changes were not recorded correctly by both record keepers, member account balances at October 31, 2006, were not correct. In addition, because the activity in the member accounts was not reconstructed in the same manner as originally processed by Union Bank, there are variances between the record keeper assets and the bank assets.

We recommend NPERS determine all members that requested transfers for the period July 1, 2006, through September 30, 2006, and ensure these member account balances are correct based on the original transfer requests of the members.

NPERS' Response: NPERS is reviewing all accounts that included a transfer of funds or a fund allocation change during the 3rd quarter when Union Bank was the record keeper. Accounts will be reviewed based on the original information provided by the member to Union Bank. The results will be analyzed as to what Ameritas has recalculated for the member. NPERS will communicate with Ameritas any adjustments that need to be made to the member accounts.

2. Distributions

Upon termination or retirement, members are given the option to request monthly annuities, partial or full withdrawals, rollovers to other qualified plans, or a combination of these options. The member submits their request for distribution to NPERS. NPERS approves the request and enters the distribution date, type of distribution, and other distribution information into the PIONEER system. The daily distributions from PIONEER are then sent to the record keeping system which processes the actual distribution of the member's account.

During the period July 1, 2006, through September 30, 2006, Union Bank's record keeping system did not interface with PIONEER; therefore, all distribution requests were manually sent to Union Bank, who entered the distribution information into their system for processing. After

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2. **Distributions** (Continued)

September 30, 2006, when Ameritas rebuilt the member accounts they began with the request for distribution submitted by the member and the PIONEER files. Distributions were then calculated and recorded by Ameritas based on the members' request, not what was actually paid by Union Bank. After the rebuilding process was complete, Ameritas compared the rebuilt member account balances at September 30, 2006, to the Union Bank balances. There were errors noted in several member accounts due to improper recording of distributions by both Union Bank and Ameritas.

As the administrator of the Plans, NPERS is responsible to ensure benefit payments to members are complete, appropriate, accurate, and timely. NPERS did not have adequate procedures to ensure distributions made by Union Bank were accurate or to ensure distributions recorded by Ameritas were accurate.

In our initial sample of 375 member accounts (**Exhibit A**), we tested 6 members that requested distributions during the period July 1, 2006, through October 31, 2006. We noted 4 of the 6 accounts had variances between the balances at Ameritas and our calculated balances. There were errors ranging from an understatement of \$7 to an overstatement of \$18 in member account balances. Although there was a contribution error noted in one of the accounts, the majority of the errors were due to the timing of distributions recorded by both record keepers.

In the additional testing of 34 member accounts (**Exhibit C**), we tested 30 members that requested distributions. We noted 24 of the 30 accounts had variances between the balances at Ameritas and our calculated balances. These members are either owed or due monies ranging from an understatement of \$4,111 to an overstatement \$523 in member accounts as of October 31, 2006. Contribution timing issues also contributed to 4 of these members' account variances; however, the majority of the variances are due to distribution issues.

The problems noted during testing were caused by timing related to when the distributions were recorded in the record keeping system and when the check was actually written by Union Bank. Union Bank indicated there was a delay so that NPERS could approve the distribution before the check was written. Errors in members' accounts were also caused by timing issues related to the rebuilding of distributions by Ameritas, and issues related to Union Bank posting contributions in the wrong account which lead to improper distributions. The problems noted caused earnings variances in the members' accounts at both Union Bank and Ameritas. See corresponding Exhibits as described above for details.

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2. Distributions (Concluded)

Good internal control requires procedures to ensure member distributions are paid timely and recorded accurately in the record keeping system.

Neb. Rev. Stat. Section 84-1503.04 R.S.Supp., 2006 provides that the duties and responsibilities of the internal auditor employed by the Public Employees Retirement Board include reviewing benefit payments for completeness of information, appropriateness, accuracy, and timeliness.

Members may not have received proper benefit payments because NPERS did not have procedures to ensure the distributions processed by Union Bank were complete and accurate.

Additionally, member balances may not be correct because NPERS did not have procedures to ensure the reprocessing of the accounts by Ameritas were complete and accurate. This also causes variances between the record keeper assets and the bank assets.

We recommend NPERS determine all members that requested a distribution during the period July 1, 2006, through September 30, 2006, and ensure the distributions were properly paid and recorded by both record keepers, based on the requests of the members. We further recommend NPERS implement procedures to ensure all future payments made to members are complete, appropriate, accurate, and timely.

NPERS' Response: NPERS, Union Bank and Ameritas planned and prepared for 3 months prior to transferring the record keeping duties to Union Bank. Distribution procedures were discussed. NPERS provided Union Bank with the information for UBT to process a distribution. As soon as NPERS learned of distribution problems with Union Bank, we asked UBT to verify all distributions with us before sending them out until we were certain that problems were corrected. NPERS did not give UBT permission to withdraw the money from the account and let the money sit in the checking account for three days before getting approval and sending the checks out. NPERS staff was readily available to UBT staff for any questions that they had so the process would not be delayed.

NPERS is in the process of reviewing all member accounts that requested a distribution during the period of July 1, 2006 through September 30, 2006. All requests will be recalculated and verified that the proper amount was paid out based on the requests of the member. NPERS will communicate with Ameritas as to any adjustments that need to be made to the member's account to properly record the distribution.

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3. Contributions

Neb. Rev. Stat. Section 23-2308, R.S.Supp., 2006, states, “The board may charge the county an administrative processing fee of twenty-five dollars if the reports of necessary information or payments made pursuant to this section are received later than the date on which the board requires that such information or money should be received. In addition, the board may charge the county a late fee of thirty-eight thousandths of one percent of the amount required to be submitted pursuant to this section for each day such amount has not been received or in an amount equal to the amount of any costs incurred by the member due to the late receipt of contributions, whichever is greater. The late fee may be used to make a member’s account whole for any costs that may have been incurred by the member due to the late receipt of contributions.”

There are 91 counties, 18 health districts, and the State remitting contributions under the State and County Employees Retirement Plans. Employees also have the option to contribute to the State Deferred Compensation Plan. These employers remit the monies withheld from employees’ pay directly to the record keeper. Reports detailing the contribution information for each member are also remitted to the record keeper and NPERS.

The Board has not adopted a Rule and Regulation to define the date contribution amounts and information should be remitted, pursuant to the statute noted above for the County Plan. This was also noted in our prior audit report. Members’ contributions to the State Plan must be withheld monthly per statute, but, again, there is not a defined date the contributions must be remitted to the record keeper. When member contributions and information are remitted late, the member loses interest and NPERS does not have the authority to assess a late fee against the employers since the date due is not defined by the Board. The State Plan statutes do not include the same statutory language as the County Plan that authorizes NPERS to charge a late fee. NPERS should also implement procedures to monitor the timing of the remittance of contributions and information by the employers.

During our testing, we used the “check date” noted on the contribution information from the State, counties, or health districts to determine if contributions were remitted timely. For State employees, the “check date” represents the date the employees were actually paid; therefore, the retirement contributions were withheld from their pay on this date. For the counties and health districts, the “check date” may not represent the date the employees were paid. However, there was no other information available to determine the date the retirement contributions were withheld from county and health district employees.

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3. Contributions (Continued)

The following member accounts had contributions that did not post timely, and therefore caused a variance in the members' accounts due to earnings:

- 22 County member accounts in our random sample of 375 accounts (**Exhibit A**) had contributions posted from 1 to 33 days after the "check date."
- Our additional tests of 56 member accounts noted one County member (**Exhibit B**) had a contribution post one day after the "check date;" two State, one County, and one Deferred Compensation Plan member (**Exhibit C**) had contributions post from 9 to 41 days after the "check date," and one County member (**Exhibit D**) had a contribution post one day after the "check date."

Earnings variances ranged from an understatement of \$11 to an overstatement of \$4 in member account balances due to the posting of contributions. Late postings may be due to the employer not remitting contributions in a timely manner or delays by the record keeper in posting the contributions.

We also noted one member account (**Exhibit A**) with an account balance variance of \$201.05. The member was an employee of West Central District Health Department. We could not trace the contribution amounts posted by the record keeper to the reports remitted by the health department. We also noted NPERS did not have any of the retirement contribution information submitted to the record keeper for this health department. The contributions were also posted between 73 and 102 days after the "check date." The errors noted appeared to be due to improper remittance of retirement contributions by the health district and not due to errors by the record keeper.

Good internal control requires procedures to ensure member contributions are received timely from employers so that member contributions begin earning interest as soon as administratively possible.

Member accounts lose interest earnings without adequate procedures to ensure contributions are remitted timely by the employer.

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3. Contributions (Continued)

We recommend:

1. NPERS obtain an understanding of the county and health department procedures related to the withholding and remitting of retirement contributions. NPERS should document the dates the contributions are withheld from the members' pay and implement monitoring procedures to ensure the contributions are submitted and recorded timely to member accounts.
2. The Board implement a Rule and Regulation that defines when contributions from employers are considered late to enable NPERS to collect administrative fines in order to make member accounts whole.
3. The Board should also consider working with the Legislature to revise the statutes to enable them to administratively fine the State for late contributions.
4. NPERS implement procedures to educate the counties on the importance to the members, of timely remittance of contributions and reports to the record keeper.
5. NPERS consider the need for additional contributions to member accounts for the contribution timing errors noted in our testing and for all members of the same counties.
6. NPERS ensure all reports from employers are maintained as documentation to support the amounts withheld from employees as retirement contributions.

NPERS' Response: Counties send in their payroll contributions differently because each county has different payroll dates and different procedures for approving and signing checks. In their error testing, the APA used the payroll check date as the date the check should be deposited. It is contrary to banking and securities regulations to use the check date as the date the check was deposited. The Department of Labor legal standard for submitting retirement contributions is as soon as reasonably possible.

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3. Contributions (Concluded)

NPERS' Response, Concluded:

The APA recommends that we assess fines to the State and 91 Counties for late payroll contributions and that the PERB adopt a rule and regulation regarding this. The current statute allows the Board to charge \$25 and a late fee of thirty eight thousandths of one percent of the amount that is due per day or the amount lost by the member due to the late contribution. The PERB will review and consider whether it is practical to implement a rule and regulation to fine the State and County employers.

The APA tested 25 County members and all had a variance of less than \$11. NPERS will work with the State and Counties to encourage them to submit their payroll contributions as soon as is reasonably possible. We will also work with the County Health Districts to educate them on the remittance of payroll contribution procedures.

4. Reconciliation Procedures

Good internal control requires procedures to ensure member account balances maintained by the record keeper agree to the custodial bank records. Ameritas was the record keeper prior to July 1, 2006, and since October 1, 2006. Union Bank was the record keeper from July 1, 2006, through September 30, 2006. State Street Bank is the custodial bank.

Prior to July 1, 2006, NPERS reconciled the Ameritas activity for the defined contribution option to State Street Bank records. However, there had not been a reconciliation of Ameritas' activity for the cash balance option to State Street Bank records since the inception of the cash balance option in January 2003. For the period July 1, 2006, through September 30, 2006, when Union Bank was the record keeper, NPERS did not reconcile member account balances per Union Bank to State Street Bank records. NPERS indicated they had attempted to reconcile the defined contribution member accounts at Union Bank to State Street Bank. However, NPERS could not provide any documentation to support this reconciliation. During October 2006, when Ameritas rebuilt the member accounts, NPERS reconciled Ameritas' member account balances to State Street Bank records for the defined contribution option only. There was no reconciliation of the Ameritas cash balance option activity to State Street Bank records.

The following issues were noted during our comparison of the Ameritas and Union Bank balances to the State Street Bank activity:

- A. The defined contribution member account balances per Ameritas at June 30, 2006, did not agree to the defined contribution member account balances per Union Bank at July 1, 2006.

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4. Reconciliation Procedures (Continued)

Defined Contribution Member Account Balances		
Ameritas	Union Bank	
Ending Balances	Beginning Balances	
June 30, 2006	July 1, 2006	Difference
\$1,374,417,726	\$1,374,433,018	(\$15,292)

This variance was due to a conversion issue at Union Bank. The variance consisted primarily of County Equal Retirement Benefit Funds (ERBF). Union Bank reported \$15,105 in the money market fund of the County ERBF at July 1, 2006. However, Ameritas did not maintain any dollars in the money market fund for the County ERBF. The remaining variance is due to variances between Union Bank and Ameritas balances in the Deferred Compensation Plan accounts. Union Bank indicated the shares were in balance at July 1, 2006; however, there was no comparison of the dollars reported in member accounts by Union Bank to the dollars on hand at State Street Bank. NPERS is ultimately responsible for ensuring member account balances and activity agree with State Street Bank records.

- B. The defined contribution member account balances per Union Bank at September 30, 2006, did not agree to State Street Bank records.

Defined Contribution Member Accounts Balances		
September 30, 2006		
Union Bank	State Street Bank	
Ending Balance	Adjusted Balance *	Difference
\$1,018,062,844	\$1,018,072,277	(\$9,433)

* The State Street Bank balance was adjusted to account for the one day timing variance between the record keeper and the custodial bank.

NPERS was not aware of the variance between Union Bank and State Street Bank at September 30, 2006. NPERS did not provide Union Bank with copies of the State Street Bank statements. Again, NPERS is ultimately responsible for ensuring member account balances and activity agree with State Street Bank records.

- C. The cash balance activity recorded by Union Bank did not agree to the activity recorded by State Street Bank for the period July 1, 2006, through September 30, 2006.

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4. Reconciliation Procedures (Continued)

Cash Balance Activity July 1, 2006 through September 30, 2006				
Union Bank Contributions	Union Bank Withdrawals *	Union Bank Net Contributions and Withdrawals	SSB Net Contributions and Withdrawals	Difference
\$10,306,134	(\$5,676,298)	\$4,629,836	\$4,788,630	(\$158,794)

* The Union Bank withdrawals also include amounts reported by Union Bank as forfeitures.

Since NPERS did not have procedures to reconcile the cash balance activity between Union Bank and State Street Bank, they were unaware of the variance. NPERS is responsible for ensuring member activity agrees with State Street Bank records at all times.

- D. After the member accounts were rebuilt by Ameritas in October 2006, Ameritas had \$191,154 more in the defined contribution member accounts than State Street Bank had recorded. There was no comparison of the cash balance member accounts to State Street Bank records, as this was not possible. The cash balance accounts held by the record keeper do not equal State Street Bank records, as the record keeper is recording the contributions, distributions, fees, and a daily crediting rate to the member's account that is set in statute. However, the funds held by State Street Bank have earned more than the rate credited to member accounts, so the balance of the cash balance option at State Street Bank is higher than the balances in the member accounts at the record keeper. So, NPERS and Ameritas assumed there was no variance between the record keeper's cash balance accounts and State Street Bank records.

Ameritas then matched member account balances per Union Bank records to the rebuilt member account balances per Ameritas records as of September 30, 2006. It was determined that several accounts needed corrections. Ameritas made \$794,176 in corrections to both defined contribution and cash balance member accounts. The difference between the original variance (negative \$191,154) and the corrections made to member accounts by Ameritas (\$794,176) was \$603,022. The defined contribution member portion of this variance was \$209,556 and the cash balance member portion of this variance was \$393,466. Therefore, the defined contribution account at State Street Bank is \$209,556 higher than what is recorded in member accounts.

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4. Reconciliation Procedures (Continued)

- E. Union Bank utilized two separate computer systems. Relius recorded the detailed information on individual member activity and the account balances. Maui was used to record contributions and disbursements, in aggregate, similar to a checking account. These two systems were not interfaced. After Union Bank staff manually entered contribution and distribution activity into Relius for individual member accounts, they also manually entered the aggregate totals from Relius into Maui each day. NPERS was not aware of this issue. There was no attempt by NPERS to reconcile or agree the Maui activity to the Relius activity. We were unable to reconcile the two systems and Union Bank could not provide explanation for the variances between the two systems.

Without adequate procedures to ensure Plan assets are properly converted from one record keeper to the next, there is an increased risk that member account balances are not accurate. There is also an increased risk transactions are not processed accurately, or fraudulent activity has occurred in member accounts without adequate procedures by NPERS to ensure the member balances and activity at the record keeper agreed to State Street Bank records.

Unknown variances exist between Union Bank member balances and activity and State Street Bank records due to the lack of understanding by NPERS of the processing of transactions by Union Bank. There are also unknown variances between Ameritas member balances and activity and State Street Bank records. Excess assets at State Street Bank could belong to individual members, however, there could also be additional costs incurred by the Plans to resolve the problems noted throughout this report.

We recommend NPERS work with Union Bank and Ameritas to reconcile the variances that still exist between the record keepers and State Street Bank records. Any unresolved variances should be presented to the Board for proper approval of any resolution to the unknown variances. The resolution of the variances should also be communicated to all Plan members. We also recommend NPERS implement procedures to ensure activity in the cash balance accounts per the current record keeper, Ameritas, agrees to the activity recorded by State Street Bank.

NPERS' Response: Reconciliation efforts were very difficult during the period of July – September 2006. Reports and pertinent data were lacking for this period as Union Bank could not provide the needed documentation to complete the reconciliation process. Reconciliations

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4. Reconciliation Procedures (Concluded)

NPERS' Response, Concluded:

and comparisons were completed with the reports that NPERS had available at the time, however they were not complete. NPERS is committed to reconcile variances that still exist and will work with the former record keeper as well as the current record keeper to resolve these variances. NPERS is also committed to keeping the PERB and the plan members apprised of the results of this reconciliation. NPERS is implementing a plan to recalculate those member accounts that have had at risk activity.

The cash balance plans are now being reconciled comparing Ameritas trade activity to nightly trade activity to State Street Bank activity.

5. Daily Pricing Procedures

Good internal control requires a review of the record keeper's procedures to ensure the daily pricing of shares is accurate and documented and that member account activity is accurate.

Members of the State, County, and Deferred Compensation Plans own shares of investment funds, much like a mutual fund. Each member has an account maintained by the record keeper, who is responsible for recording the activity in the account. When monies are recorded in a member's account (for example a contribution from their pay), the monies are used to purchase shares in the investment funds elected by the member or in the cash balance option. The dollar value of the member accounts is determined by the number of shares held and the daily share prices. Each night the record keeper (Union Bank) and the custodial bank (State Street Bank) determined the new daily share prices. State Street Bank provided Union Bank with the current day net asset values. The net asset values are the total dollar amount on hand at State Street Bank at the close of business. This value considers monies received from both the record keeper and the fund managers of the assets. Union Bank used the prior day ending shares (in total for each fund) from their record keeping system to calculate the new daily share prices. See the following illustration:

Net Asset Value at SSB	Record Keeper Beginning Shares	Daily Share Price
\$ 479,277,914	352,900,074	\$ 1.358112

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5. Daily Pricing Procedures (Continued)

Union Bank then determined the total net activity for the day in each fund to communicate to State Street Bank. Information on the net activity for the day came from the Union Bank record keeping system. A net contribution for the day indicated that Union Bank received more contributions than the distributions processed. These excess contributions would be sent to State Street Bank to be invested. A net withdrawal for the day indicated that Union Bank distributed more than the contributions received. Therefore, State Street Bank would need to send funds from the investments to Union Bank.

After Ameritas was awarded the contract beginning October 1, 2006, Ameritas did not use the prices reported by Union Bank. Ameritas rebuilt the prices for each day in each fund based on activity reported by State Street Bank.

NPERS did not have an understanding of the procedures Union Bank used to price the shares. Therefore, NPERS was unaware of the following issues. We performed a walk through of the daily pricing procedures of Union Bank for September 1, 2006, and noted the following:

- A. On September 1, 2006, Union Bank recorded net contributions for all funds of \$127,250. This means the contributions posted by Union Bank exceeded the distributions made in the member accounts by \$127,250. This is the amount that would normally be sent (traded) to State Street Bank at the end of the day to be invested. However, due to processing errors made in previous days, Union Bank also recorded corrections in the amount of \$1,239,575 on September 1, 2006, that reduced the total fund activity. Therefore, the total amount received from State Street Bank on September 1, 2006 was \$1,112,325. Union Bank was able to provide documentation to support the majority of the corrections processed on September 1, 2006. However, there were three funds with corrections that were not supported. The corrections that were not supported included 15,345.82403 shares and \$18,606 for this one day. We understood Union Bank to process corrections similar to this throughout the contract period.
- B. Upon review of the activity pulled from the record keeping system at Union Bank on September 1, 2006, one fund did not have shares and dollars that were in agreement for that day. See the illustration below:

Total Shares Union Bank (Relius)	Daily Share Price Union Bank	Total Dollars (State Street Bank)	Union Bank Dollars	Variance
21,678,048.7049	\$1.499891	\$32,514,710	\$32,271,637	\$243,073

Union Bank was not able to provide an adequate explanation for the variance in the fund on this day.

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5. Daily Pricing Procedures (Continued)

We also noted the following related to other pricing issues:

- A. Union Bank and Ameritas provided electronic files of the prices recorded in their system for the period July 1, 2006, and September 30, 2006. We performed a comparison of the Union Bank daily prices and the Ameritas daily prices for each fund. We selected 10 Union Bank prices to test based on the variances. We compared the Union Bank prices to the prices recorded during the daily trade process. One of ten Union Bank prices in their system was not reasonable. For August 4, 2006, the share price received from Union Bank's system (\$1.274958) in the Investor Select Fund did not agree to the nightly trade sheet (\$1.067600). The nightly trade sheet is the documentation to support the daily traded activity and the daily share prices between Union Bank and State Street Bank.

- B. During testing of member accounts, we also noted two accounts with pricing issues:
 - 1. A county defined contribution member transferred funds on July 27, 2006, to the stable fund. At the time of the transfer, Union Bank had an incorrect share price of \$1.205434 in the county stable fund. The dollar amount of the transfer (\$66,454.83) was accurate; however, the shares traded were inflated to accurately reflect the dollar amount transferred. The shares traded in this transaction were 55,129.3808. Union Bank eventually corrected the share price in the county stable fund to \$1.788779, but did not adjust the shares. Therefore, an excess of \$32,159.45 was recorded by Union Bank as earnings. There was no effect to the member since the correct prices and transactions were recreated by Ameritas. However, this causes a variance between Union Bank records and State Street Bank.

	Shares	Share Price	Dollars
	55,129.3808	\$ 1.205434	\$ 66,454.83
Less:	55,129.3808	\$ 1.788779	\$ 98,614.28
			<u>\$ (32,159.45)</u>

- 2. Upon conversion of the records from Ameritas to Union Bank as of July 1, 2006, Union Bank had separate stable funds for State and County employees. Since the stable funds had the same price, the record keeper should have had one stable fund for all Plans. From July 1, 2006, through July 17, 2006, the county stable fund had an incorrect price of \$1.00 per share. The State stable fund (and actual price of the stable fund for that time period) was approximately \$1.78. One county defined contribution member had employee and employer contributions post to his account on July 10, 2006. Similar to the member noted above, excess shares were purchased in order for the proper contribution amount to be posted in the system. When Union Bank adjusted the prices, the account at Union Bank

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5. Daily Pricing Procedures (Concluded)

received excess earnings. Again, there was no effect to the member since the correct prices and transactions were recreated by Ameritas. However, this causes a variance between Union Bank records and State Street Bank.

	Shares	Share Price	Dollars
	168.0600	\$ 1.000000	\$ 168.06
Less:	168.0600	\$ 1.785255	\$ 300.03
			\$ (131.97)

There is an increased risk that daily prices are not recorded correctly without procedures to ensure the record keeper has accurately recorded transactions included in the daily trades. Errors due to the lack of review and supporting documentation can lead to the incorrect recording of member account activity.

We recommend NPERS ensure they have an adequate understanding of the daily pricing procedures between the record keeper and State Street Bank. The understanding of these procedures is critical in order to ensure errors and irregularities can be detected and corrected and to ensure member account activity is accurate.

NPERS' Response: NPERS believes that during the rebuild process, Ameritas used the correct share prices to properly credit member accounts. NPERS is in the process of recalculating member accounts that may have at risk activity. If any problems with member accounts are noted that may have resulted in using incorrect share prices, adjustments will be made. NPERS will continue to strive for a better understanding of daily pricing procedures between the current record keeper and State Street Bank.

6. Information Technology

The Board is responsible for sound information technology governance in order to sustain and extend management's strategies and objectives. Good internal control requires procedures to ensure the implementation of new applications and computer systems are adequately tested before the new system is solely relied upon to complete transactions accurately. When appropriate, a common business practice is to run a system in parallel with the old system prior to full implementation to confirm the new system and its applications function properly. Should the results of testing result in unanticipated behaviors or yield inconsistent data, the old system is available to continue processing information. If testing with mock data, testing should include as many scenarios and transaction types as possible to create a realistic environment. A test of system interfaces should be included to ensure data transfers occur with no problems.

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6. Information Technology (Continued)

We noted the following weaknesses concerning information technology:

- In Union Bank's response to NPERS request for proposal to provide record keeping and administrative services, it was noted the average plan size administered by Union Bank was 50 members, a total of over 22,000 participants. NPERS' Plans were significantly larger than Union Bank's average plan with more than 29,000 member accounts. In addition, Union Bank acquired a new record keeping system (Relius) in March 2006. The system had not been previously used by Union Bank to account for participant data; therefore, Union Bank was both transitioning to a new record keeping system and acquiring the NPERS' Plans.
- NPERS did not have documentation from Union Bank to indicate their record keeping system had been adequately tested to ensure data could be accurately and completely converted from Ameritas. There was also no documentation to support the testing of contribution data files from employers to Union Bank to ensure an automated processing of the employer files. Per corroborative inquiry of NPERS staff, we noted some testing on the conversion of data had been performed by Union Bank which indicated conversion errors prior to July 1, 2006. These conversion errors were not properly addressed or further tested prior to the transfer of the Plan records to Union Bank.
- Prior to July 1, 2006, the Ameritas record keeping system interfaced with NPERS' PIONEER system daily. This daily interface provided NPERS with information necessary to monitor plan and member activity and to record required information into the system. The Union Bank record keeping system was incompatible with PIONEER thus, daily activity was not sent to NPERS. Data later received from Union Bank, in alternative formats upon request, had to be manually entered into PIONEER. After the rebuild by Ameritas, PIONEER was updated with the activity for the period.
- We also noted conversion errors in our testing that affected member account balances at July 1, 2006. One State defined contribution member tested had money in the stable fund at the time of the conversion to Union Bank. A conversion error overstated the member's Union Bank beginning stable fund balance by \$1,949. No explanation was provided to explain how the error occurred. No variance was noted for the State stable fund in total between the Ameritas June 30, 2006, ending balance and the Union Bank beginning balance at July 1, 2006. This indicates the member noted above was not the only member with beginning balance conversion errors. We

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6. Information Technology (Concluded)

also noted conversion errors regarding beginning balances within other funds, as noted in the overall beginning balance variance within the defined contribution funds of \$15,292. See Comment Number 4 (Reconciliation Procedures).

Based on the evidence gathered in performing these procedures, we believe the failure of Union Bank to process transactions accurately, is in part, due to the new system not being adequately tested. Without adequate testing prior to implementation of a new system, the performance of a new system can differ unexpectedly from anticipated results and lead to problems that can delay day-to-day operations. Significant time and resources have been spent to remediate errors arising from NPERS not ensuring a new application was properly tested.

We recommend NPERS ensure all new applications and application changes affecting plan members are adequately tested prior to implementation to reasonably ensure they are functioning properly. Any conversion errors noted should be adequately reviewed by NPERS.

NPERS' Response: NPERS fully understands the importance of testing new information systems. In this case, conversion discussions were held with Union Bank staff for 3 months and steps were implemented to test the compatibility of the systems involved. There was to be a schedule of testing culminating with a complete parallel run between all systems involved during the last week of June 2006. NPERS was fully anticipating a parallel run and worked diligently to make this happen. It was later determined that this was not possible because of Union Bank's new system. The record keeper did not have a separate testing environment apart from their production environment for their record keeping software (Relius). It was determined by Union Bank that the parallel run was not possible due to the live data in their system involved with their other clients. Not all banking systems are able to run parallel. While it may be desirable, it is not always possible because of the difference in technology. NPERS was informed by Union Bank that any problems would be able to be resolved during the black out period. Many problems continued and some interfaces did not function. NPERS will work to ensure all new applications and application changes are fully tested.

7. Union Bank SAS 70 Audit Report

Good internal control requires procedures to ensure service organizations for the State and County Retirement Plans, as well as the Deferred Compensation Plan, have internal control structure policies and procedures that are suitably designed to achieve specified control objectives, that they have been placed in operation as of a certain date, and that the policies and procedures that were tested were operating with sufficient effectiveness.

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7. Union Bank SAS 70 Audit Report (Continued)

The Board contracted with Union Bank to provide certain recordkeeping and administrative services for the State and County Retirement Plans, as well as the Deferred Compensation Plan. Statement on Auditing Standards (SAS) No. 70, Reports on the Processing of Transactions by Service Organizations, provides guidance to the factors an independent auditor should consider when auditing the financial statements of an entity that uses a service organization to process certain transactions. The user organization (NPERS) is an entity that has engaged a service organization (Union Bank) to perform these certain transactions. Key controls involved in the processing of the transactions are at the service organization. Therefore, it is important that the user organization (NPERS) understand the key controls at the service organization (Union Bank). Part of the understanding of the key controls is obtained when an independent auditor reports on the processing of transactions by a service organization. The user organization (NPERS) would be responsible to ensure the SAS 70 report issued by the independent auditor is reviewed and understood.

The Request for Proposal for the record keeping and administrative services contract required the contractor to have a standard SAS 70 report completed annually. Union Bank received a SAS 70 audit that covered the period October 1 through March 31, once per year. Union Bank also implemented a new record keeping system in May 2006 that had not been audited prior to the contract with the Board. Therefore, from July 1, 2006, through September 30, 2006, the time period of the contract between the Board and Union Bank, there was no SAS 70 report of Union Bank controls. In addition, NPERS did not perform procedures for this period to ensure internal control structure policies and procedures were suitably designed, had been placed in operation, and were operating with sufficient effectiveness.

Without an adequate review of service organization controls there is an increased risk that:

- Member account transactions are not processed accurately;
- Member balances are not correct;
- Record keeper accounts do not agree to the custodian (bank) records;
- Financial activity is not recorded properly for financial statement presentation; and
- Fraudulent activity could exist in member or State accounts.

We recommend NPERS ensure their service organizations have internal control structure policies and procedures that are suitably designed to achieve specified control objectives, determine they have been placed in operation, and that the policies and procedures are operating with sufficient effectiveness.

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7. Union Bank SAS 70 Audit Report (Concluded)

NPERS' Response: NPERS is aware of the importance of obtaining a SAS 70 Audit Report from the record keeping service provider. This was a requirement of the RFP submitted by Union Bank. The response provided by Union Bank was as follows, "Union Bank and Trust is subject to an annual independent external review by our certified public accountants. An annual SAS 70 review is completed and available upon request." NPERS requested the annual SAS 70 audit from Union Bank several times. The SAS 70 report was sent to our office on September 22, 2006; however, the SAS 70 report did not apply to the UBT Relius record keeping system.

NPERS has received a SAS 70 Audit Report from the current record keeper. NPERS has determined that the policies and procedures of the current record keeper are operating with adequate effectiveness.

8. Interim Agreement

The Board and Ameritas entered into an Interim Agreement effective September 21, 2006, which outlined the reconstruction of member accounts performed by Ameritas to recreate plan activity during July 1, 2006, through September 30, 2006. This contract was needed when Union Bank withdrew from the administrative services contract with the Board, effective September 7, 2006. It was mutually decided that Ameritas would completely reconstruct the activity in the member accounts, rather than use Union Bank member accounts. There was no written agreement or instructions on how corrections of plan activity after the reconstruction would be handled by Ameritas. Therefore, for our testing purposes, we used the criteria outlined in the Interim Agreement for all activity originally processed during the period July 1, 2006, through September 30, 2006.

Exhibit A of the Interim Agreement outlined the information Ameritas would use to reconstruct members' accounts, noting "All Activity Files from the predecessor's record keeping platform" as one source of information. NPERS provided us with numerous files from Union Bank that included various file types, such as PDF files, text files, and Excel files, as well as from various sources, such as Relius, Maui, and files from the internet or Voice Response Unit. Some of the files contained some of the same information, but not all of the same information, so it was difficult to ascertain what files Ameritas actually used to reconstruct the accounts. NPERS did not have an understanding of what the files consisted of. We worked with Union Bank and Ameritas to determine what the specific files included and what files were used to reconstruct the member accounts.

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8. Interim Agreement (Continued)

Exhibit B of the Interim Agreement provided a description of the reprocessing and related services and activities to be performed with the rebuilding of the Plan participant records. The agreement specifically stated that, “The PERB understands and agrees that the Plan Data provided to Ameritas may be incomplete and/or inaccurate. As such the PERB further understands and agrees that Ameritas cannot and does not warrant or guarantee the accuracy or quality of the output of its re-processing efforts hereunder.” NPERS did not have procedures to determine whether the reprocessing efforts of Ameritas were complete and accurate.

The Interim Agreement required Ameritas to reprocess all Plan participant contributions, distributions, transfers, investment election changes, and fee assessments made between July 1, 2006, and September 30, 2006, which are included in the participant and plan data from Union Bank. The agreement also outlined certain assumptions that Ameritas would make when reconstructing the member accounts, such as the timing and processing of contributions, distributions, transfers, etc. We noted certain errors made in the reconstruction of members’ accounts. The interim agreement was not followed in some of these errors, such as the recording of systematic withdrawal options and the timing of the recorded transfers. Additionally, Ameritas did not process all corrections to members’ accounts using the original trade dates provided by Union Bank, or did not calculate earnings for all corrections, which caused variances. There were 49 member accounts with errors made during the reconstruction of the accounts, as follows:

- Four member accounts noted in Exhibit A
- One member account noted in Exhibit B
- Thirty-three member accounts noted in Exhibit C
- Eleven member accounts noted in Exhibit D

Sound business practice requires an understanding of the conditions and terms of any agreement entered into. Good internal controls require procedures to ensure terms of contractual agreements are complied with.

There is an increased risk that member accounts were not properly reconstructed and have incorrect account balances since NPERS did not have an understanding of the Union Bank files used by Ameritas to reconstruct member accounts. There is also an increased risk that member account balances are incorrect since NPERS did not perform procedures to ensure the reprocessing efforts of Ameritas were complete and accurate and since there was not a written agreement with Ameritas on how to process corrections to members’ accounts after the reprocessing of accounts. These errors could cause additional fees to member accounts in correcting any errors made during the reconstruction of the accounts.

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8. Interim Agreement (Concluded)

We recommend NPERS implement procedures to ensure they understand all aspects of contracts entered into, specifically concerning information provided and used for services rendered. We also recommend NPERS ensure the reprocessing efforts by Ameritas were complete and accurate. We recommend NPERS work with Ameritas to correct any member accounts with errors made during the reconstruction process.

NPERS' Response: NPERS was able to secure a successor record keeper following the termination of the agreement with Union Bank & Trust. As the entity with the next-ranked proposal for record-keeping services, Ameritas agreed to enter into an Interim Contract to reconstruct membership records and perform related duties and activities. The duration of the Interim Contract was 27 days. Time constraints precluded a lengthy analysis of best practices as an account activity blackout was necessary during the reconstruction. A complete set of documentation was unavailable at the time the Interim Contract was signed, which necessitated a "best estimate" of the resources which would be available. NPERS acknowledged in the Interim Agreement that certain information might be incomplete or inaccurate. The Interim Contract by its terms recognized the difficult task the reconstruction would present and by its terms provided for the possibility of incomplete and inaccurate information. As such, it can hardly be considered a contract which was entered into without an understanding of the services to be rendered—to the contrary, the contract explicitly recognized and provided for those difficulties. The PERB is confident that UBT, Ameritas and NPERS used appropriate efforts given the knowledge and information available to them at the time.

9. Procedures for Annuity Option

When a member elects an annuity option upon retirement, that member's account is cleared by the record keeper. Our review of this process noted that when Union Bank was awarded the contract, there was no clear communications between NPERS and Union Bank on the process used for the annuity options. As a result, our tests revealed annuity monies were not accounted for and invested properly.

Prior to the contract with Union Bank, Ameritas notified State Street Bank of the annuities purchased each day. The annuities purchased were not traded between Ameritas and State Street Bank. State Street Bank retained and invested the annuity money in order to fund future benefit payments to members. Upon request from NPERS, funds were sent from State Street Bank to NPERS for the payment of monthly annuities. This process was not detailed in the contract between Union Bank and NPERS. From July 1, 2006, through September 30, 2006, when a

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9. Procedures for Annuity Option (Continued)

member elected an annuity option, Union Bank cleared the members' accounts and traded the funds with State Street Bank. Union Bank received the balances of members electing the annuity option during the contract period. Periodic disbursements were still handled by NPERS with funds requested from State Street Bank.

The following issues were noted during our review of annuity processing:

- A. Account balances of plan members selecting annuities were sent to and retained by Union Bank throughout the period tested. Subsequent to the end of the Union Bank contract, NPERS realized the funds were not being held by State Street Bank and requested a transfer of funds for these annuities from Union Bank. The amount requested, \$1,946,600, was based on information from the records rebuilt by Ameritas, and was not verified as correct by NPERS. The amount requested by NPERS from Union Bank did not include two members' annuity amounts and included 100 percent of one member's balance when only 60 percent was requested to be used for an annuity. This amount was sent to State Street Bank on October 26, 2006. Our calculations revealed Union Bank had actually received \$2,003,154. Therefore, Union Bank owes the Plans an additional \$56,554 for annuity monies they hold.
- B. Annuity amounts held by Union Bank were not properly invested to earn a reasonable rate of return. The minimum rate of return the annuities, listed in letter A above, would have earned was \$21,401 at State Street Bank. This amount is based on the rate of return earned by the fund in which the annuities are initially transferred to, similar to a money market fund. However, annuity monies do not remain in this fund; instead they are invested in a number of funds with varying levels of risks and returns. Based on the combined average daily return of these funds for the period tested, the annuities held by Union Bank could have earned a return of up to \$89,000. Any money that was earned on the annuities held by Union Bank during the period was not transferred to the Plans.
- C. As record keeper, Union Bank processed contributions and withdrawals to or from member accounts. Union Bank and State Street Bank communicated and transferred funds on a daily basis to account for this daily activity. However, due to errors noted in the processing of transactions by Union Bank, corrections made to the daily amounts traded, and the lack of reconciliation between Union Bank's Relius system to its Maui system, Union Bank used the annuity monies they held to fund the daily

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9. Procedures for Annuity Option (Concluded)

activity of the Plans. The daily account balances at Union Bank for the Plans were less than the amount of annuities held for 36 days between July 1, 2006, and September 30, 2006. The daily account balances were also overdrawn on 14 days during the period annuity monies were held by Union Bank. Therefore, annuity monies held by Union Bank were used to fund daily activity.

Good internal control requires procedures to ensure all member and Plan funds are properly accounted for and invested.

There is an increased risk for loss of Plan funds without procedures to ensure annuity transactions are properly handled by the record keeper. There is also an increased risk for loss of investment earnings on Plan funds without procedures to ensure the annuity funds are properly invested. These losses affect earnings in the Plan and could also affect the overall funded status of the cash balance option.

We recommend NPERS develop and document an understanding of the annuity process between the record keeper and State Street Bank to ensure the annuity funds are properly accounted for and invested. We recommend NPERS request the \$56,554 payment from Union Bank of the additional annuities that are held at Union Bank and not remitted to State Street Bank.

NPERS' Response: NPERS communicated verbally with Union Bank in planning meetings regarding the annuity process for plan member accounts. Normally when a member takes an annuity upon retirement a paper only trade/transaction occurs and the money remains in State Street Bank. During July – September 2006, UBT withdrew the annuity money from State Street Bank and put it in an account at Union Bank.

NPERS will document procedures of the annuity process that occurred between NPERS, the record keeper and State Street Bank. The procedures will make certain the annuity monies are accounted for and invested properly at State Street Bank and will ensure that all parties understand the entire procedure. NPERS will work with Union Bank concerning the annuity monies that were not remitted to State Street Bank. NPERS will request the remaining amounts for annuities as well as the related earnings that would have been experienced had the money been invested properly with State Street Bank.

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10. Forfeitures

Neb. Rev. Stat. Sections 84-1321.01(1) and 23-2319.01(1) R.S.Supp., 2006 state, “For a member who has terminated employment and is not vested, the balance of the member’s employer account or employer cash balance account shall be forfeited. The forfeited account shall be credited to the State (County) Employees Retirement Fund and shall first be used to meet the expense charges incurred by the retirement board in connection with administering the retirement system, which charges shall be credited to the State (County) Employees Retirement System Expense Fund, and the remainder, if any, shall then be used to reduce the state (county) contribution which would otherwise be required to fund future service retirement benefits or to restore employer accounts or employer cash balance accounts.”

Good internal control requires procedures to ensure forfeited accounts are properly controlled and reviewed.

The contract between Union Bank and the Board for the period July 1, 2006, through September 30, 2006, did not contain specific language regarding forfeited member accounts. NPERS also could not provide adequate documentation indicating how they directed Union Bank to handle the forfeitures. NPERS has indicated they did not direct Union Bank to forfeit any accounts when members terminated. During the contract period Union Bank did forfeit certain member accounts. NPERS did not review the distributions processed by Union Bank to ensure the employer portion of member accounts were appropriately paid or forfeited. NPERS also did not review forfeitures as recorded by Ameritas until May 2007, after inquiries were made by the auditors.

We reviewed the forfeitures processed by Union Bank and rebuilt by Ameritas for the period July 1, 2006, through September 30, 2006, and noted the following:

- A. Twelve member accounts were forfeited by Union Bank during the period. NPERS identified 96 members whose accounts should have been forfeited during the period. We noted the following:
 - 1. One member’s employer account was forfeited on August 9, 2006, for \$3,811. Instead of depositing the forfeited amount into the forfeiture account, Union Bank withdrew \$3,811 from the forfeiture account in error. These two transactions (one reducing the member's account to zero and one reducing the forfeiture fund) were included in the daily trade. The funds sent to Union Bank were \$7,622. Since the Plan did not receive the funds from the member’s account and since Union Bank reduced the forfeiture account in error, the Plan is owed \$7,622 from Union Bank.

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10. Forfeitures (Continued)

2. One member's employer account was improperly forfeited on August 11, 2006, by Union Bank. The member was vested and should have been paid the employer portion of his account and was not. The total owed to the member is \$834. The member's employer account was correctly reinstated by Ameritas during the rebuild. Therefore, the funds are included in his employer account at Ameritas and need to be distributed to the member.
3. Three of twelve member accounts forfeited by Union Bank were not properly rebuilt by Ameritas. Ameritas improperly recorded the employer account as disbursed in the system, rather than as a forfeiture. This caused distributions to be overstated and the forfeiture account to be understated by \$115.

B. During the statistical sample of 375 members and additional testing performed, we noted the following:

1. Ten of 375 member accounts tested (**Exhibit A**) had employer balances ranging from \$21 to \$441 which were not properly forfeited.
2. Two of 34 member accounts tested (**Exhibit C**) had employer balances which were not properly forfeited. One employee was noted in A.2. above. The other employee had an employer balance of \$354 that was not properly forfeited.

All of these members were terminated but a cash balance dividend was posted to the employer account on October 27, 2006. These member's employer accounts had been previously forfeited, and therefore, the cash balance dividend should not be included in their employer accounts, they should have been forfeited as well.

C. NPERS uses the forfeiture account to pay administrative expenses of the Plans. NPERS sends a listing of expenses to the record keeper requesting payment from the forfeiture account and receives a check from the record keeper for those expenses. Monies requested from the forfeiture account by NPERS for administrative expenses were not properly recreated in the system by Ameritas for the period July 1, 2006, through September 30, 2006. NPERS requested and received a total of \$264,084 for expenses during the period. Ameritas did not record the expenses in their system

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10. Forfeitures (Continued)

until December 2006. The expenses occurred between July 1, 2006, and September 30, 2006. The forfeiture account at Ameritas is overstated by \$7,863 due to earnings recorded from the time the expenses were paid to NPERS to the time the expenses were recorded by Ameritas.

- D. There was also a variance in the forfeiture accounts due to the way fees were recorded by both record keepers for the period July 1, 2006, and September 30, 2006. Monthly fees are assessed by the record keeper for each account it maintains. These fees are part of the contract between the record keeper and the Board. Union Bank maintained four forfeiture accounts - the State Cash Balance, State Defined Contribution, County Cash Balance and County Defined Contribution. Ameritas maintained a forfeiture account for each of the 91 counties, one for the health districts, and one for the State. At September 30, 2006, Ameritas had a total of 66 forfeiture accounts with balances to which they recorded fees. Union Bank had only assessed fees to its four accounts. Therefore, when Ameritas recreated the activity between July 1, 2006, and September 30, 2006, they recorded \$239 more fees than actually had been assessed by Union Bank. The forfeiture accounts are understated by this amount at Ameritas.

There is an increased risk that member employer accounts were either not distributed to the member or were distributed to the member in error, without an adequate and timely review of member accounts that have requested payments. There is also an increased risk that the forfeiture account balances are not accurate, without adequate procedures to ensure forfeited accounts are properly controlled and reviewed timely. If the forfeiture account balances are not correct, it could lead to additional fees charged to member accounts to cover the expenses of administering the Plans.

We recommend NPERS review the distributions made to members during the period July 1, 2006, and September 30, 2006, to ensure the employer portion of the account was properly distributed to the member or properly forfeited. We also recommend NPERS establish procedures to ensure cash balance dividends are properly forfeited when the account has previously been forfeited. NPERS should also ensure monies owed to the Plans are properly remitted. We recommend NPERS work with Ameritas to ensure the forfeiture account balance is correct.

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10. Forfeitures (Concluded)

NPERS' Response: NPERS did not grant permission to Union Bank to complete the forfeiture transactions due to the problems that were occurring with the distributions. NPERS is in the process of reviewing all members that requested a distribution from their account during the period of July 1, 2006 through September 30, 2006. The account will be reviewed to verify the employer portion of the account was properly distributed to the member or to the forfeiture account. NPERS will strengthen the procedures concerning cash balance dividends dealing with the forfeited member accounts. NPERS and Ameritas will work together to make certain the balance in the forfeiture account is correct.

11. Review of Independent Accountant's Report Findings

NPERS obtained an *Independent Accountant's Report on Applying Agreed-Upon Procedures* from Hayes and Associates, an independent accounting firm, on November 30, 2006. The report noted issues regarding member activity processed by Union Bank for the period July 1, 2006, through September 30, 2006. The findings noted in this report have not been addressed by NPERS. A thorough review of the findings noted in the report would have indicated to NPERS specific areas of concern related to the processing of transactions by Union Bank. During our review of the findings, the following issues were noted:

- A. One member's beginning balance and contribution allocation rates were incorrect after the conversion to Union Bank. The contribution allocation rates in the defined contribution plan identify which investment option the contributions are invested in. The member was employed by two Nebraska counties, and as such, Ameritas maintained two different retirement accounts. During the conversion at Union Bank, these two accounts were converted to one account in Relius. Prior to the conversion each account at Ameritas had different contribution allocation rates; therefore, when Union Bank combined the accounts, the contributions were not allocated in accordance with the member's instructions. This caused an earnings variance of \$5 in the account. However, there was no effect to the member, as Ameritas reconstructed the activity in the account correctly. Additionally, this member's beginning balance was overstated by \$28,551 due to an error in conversion. County Plan members incur fees based on their account balances. As a result of the member's overstated balance, the member incurred excess fees of \$6. Again, there was no effect to the member as Ameritas rebuilt the member's accounts properly.

- B. One member received total payments in excess of her account balance. In July 2002, the member elected systematic withdrawal option payments of \$9,000 annually. The systematic withdrawal option provides payment to the member for the specified

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11. Review of Independent Accountant's Report Findings (Continued)

amounts and at specified time intervals until the balance of the account is exhausted. On July 3, 2006, Union Bank disbursed \$9,000 to the member. An additional \$900 was disbursed by Union Bank on July 6, 2006. At the time of the first payment in July 2006, the member's account balance was only \$2,612. Therefore the member was overpaid \$7,288. NPERS has not attempted to collect this overpayment from the member.

In July 2006 Union Bank agreed to process the systematic withdrawal payments due that month, even though member accounts had not been fully converted from Ameritas, and Union Bank did not have access to the member account balances. Union Bank used their own funds to process these payments based on a listing provided by NPERS. Ameritas created the listing of systematic withdrawal payments made to members during the previous year and included the member name, social security number, address, bank routing information, frequency of payment, and gross amount paid. The list did not include the account balance information. NPERS did not review the list from Ameritas before it was sent to Union Bank to ensure all members should receive a July 2006 payment and that appropriate taxes would be withheld. After the payments were processed by Union Bank, certain members contacted NPERS to indicate they did not feel they were owed the monies. NPERS forwarded the information to Union Bank in an email dated September 7, 2006, and requested a listing of all overpayments to members. According to NPERS, Union Bank did not respond to this email. NPERS did not perform any additional procedures to ensure all systematic withdrawal option payments made by Union Bank between July 1, 2006, and September 30, 2006, were proper.

- C. One member's 1099 form was not correct due to a manual input error in Union Bank's Maui system. The member elected a monthly systematic withdrawal payment of \$700. The member also elected the 20% Federal tax withholding and a flat \$40 State tax withholding. In August 2006 the member received \$520, which was confirmed by the member through the independent accountant. Maui recorded \$35 in State taxes, which is the standard 5% State tax withholding amount. This resulted in a net payment of \$525 recorded in Maui. Since the 1099 forms were produced from the Maui records, the 1099 form for this member was not accurate. The member received the correct amount of net payment.

Good internal control requires procedures to ensure the timely resolution of findings noted in an audit or examination. Good internal control also requires procedures to ensure all distributions made to members and the 1099 forms produced by Union Bank were accurate.

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11. Review of Independent Accountant's Report Findings (Concluded)

There is an increased risk for errors in member accounts without a thorough review of findings noted by an independent accountant. Although there was no effect on the account due to the conversion errors, there is a risk that members who received payment from Union Bank received incorrect amounts and they were not detected. There is also an increased risk that other members received payments that were not owed to them since there were not adequate procedures to review the systematic withdrawal option payments after errors were initially detected. Members may have received incorrect 1099 forms from Union Bank since information in Maui was manually entered and errors have been noted.

We recommend NPERS:

- implement procedures to ensure all findings noted in an audit or examination are resolved in a timely manner;
- consider a review of all account balances of members who received payment from Union Bank to ensure the account balance and activity was properly converted from Ameritas to Union Bank;
- review all systematic withdrawal payments made between July 1, 2006, and September 30, 2006, to ensure disbursements were properly paid;
- collect any overpayments made to members; and
- ensure 1099 forms produced by Union Bank agree to actual amounts distributed and taxes withheld.

NPERS' Response: NPERS staff and PERB were concerned that there may be some participant account balances that were not correct after the reconciliation. The Board and staff proactively hired an independent accounting firm to perform an "agreed upon procedures" review in November 2006.

We purposely waited to make corrections identified by the independent accountant until the APA was in agreement with the corrections that needed to be made. NPERS did not want to correct mistakes twice if the APA did not approve.

NPERS is reviewing all accounts that received distributions including systematic withdrawals. We will collect any overpayments still outstanding. We have compared the 1099's issued by Union bank to disbursements and taxes withheld and are making adjustments.

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12. Record Keeping Fees

The recordkeeping and administrative services agreement between the Board and Union Bank authorized Union Bank to charge a quarterly record keeping fee of \$4 per participant, per plan. (\$1.33 per month) This fee was to be applied to all participants with an account balance.

The interim agreement between the Board and Ameritas that defined the reconstruction of member accounts indicated that Ameritas shall reprocess all fee assessments made against Plan participants.

One member account, noted in Exhibit C, was charged \$2.66 for July 2006 by Union Bank. The member should have only been charged \$1.33.

During the reconstruction of member accounts, Ameritas was to record a \$1.33 fee to each account with a balance at each months end. Due to errors in the recording of distributions and contributions, fees were not always recorded properly. In some accounts, Ameritas recorded fees that Union Bank did not charge, but also did not record fees that were initially charged by Union Bank. For example, if Union Bank distributed an entire member's account in July 2006, but Ameritas did not record the distribution until October 2006, Ameritas would have recorded fees in July, August, and September of 2006 for the member. However, since the member's account was actually paid out in July 2006, no fees should have been assessed after the account was distributed. We noted Ameritas recorded incorrect fees for the following members:

- One member tested in Exhibit A
- Twenty-three members tested in Exhibit C

Good internal control also requires a review of the fees charged to members by NPERS. This would be particularly important after member accounts were reconstructed.

There is an increased risk that member accounts were not charged the appropriate fees without procedures to ensure fees charged to members are accurate and agreed to the fees assessed by Union Bank. Since Union Bank actually charged the fees to the members' accounts, any discrepancies in the fees recorded by Ameritas would also affect the reconciliation between the record keeper and the bank. There is also an increased risk fees charged to members will increase if the proper amount is not being assessed to all accounts.

We recommend NPERS implement procedures to ensure fees are properly charged to member accounts in accordance with the record keeping agreements. In addition, NPERS should review

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12. Record Keeping Fees (Concluded)

any individuals noted in our testing to ensure the proper fees are recorded in the member accounts. Fees should also be reviewed for any accounts subsequently tested by NPERS as a result of this report.

NPERS' Response: The dollar amount of this issue is very small and will cost more time and money to correct the error than is fiscally practical. These errors range from \$1.33 to \$4. Most of the mistakes with fees occurred with the rebuilding of the accounts by Ameritas using the best available information at the time. These errors will be corrected at the time other account errors are discovered and corrected.

13. Proper Accounting of Age-Based Account

Neb. Rev. Stat. Section 23-2309.01 and 84-1310.01 R.S.Supp., 2006, created the age-based account as an investment option for members of the defined contribution option of the State and County Employees Retirement Plans and for members of the Deferred Compensation Plan, as of July 1, 2006. The age-based account is invested with an asset allocation and investment strategy that changes based upon the age of the member. The asset allocation and asset classes utilized in the investments move from aggressive, to moderate, and then to conservative as retirement age approaches. The implementation of the account did not create any new funds at State Street Bank; instead it utilized the existing aggressive, moderate, and conservative pre-mix funds already established. However, the new age-based account requires an added record keeping function to ensure members' investments are properly transferred through the pre-mix funds as a member nears retirement age.

In August 2006, Union Bank separately identified and accounted for the age-based funds in member accounts. During our testing, we observed this separate account at Union Bank. Upon additional inquiry, we noted the Ameritas record keeping system has not been updated for the separate, automated tracking of the age-based account. Therefore, when Ameritas reconstructed member accounts during October 2006, the age-based funds in members' accounts were commingled in the appropriate pre-mix fund based on the members' age. Currently, Ameritas manually tracks the activity in the pre-mix funds to distinguish between the actual pre-mix fund monies and the age-based monies.

Members can only move money into the account via paper request. However, once the members' monies are in the age-based account the member is able to transfer monies out of the account via internet request. Without an automated separation of the age-based and pre-mix

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13. Proper Accounting of Age-Based Account (Continued)

monies, it would be difficult for Ameritas to determine the amount attributed to the age-based fund versus the amount attributed to the pre-mix funds, since the two are commingled at Ameritas. For example, if a member previously had contributions in the pre-mixed funds and as of July 1, 2006, elected to allocate 100% of the contributions to the age-based account, the age-based portion of the fund would increase faster than the pre-mix portion of the fund due to the contributions allocated to the age-based account. If the same member then requested a transfer of the age-based monies to another account, Ameritas would have to manually calculate the portion of the balance to transfer, since the monies are not separately accounted for at Ameritas.

In discussion with NPERS, there is not a timeframe or deadline with Ameritas for the implementation of a separate account. NPERS also did not have knowledge of the current status of the system update for the separate account. As noted, NPERS and Ameritas are manually tracking all members who have elected this investment option. NPERS maintains a listing of all members who have requested a transfer or allocation change to the age-based account and monitors the ages of the members to determine when they have reached the next age tier. Ameritas is also maintaining a list of all members with balances in the account and is tracking the age of the members. Additionally, Ameritas is also tracking the percentage and number of shares each member has in the age-based account. NPERS management had not identified the importance of the separation of the age-based accounts and the pre-mixed accounts. Additionally, NPERS had not developed a monitoring system to ensure age-based accounts are accurate. NPERS was willing to rely on Ameritas to ensure any funds transferred were correct.

There is an increased risk that members' account balances will not be correct for members electing transfers or allocation changes into or out of the age-based account, as all records are being manually kept and there are no monitoring procedures by NPERS to ensure these accounts are accurate.

We recommend NPERS ensure the age-based account is properly accounted for and set a timeline for the implementation of the automation of the age-based account. Additionally, when members request changes to their age-based accounts, we recommend NPERS perform an independent calculation to ensure any changes made are processed correctly and that the account balances of those members are correct.

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13. Proper Accounting of Age-Based Account (Concluded)

NPERS' Response: This fund was established by the legislature and implemented July 1, 2006 after Ameritas transferred the record keeping services to Union Bank, therefore there was no reason for Ameritas to program the change. When the record keeping services were transferred back to Ameritas, they were extremely busy working on higher priority issues with the reconciliation. There are fewer than 50 members in this account and both NPERS and Ameritas are manually keeping track of the member accounts invested in these funds until Ameritas is able to complete the programming of their system. NPERS will work with Ameritas to implement the automated procedures.

***NPERS' Overall Response:** The Nebraska Public Employees Retirement Systems (NPERS) recognizes that some errors occurred with the record keeping services during the conversions from Ameritas to Union Bank and Trust (UBT), and back again to Ameritas. From the time of the first conversion, we have committed ourselves to identifying and correcting these errors. We express our appreciation to Ameritas for their exemplary efforts to assist us in reconciling the accounts on behalf of the plan members.*

The highest priority of the Public Employees Retirement Systems Board (PERB) and NPERS has been the safety and accuracy of every member's account. The PERB has acted honorably, responsibly and timely as fiduciaries of the State and County Retirement Plans. NPERS staff has performed professionally and diligently under extremely difficult circumstances during the record keeping conversions and the reconciliation process.

NPERS wants to stress that it is the goal to ensure no plan member will lose any money. The errors reported are primarily transitional accounting errors and will be corrected.

NPERS has also been proactive by keeping the members informed and sending a notice to the plan members regarding this special audit. We will actively review member accounts that are at risk for errors and make corrections to those accounts. We have asked members to inform us in writing if they notice any errors in their accounts.

The APA has explained the statistical sampling method of the 375 member accounts. The APA has stated a range of errors that occurred in the member accounts tested. NPERS would like to stress the fact that 95.73% of the 30,000 accounts are correct. The APA has focused on the error rate of 4.27%. In examining the accounts with errors, it is important to recognize that 60% of the accounts with errors, contained errors of less than \$25, 46% contained errors of less than \$10, and 25% of the errors were less than \$5. These errors are relatively insignificant when considering that NPERS went through two conversion periods. It is not uncommon to experience some errors.

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NPERS' Overall Response, Concluded:

The additional member accounts tested by the APA were believed to be at risk for errors because of account activity such as disbursements and fund transfers. NPERS emphasizes that in the higher risk accounts tested, 70% of the errors were less than \$100, 48% of the errors were less than \$25, 34% of the errors were less than \$10, and 27% of the errors were less than \$5.

APA's Response: As indicated, our statistical sample noted 40% of errors were greater than \$25. Our additional testing noted 52% of errors were greater than \$25. Errors were noted ranging from understatements of \$4,111 to overstatements of \$4,407. A complete review of all at-risk accounts is needed to ensure those members their accounts are accurate.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@apa.ne.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Nebraska Public Employees Retirement Board:

We have performed the procedures enumerated below, which were agreed to by the Board of the Nebraska Public Employees Retirement Systems (NPERS), solely to determine whether member balances as of October 31, 2006, were fairly stated for members of the State and County Employees Retirement Plans, and the State of Nebraska Deferred Compensation Plan. NPERS management is responsible for maintaining member account balances and effective internal controls. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings (see comments section) are as follows:

1. Based on the statistical sample, we recalculated 375 member account balances at October 31, 2006, for activity in the account between July 1, 2006, and October 31, 2006. We used June 30, 2006, balances from the original record keeper as our beginning balance. No exception was taken to variances less than \$3. The following procedures were applied to each member:
 - a. Determined contributions were properly posted to member accounts;
 - b. Determined distributions were properly and timely paid;
 - c. Ensured fees were properly charged in accordance with the contractual agreements for the period July 1, 2006, through October 31, 2006;

- d. Determined all contributions, transfers, allocation changes, and fees were recorded timely to the member accounts;
- e. Determined earnings were properly calculated based on the net asset value provided by Ameritas; determined member account activity for the period was mathematically correct; and determined the balance at October 31, 2006, was materially correct.

There were 28 of 375 member accounts that contained at least 1 error, see Comment Numbers 1, 2, 3, 8, 10, and 12. See also Exhibit A for a detailed listing of exceptions.

- 2. We recalculated 5 member account balances at October 31, 2006, for activity in the account between July 1, 2006, and October 31, 2006. These accounts were selected from the Ameritas listing of 29,203 “matched” accounts. The “matched” accounts were those accounts that Ameritas compared the social security numbers to the accounts at Union Bank as of September 30, 2006, after Ameritas reconstructed the member accounts. We used June 30, 2006, balances from the original record keeper as our beginning balance. No exception was taken to variances less than \$3. Procedures described above in #1 a-e were applied.

There were 2 of 5 member accounts that contained at least 1 error, see Comment Numbers 1, 3, and 8. See also Exhibit B for a detailed listing of exceptions.

- 3. We recalculated 34 member account balances at October 31, 2006, for activity in the account between July 1, 2006, and October 31, 2006. These accounts were selected from the accounts Ameritas corrected after reviewing the “matched” listing noted above. We used June 30, 2006, balances from the original record keeper as our beginning balance. No exception was taken to variances less than \$3. Procedures described above in #1 a-e were applied.

All 34 accounts contained at least 1 error, see Comment Numbers 1, 2, 3, 8, 10, and 12. See also Exhibit C for a detailed listing of exceptions.

- 4. Due to the error rate noted in the member accounts with transfers we recalculated an additional 17 member account balances (for a total of 25) at October 31, 2006, for activity in the account between July 1, 2006, and October 31, 2006. We used June 30, 2006, balances from the original record keeper as our beginning balance. No exception was taken to variances less than \$3. Procedures described above in #1 a-e were applied.

There were 11 of 17 accounts that contained at least 1 error, see Comment Numbers 1, 3, and 8. See also Exhibit D for a detailed listing of exceptions.

- 5. We performed reconciliation procedures between Union Bank and State Street Bank activity for the period July 1, 2006, through September 30, 2006.

We noted the following:

- Variances existed between Union Bank and State Street Bank. At September 30, 2006, the defined contribution option had an ending balance variance and the cash balance option had a variance in the net contributions and withdrawals. Additionally, the beginning balance recorded by Union Bank did not agree to the Ameritas ending balance. NPERS did not have documentation to indicate they had performed reconciliation procedures. See Comment Number 4 for further details.
- NPERS was unaware of pricing issues at Union Bank affecting member accounts and did not have an understanding of the procedures used to price shares. See Comment Number 5 for further details.
- There was no documentation from Union Bank to indicate their record keeping system had been adequately tested to ensure data could be accurately and completely converted from Ameritas. See Comment Number 6 for further details.

During our procedures we noted certain other issues related to the controls over member accounts. These issues included service organization controls (Comment Number 7), annuity processes (Comment Number 9), proper accounting of age-based funds (Comment Number 13), weaknesses concerning information technology (Comment Number 6), and proper resolution of a November Independent Accountant's Report (Comment Number 11).

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the member account balances. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Nebraska Public Employees Retirement Systems, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

June 29, 2007


Assistant Deputy Auditor

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EXHIBIT A

Plan	Total Account Balance Variance at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly
EXTRAPOLATED ERRORS (variances over \$3)				
Contribution Timing Variance				
1 Sheridan County DC	(288.00)	(3.60)	The variance is due to the timing of the 10/30/06 contribution; this did not post to OMNI until 11/1/06. The total contribution was \$284.40, leaving a variance of \$3.60. There were three additional contributions from July through September with small timing issues (3-4 days) causing the remaining earnings variance. The member's account lost \$3.60 in earnings.	Yes
2 Dodge County DC	4.39	4.39	The variance is due to the timing of contributions. All six contributions between 7/1/06 and 9/30/06 posted 5 to 15 days after the check date. The member's account has \$4.39 in excess earnings.	Yes
3 Platte County DC	(4.02)	(4.02)	The variance is due to the timing of the 10/3/06 contribution; this did not post to OMNI until 10/18/06; 15 days after the check date. All other contributions for the period posted from 2 to 6 days after the check date. The member's account lost \$4.02 in earnings.	Yes
4 Johnson County DC	(4.00)	(4.00)	The variance is due to the timing of the 7/5/06 contribution; this did not post to OMNI until 7/24/06; 19 days after the check date. In addition, the 10/3/06 contribution did not post until 10/18/06; 15 days after the check date. All other contributions for the period posted from 6 to 9 days after the check date. The member's account lost \$4.00 in earnings.	Yes
5 Cuming County DC	(416.06)	(4.78)	The variance is due to the timing of the 10/31/06 contribution; this did not post to OMNI until 11/1/06. This contribution was \$411.28; leaving a variance of \$4.78. The remaining earnings variance was caused by the 9/29/06 contribution, this did not post until 10/18/06, 19 days after the check date. In addition, the two other contributions for the period posted from 5 to 7 days after the check date. Member account lost \$4.78 in earnings.	Yes
6 Lincoln County DC	(10.61)	(10.61)	The variance is due to the 9/25/06 contribution; this did not post to OMNI until 10/18/06; 23 days after the check date. All other contributions for the period posted from 3 to 7 days after the check date. The member's account lost \$10.61 in earnings.	Yes
7 Hall County DC	(5.83)	(5.83)	The variance is due to the 10/6/06 contribution; this did not post to OMNI until 10/18/06; 12 days after the check date. All other contributions for the period posted from 3 to 18 days after the check date. The member's account lost \$5.83 in earnings.	Yes
8 Kearney County DC	(3.66)	(3.66)	The variance is due to two contributions (8/31/06 & 9/29/06), which posted 11 days and 19 days, respectively, after the check date. The member's account lost \$3.66 in earnings.	Yes
9 Saunders County Hospital CB	(5.22)	(5.22)	The variance is due to the timing of contributions. The 9/15/06 contribution did not post to OMNI until 10/18/06; 33 days after the check date. The 9/29/06 contribution did not post until 10/26/06; 27 days after the check date. Six other contributions for the period posted from 14 to 25 days after the check date. The member's account lost \$5.22 in earnings.	Yes
10 Platte County DC	(9.52)	(9.52)	The variance is due to the 10/3/06 contribution; this did not post until 10/18/06; 15 days after the check date. The member's account lost \$9.52 in earnings.	Yes
11 Knox County DC	(4.98)	(4.98)	The variance is due to the 9/28/06 contribution; this did not post to OMNI until 10/18/06; 20 days after the check date. Other contributions during the period posted from 1 to 9 days after the check date. The member's account lost \$4.98 in earnings.	Yes

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Plan	Total Account Balance Variance at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly
12 West Central District Health Department - County CB	431.27	201.05	During the calendar year 2006 the health district had not reported, to NPERS, the contributions remitted to the record keeper. The health district, upon request, reported the contributions for the calendar year during our fieldwork. We noted the report remitted by the health district, for the member tested, did not agree to the contributions recorded by the record keeper. A contribution posted to Union Bank on 7/31/06 for \$689.66. This appeared to be the March through July contributions. However, we could not trace this amount to the health district report. The total contributions reported by the health district for March through July were \$779.58. Additionally, the October contribution recorded in OMNI was \$54.88, but the health district reported \$43.85. The errors noted appeared to be due to improper reporting by the health district not record keeper errors. We also noted the health district was not remitting contributions to the record keeper timely, contributions posted from 73 to 102 days after the check date. The variance noted is due to improper reporting of contributions by the health district and untimely remittance of contributions. The APA calculated 10/31/06 balance included the August, September and October contributions for a total of \$230.22, however the contributions were not posted by the record keeper until 12/11/06, 12/11/06 and 1/24/07, respectively. After these are accounted for the remaining variance is \$201.05. Because of the reporting problems noted we recommend NPERS determine whether the member is owed monies.	Yes
13 Madison County DC	(5.86)	(5.86)	The variance is due to the 9/29/06 contribution; this did not post to OMNI until 10/18/06; 19 days after the check date. Five other contributions for the period were posted from 3 to 5 days after the check date. The member's account lost \$5.86 in earnings.	Yes
<i>Note: Earnings variances between the dividends paid and the recalculated account balances are immaterial, no effect to the member because funds are not owed to the member.</i>				
Employer Dividends				
14 State CB	425.39	425.39	Employer cash balance dividends of \$1.31 on 6/15/06 and \$423.83 on 10/27/06 were credited to the member's account for a total of \$425.14. These funds should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a
15 State CB	20.61	20.61	An employer cash balance dividend of \$20.34 on 5/12/06 was credited to the member's account. This amount should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a
16 State CB	216.48	216.48	Employer cash balance dividends of \$0.36 on 6/15/06 and \$215.69 on 10/27/06, for a total of \$216.05, were credited to the member's account. This amount should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a
17 State CB	38.25	38.25	An employer cash balance dividend of \$42.65 on 5/12/06 was credited to the member's account. This amount should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a
18 State CB	441.27	441.27	An employer cash balance dividend of \$440.98 on 10/27/06 was credited to the member's account. This amount should have been forfeited. The employer account should be zero at 10/31/06, no effect to the member.	n/a
19 Buffalo County CB	45.40	45.40	An employer cash balance dividend of \$45.35 on 10/27/06 was credited to the member's account. This amount should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a
20 State CB	33.88	33.88	An employer cash balance dividend of \$33.01 on 5/12/06 was credited to the member's account. This amount should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a

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Plan	Total Account Balance Variance at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly	
21	State CB	178.94	178.94	An employer cash balance dividend of \$174.09 on 5/12/06 was credited to the member's account. This amount should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a
22	State CB	88.71	88.71	Employer cash balance dividends of \$15.31 on 5/12/06 and \$73.81 on 10/27/06, for a total of \$89.12 were credited to the member's account. These amounts should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a
23	State CB	424.39	424.39	Employer cash balance dividends of \$124.64 on 5/12/06 and \$296.81 on 10/27/06, for a total of \$421.45, were credited to the member's account. These amounts should have been forfeited because the employee was not vested at termination. The employer account should be zero at 10/31/06; no effect to the member.	n/a
Improper Transfers/Allocation Change					
24	State DCP	9.22	9.22	The variance is due to timing of contributions and transfer processing by Ameritas. The 10/11/06 contribution did not post until 10/18/06, 7 days after the check date. In addition, 2 of the 4 transfers reconstructed by Ameritas were processed using the date of the VRU request; however, because the time stamp was after 3:00 pm, these should have processed on the next business day (or the following Monday due to a weekend). APA calculated the transfers based on the VRU date with consideration for weekends and time stamp, APA transfer dates agreed to Union Bank trade dates. The member's account has \$9.22 in excess earnings at 10/31/06.	No - The Interim Agreement, Exhibit B (1)(C) states Ameritas shall use the trade date from the Activity File as the 'effective trade date' and for those not included on the Activity File, Ameritas will process the request using the date and time stamp from the request file as the 'effective trade date'. Ameritas will use 3:00 pm as the cutoff time. The member account is overstated at Ameritas by \$9.22 at 10/31/06 due to the improper reconstruction of the transfers.
25	State DCP	13.88	13.88	There were four transfers requested by the member during the period tested. During the reconstruction of the member account, the 9/12/06 transfer was processed by Ameritas on 10/16/06. The 9/13/06 and 9/27/06 contributions were also processed on 10/16/06. Since transfers are calculated based on the ending balance in the fund after all activity, the contributions were included in the fund balance used to calculate the transfer. This caused the fund balance to be negative. The money market fund and the international fund balances at 10/31/06 included variances of (\$301.36) and \$315.24 to account for the total variance of \$13.88. Additionally, on 9/20/06, Ameritas did not perform the transfer from the money market fund as requested. Ameritas had a zero balance at that time due to the negative balance created on 9/12/06. The member's account has \$13.88 in excess earnings at 10/31/06 because transfers were not recorded correctly.	No - transfers reconstructed by Ameritas caused funds to go negative and affected the earnings in the account. Ameritas processed the 9/12/06 transfer on 10/16/06 and also processed other activity, such as the 9/13/06 and 9/27/06 contributions, on 10/16/06, so these amounts were included in the balance for the 9/12/06 transfer and should not have been. The member account is overstated at Ameritas by \$13.88 at 10/31/06.
26	State DCP	(2,128.46)	(2,128.46)	There were four transfers during the period. The member requested a rebalance of his account on 8/28/06. A rebalance realigns the ending balance in each fund to match the percentages used to allocate contributions. The rebalance transfer was not recreated by Ameritas causing the next three transfers (on 8/29/06, 9/29/06 and 10/30/06) to be calculated different than the member requested. The member's account is due \$2,128.46 in earnings.	No - the Interim Agreement, Exhibit B (1)(C) indicates Ameritas shall re-process all transfers included in the Plan Data. Ameritas did not process the 8/28/06 transfer that was included in the Plan Data. Member account is understated by \$2,128.46 at 10/31/06.

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EXHIBIT A

Plan	Total Account Balance Variance at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly	
Distribution:					
27	State DC	(6.52)	(6.52)	The member elected monthly systematic withdrawals. Union Bank processed the August & September withdrawals on 8/1/06 and 9/1/06 in the Relius system; however the member was not paid (through ACH transaction) until 8/4/06 & 9/5/06 (3 and 4 days after the withdrawals were processed in Relius). Additionally, the 10/1/06 systematic withdrawal processed by Ameritas was not paid until 10/18/06. The member's account is owed \$6.52 in earnings due to the timing differences of the August & September withdrawals.	Yes
28	State CB	0.00	18.05	The member requested a 100% rollover. The RFD was date stamped as received on 8/10/06; however Union Bank did not process the distribution. The distribution was not processed until 10/23/06 by Ameritas; 74 days after the RFD was received. If the account had been disbursed on 8/10/06 the amount disbursed would have been \$83.98; the actual disbursement on 10/23/06 was \$98.19, a variance of \$14.21. The calculated disbursement on 10/23/06 per APA spreadsheet is \$82.80, a variance of \$15.39 from the actual disbursement of \$98.19 made in OMNI. The variance of \$15.39 is due to earnings on an improper contribution of approximately \$2,400 that was not reversed in OMNI for a full month (per NIS records the contribution was processed and reversed on 6/13/06). Therefore, the member was disbursed more than he was owed. Balance at 10/31/06 agrees because the entire account balance was paid out. No fees were posted for July and August, \$2.66. The member owes \$18.05 in improper earnings and unassessed fees.	Yes

NON-EXTRAPOLATED ERRORS

County Contribution Timing (under \$:					
Plan	Total Account Balance Variance at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly	
1	Merrick County CB	(335.60)	(2.79)	The contribution on 10/31/06 did not post until 11/15/06. The total contribution was \$332.81; leaving an earnings variance of \$2.79.	Yes
2	Grant County DC	(272.28)	(1.35)	The contribution on 10/31/06 did not post until 11/2/06. The total contribution was \$270.93; leaving an earnings variance of \$1.35.	Yes
3	Custer County CB	(144.94)	(1.02)	The contribution on 10/31/06 did not posted until 11/1/06. The total contribution was \$143.92; leaving an earnings variance of \$1.02.	Yes
4	Stuhr Museum DC	(170.77)	(0.13)	The contribution on 10/30/06 did not post until 11/6/06. The total contribution was \$170.64; leaving an earnings variance of \$0.13.	Yes
5	Sheridan County CB	(266.00)	(0.50)	The contribution on 10/30/06 did not post until 11/1/06. The total contribution was \$265.50; leaving an earnings variance of \$0.50.	Yes
6	Buffalo County DC	(292.02)	(2.89)	The contribution on 10/31/06 did not post until 11/1/06. The total contribution was \$289.13; leaving an earnings variance of \$2.89.	Yes
7	Merrick County DC	(242.35)	1.76	The contribution on 10/31/06 did not post until 11/14/06. The total contribution was \$244.11; leaving an earnings variance of \$1.76.	Yes
8	Buffalo County CB	(276.59)	(1.00)	The contribution on 10/31/06 did not post until 11/1/06. The total contribution was \$275.59; leaving an earnings variance of \$1.00.	Yes
9	Stuhr Museum County DC	(363.97)	(0.32)	The contribution on 10/30/06 did not post until 11/6/06. The total contribution was \$363.65; leaving an earnings variance of \$0.32.	Yes
10	Saunders County DC	(180.89)	(2.80)	The contribution on 10/31/06 did not post until 11/2/06. The total contribution was \$178.09; leaving an earnings variance of \$2.80.	Yes

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Distributions (under \$3					
11	State DC	1,030.93	1.83	<p>The member elected systematic withdrawals every March 1 & September 1 for \$1,000. Union Bank processed the September withdrawal on 9/3/06 (back dated to 9/1/06); however, the member was not paid (through ACH transaction) until 9/5/06. Earnings during these four days were \$29.10. When Ameritas rebuilt the distribution they did not record the distribution until 11/30/06 for \$1,000. Account is overstated at Ameritas by \$30.93 due to earnings on the \$1,000 from 9/5/06-10/31/06. Member is owed \$29.10 in earnings due to the distribution timing difference of 9/1/06 & 9/5/06. Therefore, the account balance is overstated by \$1.83 (\$30.93 - \$29.10), plus additional earnings through 11/30/06.</p>	<p>No - Ameritas did not record this recurring SWO, in accordance with the Interim agreement, Exhibit B (1)(B)(ii). This SWO had been paid by Ameritas prior to June 30, 2006. Member account is understated due to the Union Bank distribution timing difference by \$29.10 and overstated due to the Ameritas error by \$30.93, for a total overstatement of the member account by \$1.83.</p>
12	State DC	34,023.02	0.00	<p>The member elected systematic withdrawals of \$550 on the 1st of every month; therefore, the member should have received a payment on 10/1/06. Instead it was processed, by Ameritas on 10/18/06. The member also elected a 100% rollover on 10/6/06. This was not processed until 11/3/06 by Ameritas. The total variance is due to the distribution not processed timely and additional earnings on these distributed monies. There is no effect to member.</p>	Yes

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EXHIBIT B

Plan	Total Account Balance Variance at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly
1	Buffalo County DC \$ (303.58)	\$ (0.46)	The variance is due to the 10/31/06 contribution that did not post to OMNI until 11/1/06. The total contribution on 10/31/06 was \$303.12, leaving a variance of \$0.46.	Yes
2	State DC \$ 4,407.50	\$ 4,407.50	The member requested three transfers on 7/27/06. At Union Bank, members were allowed to transfer funds in less than full percentage points. Ameritas did not allow transfers less than a full percentage point. At the direction of NPERS, Ameritas did not recreate all of the member's transfers. One of the transfers that was not recreated, caused a significant loss to the member, which is not reflected in the member's account. Ameritas could have recorded the transfers using the dollar amount transferred as opposed to the percentage transferred. Additionally, Ameritas did not record an allocation change requested on 7/31/06. Due to these discrepancies at Ameritas during the rebuild of this members account, the account at Ameritas is overstated due to earnings by \$4,407.50 at 10/31/06.	No - Ameritas did not record the transfers and allocation change, included in the plan data, correctly. The Interim Agreement, Exhibit B (1)(C) indicates Ameritas shall re-process all transfers included in the Plan Data. Member's account is overstated at Ameritas by \$4,407.50 at 10/31/06 due to errors made during the rebuild.

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EXHIBIT C

Ref #	Plan	Total Account Balance at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Total Amount Understated/ (Overstated)	Explanation	Account was rebuilt properly
Distributions						
1	State CB	\$38,350.16	\$202.08	\$15.66	The member elected a \$10,000 lump sum payment and the remainder in an annuity. Union Bank did not initially pay the \$10,000 lump sum as requested, but recorded the entire account balance as an annuity on 7/31/06. When the mistake was realized, Union Bank paid the \$10,000 lump sum on 8/9/06 and adjusted the annuity amount. Earnings on the \$10,000 between 7/31/06 and 8/9/06 were \$15.66. This was not credited to the account or paid to the member. In addition, Ameritas did not record the lump sum or annuity until 11/29/06. The amount recorded by Ameritas was \$38,552.24, the amount calculated by the APA was \$37,766.93, causing a variance of \$785.31, not due to the member. \$585.89 in earnings were from 8/9/06 to 10/31/06. \$199.42 in earnings were from 10/31/06 to 11/29/06. In addition, Ameritas recorded fees for August and September for a total of \$2.66, fees should not have been assessed as the member's account was paid out on 8/9/06. The member is owed \$15.66 due earnings on the distribution processed by Union Bank.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas. There was no effect to the member for the Ameritas reconstruction. However, member is owed \$15.66.
2	State DC	\$23,044.63	\$544.63	(\$522.53)	The member elected a systematic withdrawal of \$22,500. Union Bank processed the distribution on 9/3/06 but did not write the check until 9/5/06. Additional earnings on the funds from 9/3/06 to 9/5/06 were \$22.10 and are due to the member. Additionally, Ameritas did not record the distribution until 11/30/06 causing an excess earnings of \$544.63 in the member's account. The member account is overstated by \$522.53.	No - Ameritas did not record this recurring SWO, in accordance with the Interim agreement, Exhibit B (1)(B)(ii). This SWO had been paid by Ameritas prior to June 30, 2006. Additional earnings (not due to the member) recorded by Ameritas, \$544.63, less the additional earnings due to the member for the Union Bank timing difference, \$22.10, for a total of \$522.53, is the amount the account is overstated at Ameritas.
3	State CB	(\$1,814.98)	(\$50.25)	\$1,814.98	Union Bank processed the member's annuity request on 9/13/06 for \$88,164.14. Union Bank incorrectly posted the final contribution on 7/21/06 to a State DC account instead of posting to the member's CB account. Therefore, when Union Bank processed the annuity request, the member's 7/21/06 contribution for \$1,764.73 was not included in the annuity payout. When Ameritas rebuilt the account they showed a 100% annuity including the final contribution, as the member requested. Ameritas corrected the discrepancy in the distribution, due to the Union Bank error, by posting a miscellaneous receipt for \$1,764.73 to the member's account on 1/31/07. Earnings were not credited to the member's account by Ameritas. In addition, \$3.99 in fees for July through September were not recorded in OMNI. The member is owed \$1,814.98, which includes the contribution amount and \$50.25 in earnings from 9/13/06 to 10/31/06. Additional earnings are also owed through at least 1/31/07.	No - the proper amount of earnings have not been credited to the member's account for the Ameritas error. Additionally, the contribution that was not processed by Union Bank is either owed to the member or should be included in the annuity calculation. The member is owed \$1,814.98.
4	State DC	\$5,050.80	\$50.80	(\$45.33)	The member elected a partial lump sum withdrawal of \$5,000. Union Bank processed the distribution on 8/29/06 but did not process the ACH until 9/1/06. Additional earnings on the funds from 8/29/06 to 9/1/06 were \$5.47 and are due to the member. Ameritas did not record the distribution until 11/30/06. The member's account accumulated \$50.80 in earnings between 9/1/06 and 10/31/06, not due to the member. The member account is overstated by \$45.33.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings that are recorded at Ameritas but not due to the member. Member account is overstated at Ameritas by \$45.33.

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EXHIBIT C

Ref #	Plan	Total Account Balance at 10/31/06	Total Account Variance	Variances (after Ameritas corrections in subsequent months)	Total Amount Understated/ (Overstated)	Explanation	Account was rebuilt properly
5	Lincoln County DC	\$18.31		\$1.93	(\$1.93)	Union Bank disbursed a systematic withdrawal for \$265.34 on 7/3/06. When Ameritas rebuilt the account the withdrawal was recorded for \$248.96. A difference of \$16.38. To correct the member's account, \$16.38 was withdrawn from the account on 12/28/06. This caused an earnings variance of \$1.93 that should not have been credited to the member's account. Earnings in the member's account are overstated by \$1.93.	No - Ameritas did not record proper amount for distribution and additional earnings accrued on the account that were not due to the member. Member account is overstated by \$1.93 for the Ameritas error.
6	State DC	\$77,722.77		\$222.16	\$11.62	The member elected an annuity in August 2006. The member was in the DC plan To process an annuity the member account is transferred to the CB plan. Union Bank closed the member's DC account on 9/13/06 for \$77,096.44. On 9/14/06 Union Bank credited the DC balance to the CB plan and the annuity was processed for the same amount, \$77,096.44. APA calculated the annuity payment on 9/14/06 to be \$77,108.06, a difference of \$11.62 due to earnings between 9/13/06 and 9/14/06. Union Bank did not process the earnings for the one day. In addition, when Ameritas rebuilt the account they only recorded the transfer from the DC account to the CB account, they did not record the annuity payment until 11/17/06 for \$77,944.93, a variance of \$836.87 between our calculated payment. Because the account was not properly rebuilt by Ameritas, excess earnings of \$618.29 accrued on the member's account from 9/14/06 through 10/31/06. Additionally, \$218.58 accrued on the member's account from 10/31/06 through 11/17/06. Fees were also not recorded for September and October for \$3.58. There is no effect to the member on the Ameritas reconstruction of the account. However, the member is due earnings of \$11.62 from the Union Bank timing issue.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas, not due to the member. There was no effect to the member for the Ameritas reconstruction. Member is owed earnings for the Union Bank timing difference, \$11.62.
7	State DCP	(\$4,111.25)		(\$3,486.25)	\$4,111.25	Union Bank processed a 100% annuity, closing the member's account, on 8/7/06 for \$80,100.68. The member's last contribution on 5/30/06, for \$625, did not post to Union Bank's system until 8/17/06 (back dated to 7/10/06); therefore, this was not included in the payout and did not receive the correct earnings. In addition, Union Bank did not disburse the account until 9/19/06. APA calculated the annuity on 9/19/06 for \$84,066.70, a difference of \$3,966.02 due to the 5/30/06 contribution and earnings on the account between 6/30/06 to 7/10/06 and from 8/7/06 to 9/19/06. When Ameritas rebuilt the distribution on 8/7/06 for \$80,721.46, they included the last contribution of \$625 in the payout. Since the contribution was not disbursed by Union Bank, Ameritas corrected the account by posting a miscellaneous receipt for \$625 on 1/31/07. Earnings on this amount and earnings on the disbursement from 8/7/06 to 9/19/06 were not posted. In addition, fees of \$4.62 for August, September and October were not recorded by Ameritas. Member is owed \$4,111.25 (\$3,966.02 from Union Bank distribution timing difference and the 5/30/06 contribution plus \$145.23 from earnings on these issues), plus additional earnings from 11/1/06-1/31/07 and on the last contribution from 5/30/06 to 6/30/06 that the APA did not calculate.	No - the proper amount of earnings have not been credited to the member's account for the Ameritas error. The correction of the error by Ameritas did not include earnings on the contribution that was never distributed. Member is also owed earnings for the Union Bank timing differences. Member is owed \$4,111.25, plus additional earnings.
8	State CB	(\$2,824.10)		(\$79.44)	\$2,824.10	The member elected a 100% annuity. Union Bank processed the annuity, closing the members account, on 8/7/06 for \$133,236.29. APA calculated the annuity amount on 8/8/06 for \$136,022.39, a difference of \$2,786.10. The difference is due to the following: 1) the member's last contribution on 5/30/06, for 2,744.66, did not post to Union Bank's system until 8/17/06 (back dated to 7/10/06); therefore, this was not included in the payout. 2) Union Bank closed the member's account on 8/7/06 but did not process the annuity until 8/8/06 causing an earnings variance of \$23.65, due to the member. 3) The additional variance of \$17.79 is due to earnings on the late posting of the 5/30/06 contribution between 6/30/06 and 7/10/06.	No - the proper amount of earnings have not been credited to the member's account for the Ameritas error. The correction of the error by Ameritas did not include earnings on the contribution that was never distributed. Member is also owed earnings for the Union Bank timing difference and late posting of the contribution. Member is owed \$2,824.10, plus additional earnings.

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			Variances (after Ameritas corrections in subsequent months)			
					When Ameritas rebuilt the distribution on 8/7/06 for \$135,995.33 the 5/30/06 contribution was included in the payout. To correct the account, a miscellaneous receipt was recorded for \$2,744.66 on 1/31/07, earnings were not recorded. In addition, fees were not posted for July through September for a total of \$3.99. The member is owed \$2,824.10, which includes the 5/30/06 contribution of \$2,744.66 and additional earnings of \$79.44. The \$79.44 includes earnings on the last contribution from 6/30/06 to 7/10/06 (\$17.79) and from 8/7/06 to 10/31/06 (\$38.00) plus the earnings from the Union Bank timing variance (\$23.65). Member is also due additional earnings from 11/1/06-1/31/07 and on the last contribution from 5/30/06 to 6/30/06 that the APA did not calculate.	
9	Washington County CB	(\$37.94)	(\$9.64)	\$37.94	The member elected a 100% withdrawal. Union Bank processed the distribution on 8/7/06 for \$14,081.37, but did not write the check until 8/11/06. APA calculated the distribution on 8/11/06 for \$14,119.48, a difference of \$38.11. The member's last contribution on 8/11/06 did not post to Union Bank until 8/14/06 for \$28.30 and therefore was not included in the distribution. The remaining variance is due to the difference in earnings between 8/7/06 and 8/11/06. When Ameritas rebuilt the distribution on 8/7/06 they included the last contribution of \$28.30 in the payout for a total payout of \$14,109.60. To correct the account, a miscellaneous receipt was posted for \$28.30 on 1/31/07, earnings were not posted. In addition, fees were not posted by Ameritas for August and September. Fees no posted totaled \$2.66. The member is owed \$37.94, which includes the \$28.30 contribution and the \$9.64 which includes the earnings variance caused by the Union Bank timing issue from 8/7/06 to 8/11/06, plus additional earnings from 11/1/06-1/31/07.	No - distribution amount recorded by Ameritas was for more than was actually distributed, as Union Bank did not distribute all of the account. The correction of the error by Ameritas did not include earnings on the contribution that was never distributed. Member is owed \$37.94, plus additional earnings.
10	State CB	\$75,179.46	\$367.37	\$113.72	The member elected a 100% rollover to two different companies (50% to each). Union Bank processed the distribution in Relius on 9/12/06 for \$107,453.89. However, the checks were not written until 9/18/06, APA calculated the rollovers on 9/18/06 for a total of \$107,567.61, a variance of \$113.72 due to earnings. When Ameritas rebuilt the distributions they only recorded \$32,896.86 on 9/12/06. To correct the account they recorded a distribution for \$75,546.83 on 11/29/06. Total distribution recorded by Ameritas was \$108,443.69, a variance of \$876.08 between our calculated payment. Because the account was not properly rebuilt by Ameritas, additional earnings of \$510.04 accrued on the member's account through 10/31/06 that are not due to the member. Additionally, earnings of \$366.04 accrued on the member's account from 10/31/06 through 11/29/06 that are also not due to the member. Fees of \$1.33 were also recorded in OMNI for September but there should have been no account balance. The member is owed \$113.72 in earnings between 9/12/06 & 9/18/06, due to the distribution timing difference.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees. There was no effect to the member for the Ameritas reconstruction. However, the member is owed \$113.72 due to the Union Bank timing issue.
11	State DC	\$25,205.84	\$234.25	\$78.92	The member elected an 80% rollover and the remaining 20% in a lump sum payment. Union Bank processed the distribution in Relius on 9/12/06 for \$30,386.23. However, the checks were not written until 9/15/06, APA calculated the disbursements on 9/15/06 for a total of \$30,465.15, a variance of \$78.92 due to earnings. When Ameritas rebuilt the account they only recorded the 20% withdrawal for \$6,077.71. To correct the account they recorded the remaining amount in the account as a distribution for \$25,440.09 on 11/28/06. Total distribution recorded in OMNI was \$31,517.80, calculated distribution by APA was \$30,465.15, variance of \$1,052.65 in earnings, not due to member. \$821.98 in earnings was accumulated in the account from 9/15/06 to 10/31/06 and \$230.67 in earnings was accumulated from 10/31/06 through 11/28/06. In addition, fees were recorded in OMNI for September and October for \$3.58 but should not have been as the account was fully paid out on 9/15/06. The member is owed \$78.92 in earnings between 9/12/06 & 9/15/06, due to the distribution timing difference at Union Bank.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas, but not due to the member. The member is owed \$78.92 due to the timing error at Union Bank.

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Ref #	Plan	Total Account Balance Variance at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Total Amount Understated/ (Overstated)	Explanation	Account was rebuilt properly
12	State DC	(\$91.19)	(\$20.38)	\$91.19	The member elected a 100% withdrawal. Union Bank closed the account in Relius on 7/24/06 for \$10,717.26, however the check was not written until 7/25/06. APA calculated the distribution on 7/25/06 for \$10,805.07, a difference of \$87.81. This difference is caused by the member's last contribution on 5/30/06, for \$70.81, which did not post to Union Bank's system until 8/17/06 (back dated to 7/10/06); therefore, the contribution was not included in the payout. Additionally, there is an earnings variance of \$17.00 due to earnings on the late posting of the 5/30/06 contribution between 6/30/06 and 7/10/06 and due to the timing difference between 7/24/06 and 7/25/06. When Ameritas rebuilt the distribution on 7/24/06 for \$10,787.94 the last contribution of \$70.81 was included in the payout. To correct the account a miscellaneous receipt was recorded in OMNI for \$70.81 on 1/31/07, but did not include earnings. In addition, fees were not charged for July - October for a total of \$6.00. Member is owed \$91.19, which includes the 5/30/06 contribution of \$70.81 and additional earnings of \$20.38. The \$20.38 includes earnings on the last contribution from 6/30/06 to 7/10/06 (\$0.17) and from 7/25/06 to 10/31/06 (\$3.38) plus the earnings from the Union Bank timing variance (\$16.83). Additionally, the member is due earnings from 11/1/06-1/31/07 and on the last contribution from 5/30/06 to 6/30/06 that the APA did not calculate.	No - distribution amount recorded by Ameritas was for more than was actually distributed, as Union Bank did not distribute all of the account. The correction of the error by Ameritas did not include earnings on the contribution that was never distributed. Member is also owed earnings for the Union Bank timing difference. Member is owed \$91.19, plus additional earnings.
13	State DCP	\$5,280.60	\$96.93	\$3.88	The member elected a \$2,500 lump sum payment and a rollover of the remainder of the account balance. Union Bank processed the distributions in Relius on 8/9/06 for \$7,339.13. However, the checks were not written until 8/11/06. APA calculated the disbursements on 8/11/06 for \$7,343.01 a variance of \$3.88 due to earnings. When Ameritas rebuilt the account they only recorded the lump sum withdrawal of \$2,500 on 8/9/06. To correct the account they recorded the remaining amount in the account as a distribution for \$5,377.53 on 11/17/06. Total distribution recorded by Ameritas was \$7,877.53, calculated distribution by APA was \$7,343.01, the variance of \$534.52 is earnings, not due to member. There was \$443.41 in earnings from 8/11/06 to 10/31/06 and \$91.11 in earnings was from 10/31/06 through 11/17/06. In addition, fees were recorded in OMNI for August, September and October for \$5.82 but should not have been as the account was fully paid out on 8/11/06. No effect to member for the rebuilding of the account in OMNI. However, the member is owed \$3.88 in earnings between 8/9/06 & 8/11/06, due to the distribution timing difference at Union Bank.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas, but not due to the member. The member is owed \$3.88 due to the timing difference at Union Bank.
14	State DC	\$3,436.54	\$89.16	\$27.73	The beneficiary requested a partial withdrawal of \$8,800. Union Bank transferred the deceased's account to the beneficiary's account, and processed the distribution on 9/12/06. However, the check was not written until 9/15/06. APA recalculated the member's account using the 9/15/06 date and calculated earnings of \$27.73 for the 3 days that was not credited to the beneficiary's account. When Ameritas rebuilt the distribution they only recorded the employer portion of the distribution, \$5,502.22. To correct the account Ameritas recorded a distribution of \$3,525.70 on 11/17/06. Total distribution by Ameritas was \$9,027.92, APA distribution was \$8,800, for a variance of \$227.92. \$140.08 in earnings were for the period 9/15/06 to 10/31/06 and \$87.84 in earnings was from 10/31/06 through 11/17/06. In addition, fees of \$1.32 were charged in excess. No effect to the member for the rebuilding of the account in OMNI. However, the member is owed \$27.73 in earnings between 9/12/06 and 9/15/06, due to the distribution timing difference at Union Bank.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas, but not due to the member. The member is owed \$27.73 due to the timing difference at Union Bank.

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Ref #	Plan	Total Account Balance at 10/31/06	Total Account Variance	Variances (after Ameritas corrections in subsequent months)	Total Amount Understated/ (Overstated)	Explanation	Account was rebuilt properly
15	State DC	(\$720.88)		\$123.57	(\$117.33)	The member elected a monthly systematic withdrawal starting 8/1/06 for \$700. The withdrawal was not processed by Union Bank in August. In addition, the September payment was recorded on 9/1/06 in Relius but not actually paid by Union Bank until 9/22/06, calculated earnings during this period were \$2.29. When Ameritas recreated the member's account they recorded the \$700 withdrawal on 8/1/06 that was never paid to the member. To correct the account Ameritas credited the account \$700 and cash earnings of \$144.45 on 11/28/06. APA recalculated the account through 12/31/06 and did not agree with the cash earnings posted by Ameritas to the account on 11/28/06. Our calculation shows the member's account balance is overstated by \$119.62 at 12/31/06 due to excess cash earnings posted to the account on 11/28/06. Member is also owed \$2.29 for earnings between 9/1/06 & 9/22/06, for the distribution timing difference at Union Bank. Total overstatement of member account is \$117.33 at 12/31/06.	No - the proper amount of earnings have not been credited to the member's account. Member's account is overstated by \$119.62 and is also due \$2.29 for the Union Bank timing issue, for a total overstatement of \$117.33.
16	State CB	(\$2,398.69)		(\$201.03)	\$2,398.69	The member elected a 100% rollover. Union Bank processed the disbursement on 8/29/06 in Relius and wrote the check on 9/1/06 for \$233,562.63. Earnings on the timing of the distribution from 8/29/06 to 9/1/06 were \$121.95. Union Bank incorrectly posted the final contribution on 7/19/06 to a State DC account instead of posting to the member's CB account. Therefore, when Union Bank processed the rollover request, the member's 7/19/06 contribution for \$2,197.66 was not included. Additionally, because the member had two accounts at Union Bank at the end of July, the member was charged July fees twice, the member was overcharged \$1.33. When Ameritas rebuilt the account they showed a 100% rollover, including the final contribution, as requested by the member for \$235,776.59 on 8/29/06. Ameritas corrected the discrepancy in the distribution, due to the Union Bank error, by posting a miscellaneous receipt for \$2,197.66 to the member's account on 1/31/07. Earnings were not credited to the members account by Ameritas. In addition, no fees were recorded in OMNI for July through September for \$4.00. The member is owed a total of \$2,398.69. This includes the final contribution not paid out of \$2,197.66; plus the Union Bank timing difference from 8/29/06 to 9/1/06; plus earnings, less fees, through 10/31/06 for \$201.03; plus earnings from 11/1/06 through 1/31/07 that the APA did not calculate.	No - the proper amount of earnings have not been credited to the member's account for the Ameritas error. Additionally, the contribution that was not processed by Union Bank is owed to the member. Member is owed \$2,398.69 for the error related to the 7/21/06 contribution and due to the timing of the distribution at Union Bank.
17	Phelps County CB	\$11,505.67		(\$54.22)	\$9.90	The beneficiary elected a 100% withdrawal. Union Bank processed the distribution in Relius on 8/24/06 for \$11,375.86. However, the check was not written until 8/29/06. APA calculated a payment to member of \$11,385.76. The variance of \$9.90 is the interest earned on the funds from 8/24/06 to 8/29/06 and is owed to the member. Ameritas did not record the disbursement until 11/28/06 for \$11,559.89 to zero the account, a variance of \$174.13 between our calculated payment. \$123.24 in earnings were for the period 8/29/06 to 10/31/06 and \$50.89 in earnings was from 10/31/06 through 11/28/06. In addition, Ameritas recorded fees for August and October when there was no balance in the account. Total excess fees charged \$3.33. The member is owed \$9.90 for earnings between 8/24/06 and 8/29/06.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas, but not due to the member. The member is owed \$9.90 due to the timing difference at Union Bank.

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18	State CB	(\$181.62)		(\$2.52)	\$2.52	The member terminated on 1/9/06 and requested a rollover of his account balance on 8/22/06. He was rehired on 8/28/06 and began contributing again as of 9/13/06. Union Bank processed the rollover in Relius on 9/12/06 for \$10,338.80. The check was not written until 9/15/06. APA calculated the disbursement on 9/15/06 for \$10,343.96. The difference of \$5.16 is due to earnings from 9/12/06 to 9/15/06. When the account was rebuilt Ameritas included the member's first two contributions in September (after rehire) in the rollover they processed on 9/12/06. September contributions incorrectly paid out by Ameritas totaled \$179.10. To correct the account, Ameritas recorded a miscellaneous receipt for \$179.10 on 1/31/07, but did not record earnings. Additionally, fees of \$1.34 were not charged in September as Ameritas had cleared the account. The member is owed for the distribution timing issue at Union Bank, additional earnings, less fees, of \$2.52 for the September contributions that were paid out and not replaced until 1/31/07 by Ameritas; plus additional earnings through 1/31/07 on the September contributions. NPERS feels the member was not eligible for the distribution and is in the process of working with the member for repayment of the ineligible distribution. APA believes the member was eligible for the distribution since the request for distribution was received before the member was rehired by the State.	No - the proper amount of earnings have not been credited to the member's account for the Ameritas error. Member is owed for the distribution timing difference at Union Bank and for the earnings, less fees, on the contributions that were incorrectly recorded as a distribution by Ameritas for \$2.52.
19	State DC	\$1,057.30		\$57.30	(\$57.30)	The employee elected \$1,000 semiannual systematic withdrawals in January and July. Union Bank paid the member on 7/3/06. Ameritas did not record the \$1,000 systematic withdrawal until 2/7/07. The member's account at 10/31/06 is overstated by \$57.30 in earnings on the \$1,000 between 7/3/06 and 10/31/06. Member was paid correctly by Union Bank.	No - Ameritas did not record this recurring SWO, in accordance with the Interim agreement, Exhibit B (1)(B)(ii). This SWO had been paid by Ameritas prior to June 30, 2006. Member account is overstated by \$57.30 for the earnings from 7/3/06 to 10/31/06.
20	State CB	(\$18.91)		\$6.25	\$18.91	The member requested a 100% withdrawal of their account which was not paid out by Union Bank. All information to process the payment was received by 9/15/06, so APA calculated the disbursement on this day for \$22.25. Ameritas recorded the disbursement on 8/28/06 for \$25.16 even though it was never paid by Union Bank. A miscellaneous receipt of \$25.16 was done 1/31/07 by Ameritas to correct the error, earnings were not recorded. Additionally, no fees were recorded by Ameritas for July - October even though there was an account balance, fees not recorded totaled \$6. The amount owed to member is \$18.91. The account balance is decreasing due to fees being assessed on the account.	No - account was never distributed by Union Bank. Ameritas recorded the distribution. The correction by Ameritas did not include earnings on the amount recorded as a distribution and the proper fees were not charged. Member is owed \$18.91, plus earnings.
21	State CB	\$21,506.69		(\$103.55)	\$10.89	The member requested a 100% rollover of their account. Union Bank closed the member's account in Relius on 9/12/06 for \$21,329.57, but did not write the check to the rollover company until 9/15/06. APA calculated the rollover amount to be \$21,340.46 as of 9/15/06. A variance of \$10.89 in earnings due to timing. Ameritas did not record the rollover until 11/29/06 for \$21,610.24. The variance between the APA calculation and the Ameritas payment was \$269.78 due to earnings from 9/15/06 to 11/29/06, not due to the member. \$167.56 of the earnings were from 9/15/06 to 10/31/06. \$102.22 of the earnings were from 10/31/06 through 11/29/06. Additionally, fees of \$1.33 were recorded by Ameritas in September even though the account had been paid out. Member is owed \$10.89 in earnings between 9/12/06 and 9/15/06 due to the timing of payment.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas, but not due to the member. The member is owed \$10.89 due to the timing difference at Union Bank.

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Ref #	Plan	Total Account Balance at 10/31/06	Total Account Variance	Variances (after Ameritas corrections in subsequent months)	Total Amount Understated/ (Overstated)	Explanation	Account was rebuilt properly
22	Hamilton County CB	\$1,573.32		(\$12.07)	(\$12.07)	The member is an active State employee who requested a payout of a beneficiary account. Union Bank paid out their beneficiary account balance on 8/14/06 for \$1,552.27. The APA calculated distribution was \$1,553.11. Ameritas did not record the distribution until 12/13/06 for \$1,585.39. The variance of \$32.28 is due to earnings on the account from 8/14/06 to 12/13/06, not due to the member. \$20.21 of the earnings was from 8/14/06 to 10/31/06. \$12.07 of the earnings was from 10/31/06 through 12/13/06. The member account is overstated by \$12.07 in earnings.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings that are recorded at Ameritas. Additionally, since the account was not fully paid out the earnings are not due to the member and the account is overstated by \$12.07.
23	State CB	\$198,434.46		(\$1,964.49)	\$528.41	The member elected a \$17,500 withdrawal and the remaining balance as a rollover. Union Bank closed the account in Relius on 9/12/06 for \$210,417.11, but did not write the checks until 9/18/06. The APA calculated payment on 9/18/06 was \$210,945.52. The variance of \$528.41 is due to earnings from 9/12/06 to 9/18/06 and is due to the member. Ameritas recorded the \$17,500 payment on 9/12/06, but did not record the remaining rollover of funds until 11/17/06. Total amount rolled over on 11/17/06 was \$200,398.95, for a total distribution of \$217,898.95 recorded by Ameritas. The difference of \$6,953.43 between Ameritas amount and the APA amount is earnings from 9/18/06 through 11/17/06, not due to the member. \$4,992.51 of these earnings are from 9/18/06 to 10/31/06. \$1,960.92 of these earnings are from 10/31/06 through 11/17/06. Additionally, Ameritas recorded fees of \$3.57 for September & October when the account had been fully paid out. The member is due \$528.41 in earnings caused by the timing of the distribution at Union Bank.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas, but not due to the member. The member is owed \$528.41 due to the timing difference at Union Bank.
24	State CB	(\$17,249.82)		\$75.42	\$0.00	The member requested a \$17,000 lump sum payment. Union Bank processed the disbursement on 8/8/06. Ameritas recorded a \$17,000 lump sum payment on 8/8/06 twice, even though it was only paid out once at Union Bank. Ameritas posted a miscellaneous receipt on 11/28/06 for \$17,000. Ameritas also posted earnings of \$325.24 to the account on 11/28/06 for the interest earned on the \$17,000 between 8/8/06 and 11/28/06. APA calculated earnings versus Ameritas' earnings posted was within \$3.00. No further corrections to the member's account are necessary.	Yes. Although Ameritas recorded the distribution twice, in error, we agreed with the correction made to the member account.

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Ref #	Plan	Total Account Balance at 10/31/06	Total Account Balance at 10/31/06	Total Amount Understated/ (Overstated)	Explanation	Account was rebuilt properly
Transfers						
25	State DC	(\$7,002.32)	(\$318.17)	\$745.01	<p>There were 9 transfers requested by the member during the period, 7/1/06-10/31/06. One transfer for approximately \$240,000 was requested on 8/14/06 at 2:48 pm. The transfer should have been processed by Union Bank on 8/14/06 because it was requested before the 3:00 pm cutoff; however, Union Bank processed the transfer on 8/15/06 causing an excess earnings variance of \$610.29. When Ameritas rebuilt the transfer they correctly recorded it on 8/14/06; therefore there was no effect to the member. However, because the transfer was processed by Union Bank on 8/15/06, this caused a variance between record keeper assets and bank assets. Additionally, during the reconstruction contributions that posted after the transfer were included in the account balance used to calculate the transfer amount. This caused the fund balance to be negative. For example, the 8/31/06 contribution was processed on 10/4/06 during the rebuild. The 8/4/06 transfer was processed on 10/13/06; therefore, the 8/31/06 contribution was included in the account balance used to calculate the transfer amounts even though it occurred after the transfer.</p> <p>In addition, the member attempted to request a transfer on 9/5/06 but he was unable to because he did not have access to his account online since Union Bank was correcting previous transfer errors. Union Bank and NPERS verified the problem and agreed to process the transfer on 9/7/06 using the 9/5/06 daily values. NPERS contacted Ameritas on 10/24/06 and informed Ameritas to backdate the transaction to 9/5/06. Ameritas recorded the 9/5/06 transfer on 9/7/06 causing an earnings variance. Ameritas attempted to correct the account by recording earnings on 10/23/06 for \$78.76 and on 12/13/06 for \$6,605.39. APA recalculated the account through 12/31/06 and did not agree with the amount of the corrections posted by Ameritas. Per recalculation of the account as of 12/31/06 the member's account is understated by \$745.01 in earnings.</p>	<p>No - transfers reconstructed in OMNI caused funds to go negative and affected the earnings in the account. Ameritas processed the 8/31/06 and 9/29/06 contributions prior to processing the transfers dated 8/4/06, 8/10/06, 8/14/06, 8/16/06, 8/28/06, 9/5/06, 9/11/06, and 9/13/06. The contributions were included in the account balance used to process the transfers and should not have been. Ameritas also used the incorrect date for the 9/5/06 transfer. Account is understated at Ameritas by \$745.01 as of 12/31/06.</p>
26	State DC	(\$39.03)	(\$39.03)	\$39.03	<p>The member requested two transfers on 9/13/06. During the rebuild, Ameritas did not record one of the transfers until 10/23/06. In addition, both transfers on 9/13/06 were not recorded properly by Ameritas. Per Union Bank, one transfer was for employee funds and the second was for employer funds. Union Bank did not provide Ameritas with the specific source of funds to transfer; therefore, Ameritas allocated each transfer between employee and employer causing variances in each individual fund. Member is owed \$39.03 in earnings as of 10/31/06 due to the timing and the amounts transferred.</p>	<p>No - Account was not rebuilt properly as one transfer was not recorded on the correct day. Additionally, Ameritas did not have information pertaining to the source of funds selected by the member and made decisions pertaining to this transfer that were not outlined in the interim agreement. Member is owed \$39.03 due to the timing and amounts transferred by Ameritas.</p>
27	State DC	(\$620.07)	(\$633.03)	\$633.03	<p>The variance is due to Ameritas not rebuilding transfers properly. Two transfers were requested by the member in July. Ameritas only recorded 25% of the 7/28/06 transfer and did not record the 7/31/06 transfer. This caused an earnings variance of \$620.07 at 10/31/06. Ameritas attempted to correct the 7/28/06 transfer on 12/27/06. However, APA does not agree with this correction; member is owed \$633.03 in earnings as of 12/31/06.</p>	<p>No - Ameritas did not record the 7/28/06 transfer properly and we did not agree with the correction to the member account. Additionally, the Interim Agreement, Exhibit B (1)(C) indicates Ameritas shall re-process all transfers included in the Plan Data. Ameritas did not process the 7/31/06 transfer that was included in the Plan Data. Member account is owed \$633.03 as of 12/31/06.</p>

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Fees							
28	Polk County CB	\$77.17		\$0.97	\$0.00	The member elected a 100% lump sum payment that was distributed by Union Bank on 8/31/06 for \$79.64. Ameritas did not record the distribution until 11/29/06 for \$76.20. In addition, because the distribution was not recorded properly, \$1.33 in fees was posted to the member's account for September. The account balance should have been zero at 9/30/06 and no fees should have been assessed. As Union Bank processed the disbursement correctly, there is no effect to member.	No - due to the timing of the distribution by Ameritas the account incurred additional fees that are recorded at Ameritas. There was no effect to the member for the Ameritas reconstruction.
29	State CB	(\$93.90)		(\$1.97)	\$1.97	The member terminated with the State in 2004 and requested a 100% payout on 8/7/06. The member was rehired with the State as of 8/14/06 and began contributing again as of 9/27/06. Union Bank processed the distribution on 9/12/06 for \$2,337.56. When Ameritas rebuilt the account they included the member's 9/27/06 contribution in the disbursement of \$2,431.93. The contribution totaled \$91.93. To correct the account Ameritas posted a miscellaneous receipt on 1/31/07 for \$91.93. Earnings on this amount were not posted to the account. Additionally, fees were not posted for September as Ameritas showed a zero balance at month end. Total fees not posted were \$1.34. As of 10/31/06 member account is owed earnings of \$1.97 on the contribution that was not corrected until 1/31/07, plus additional earnings through 1/31/07.	No - Ameritas paid out additional contributions after employee was rehired by the State. The correction of the error by Ameritas did not include earnings on the contributions. Member account is owed \$1.97 for the Ameritas error.
						NPERS feels the member was not eligible for the distribution and is in the process of working with the member for repayment of the ineligible distribution. APA believes the member was eligible for the distribution since the request for distribution was received before the member was rehired by the State.	
30	State CB	(\$22,147.89)		\$154.26	(\$1.34)	The beneficiary requested a 100% payout of the deceased's CB dividend. Union Bank transferred the deceased's account to the beneficiary's account, and distributed the funds on 9/12/06. When Ameritas rebuilt the distribution they transferred the deceased's account to the beneficiary's account. Ameritas then recorded a 100% distribution of the beneficiary's entire account; however, the beneficiary was also an active State employee. Ameritas should have only paid out the deceased's funds of \$734.44 (per OMNI balance). Instead they recorded a distribution of \$22,699.77. To correct the account Ameritas reinstated the balance on 12/11/06 for \$22,302.15 which included the active state account balance plus interest of \$336.82. APA determined amount reinstated in December by Ameritas was accurate and included the proper earnings. In addition, fees of \$1.34 were not recorded in September. The member's account is overstated by \$1.34 in fees not recorded.	No - Ameritas recorded a distribution of the active portion of the employee's account, not just the beneficiary amount. However, Ameritas made a correction with earnings to the account, which we were in agreement with. Fees for September were not recorded by Ameritas.
31	State CB	\$7,226.96		\$33.28	\$0.00	The member elected a 100% withdrawal. Union Bank distributed \$7,116.27 on 8/2/06. The APA calculated distribution was \$7,118.68. When Ameritas rebuilt the account they did not record the distribution until 11/29/06 for \$7,260.24, to zero out the account, a variance of \$141.56 between our calculated payment. Because the distribution was not recorded timely by Ameritas, additional earnings of \$110.94 accrued on the member's account through 10/31/06 and are not due to the member. Additionally, \$30.62 accrued on the member's account from 10/31/06 through 11/29/06 that are also not due to the member. Ameritas also recorded fees of \$2.66 for August and September because the distribution was not recorded timely in the system. There is no effect to the member as Union Bank paid the correct amount.	No - due to the timing of the distribution by Ameritas the account incurred additional earnings and fees that are recorded at Ameritas, but not due to the member. There is no effect to the member.
32	Garfield County CB	(\$188.82)		\$0.75	(\$0.75)	The variance is due to the timing of the 10/30/06 contribution, which did not post to OMNI until 11/8/06. The total contribution was \$189.57, leaving a variance of \$0.75. The member account is overstated by \$0.75. Ameritas did not record \$1.33 of the fees in September which is included in the calculated variance at 10/31/06 of (\$188.82).	No - fees in September were not recorded by Ameritas. The member account is overstated at Ameritas by \$0.75.

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Forfeitures							
33	Antelope County CB	(\$841.27)		(\$6.85)	\$841.27	The member requested a 100% withdrawal of a cash balance dividend. Union Bank only paid the employee portion of the account on 8/14/06 and forfeited the member's employer account for \$834.27. The member was fully vested upon original termination and should have been paid the employer portion also. When Ameritas rebuilt the account they recorded a disbursement of 100% of both the employee and employer account, but the member did not receive the employer account. To correct the account, Ameritas recorded a miscellaneous receipt on 1/31/07 for \$834.42, the amount Ameritas had recorded as distributed. Earnings of \$11.52 were not credited to the member's account. In addition, because Ameritas recorded a 100% payout of the account, fees were not posted for August through October. Total fees not posted were \$4.67. The member is owed \$841.27, plus additional earnings after 10/31/06.	No - the proper amount of earnings and fees have not been credited to the member's account. Member account is owed \$841.27.
34	Hamilton County CB	(\$354.11)		(\$354.11)	\$0.00	The member requested a 100% rollover of their account. The member was not vested at termination. Union Bank paid 100% of the employee account, for \$1,448.35, in Relius on 8/8/06. Union Bank was not directed by NPERS to handle forfeitures, so the employer share remained in the member's account. An employer CB dividend posted on 10/27/06 for \$353.87, which also should have been forfeited since the member was not vested. Ameritas recorded the distribution on 8/7/06 as both employee and employer funds, even though the employer funds should have been forfeited. Ameritas corrected this on 12/27/06 by recording a miscellaneous receipt in the employer account for \$2,172.44 and earnings of \$52.76. APA agreed with the earnings calculation. There was no effect to the member; however, the employer account balance at Ameritas should be forfeited.	No - the employer account should have been forfeited.

Note: The column 'Total Amount Understated/(Overstated)' is included in this exhibit since the variances shown are different than the previous two columns. These amounts could represent overstated or understated account balances or amount actually owed to or due from the member.

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Plan	Total Account Balance Variances at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly
1 State DC	\$ (14.61)	\$ (14.61)	The member requested two transfers during the period. One transfer was not recorded correctly by Ameritas during the rebuild. Per the VRU file the member requested a \$5,000 transfer on 8/13/06 from the small company stock fund, with \$2,500 to the international stock fund and \$2,500 to the large value stock fund. Ameritas recorded \$5,000 from the small company stock fund to the large value stock fund only. No monies were transferred to the international stock fund. The variance is due to earnings on the funds. The member account is understated at Ameritas by \$14.61 as of 10/31/06.	No - Ameritas did not record the 8/13/06 transfer, included in the plan data, correctly. The member account is understated at Ameritas by \$14.61 at 10/31/06.
2 Custer County DC	\$ (25.57)	\$ 142.49	The variance is due to the timing of three transfers recorded by Ameritas during the rebuild. The 10/31/06 contribution did not post until 11/1/06. The total contribution was \$168.06. The new variance after the contribution posted is \$142.49, which is earnings on the member's funds due to improper recording of transfers by Ameritas. Union Bank transferred only employee or employer funds as specified by the member. However, Union Bank did not provide Ameritas with all of the transfer details, such as which source of funds was being transferred. Ameritas made decisions that were not outlined in the Interim Agreement regarding how to process the transfers among the sources of funds. Ameritas allocated all transfers between employee and employer funds. The member's account is overstated at Ameritas by \$142.49 due to the transfer variances.	No - Account was not rebuilt properly as transfers were not recorded per member instructions. Union Bank did not provide Ameritas with information pertaining to the source of funds selected by the member. Ameritas made decisions that were not outlined in the Interim Agreement regarding how to process the transfers among the sources of funds. The member account is overstated at Ameritas by \$142.49.
3 Custer County DC	\$ (239.30)	\$ (29.07)	The variance is due to the timing of a contribution and recording of transfers. The 10/31/06 contribution did not post to OMNI until 11/1/06. The total contribution was \$210.23. The new variance after the contribution posts is (\$29.07). The member requested 10 separate transfers prior to 3:00 pm on 8/1/06. However, Union Bank processed 7 of the 10 transfers on 8/2/06 as opposed to 8/1/06. Union Bank also processed two transfers that were exactly the same. That is, the request moved the exact same percentages from one fund to several other funds. The normal practice is not to process identical transfer requests more than once on the same day. However, since Union Bank processed the first transfer on 8/1/06 and the identical transfer on 8/2/06, both were allowed to process. Also, the 7/31/06 contribution was not posted by Union Bank until 8/9/06. Therefore, the contribution was not included in the transfers on 8/1/06. Furthermore, Union Bank transferred only employee or employer funds as specified by the member.	No - Account was not rebuilt properly as transfers were not recorded per member instructions. Union Bank did not provide Ameritas with information pertaining to the source of funds selected by the member. Ameritas made decisions that were not outlined in the Interim Agreement regarding how to process the transfers among the sources of funds. Member is due \$18.07 in earnings for the timing issues noted at Union Bank and \$11.00 in earnings for contribution timing issues. Total member account is owed \$29.07 in earnings.

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Plan	Total Account Balance Variances at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly
			<p>However, Union Bank did not provide Ameritas with all of the transfer details, such as which source of funds was being transferred. Ameritas made decisions that were not outlined in the Interim Agreement regarding how to process the transfers among the sources of funds. Ameritas allocated all transfers between employee and employer funds. The variance in earnings due to these timing issues at Union Bank was \$18.07. The remaining variance of \$11.00 is due to the timing of other seven contributions to the member's account. The other seven contributions were posted from 1 to 19 days after the check date. The member's account is understated by \$29.07.</p>	
4 State DCP	\$ (3.57)	\$ (3.57)	<p>The member requested a transfer of funds on 9/29/06. In addition, the member contributed \$1,000 on 9/29/06. Union Bank posted the contribution on 9/30/06, but backdated the contribution to 9/29/06. Therefore, when the transfer request was completed by Union Bank, this contribution amount was not included in the balances used to calculate the transfer amounts. The APA also did not include the contribution in the transfer, since it was not actually in the member's account on 9/29/06. However, when Ameritas rebuilt the account, they included the contribution amount of \$1,000 in the balances to calculate the transfer. This caused a variance in the amounts transferred and earnings in the member's account. As of 10/31/06 the member account is owed \$3.04 in earnings and had \$0.53 in excess fees charged, for the total variance of \$3.57.</p>	<p>No - Ameritas processed the 9/29/06 transfer including the contribution that posted on 9/30/06, causing an earnings variance due to the member of \$3.57 at 10/31/06.</p>
5 State DC	\$ (33.48)	\$ (33.48)	<p>The member requested a total of 15 transfers between 7/1/06 and 9/30/06 per the internet/VRU files from Union Bank. Union Bank did not perform six of the transfers requested by the member. Additionally, for the transfers not performed, Union Bank was unable to provide support for the source of funds (employee or employer) the member requested to transfer. Ameritas did not record three of the 15 transfers. Additionally, Ameritas recorded incorrect amounts for four transfers causing negative balances in the funds. Ameritas processed the 8/2/06, 8/16/06 and 8/30/06 contributions on 10/3/06 and the 9/13/06 contribution on 10/13/06. The transfers on 7/24/06, 8/4/06, 9/12/06 and 9/14/06 were processed on 10/11/06, 10/13/06, 10/16/06 and 10/16/06 respectively. Therefore, because contributions were reconstructed before transfers they were improperly included in the balance used for the transfers. The variance shown is due to earnings related to the differences in transfer processing. The member's account at Ameritas is understated by \$33.48 at 10/31/06.</p>	<p>No - the Interim Agreement, Exhibit B (1)(C) indicates Ameritas shall re-process all transfers included in the Plan Data. Ameritas did not record three transfers which the member requested on 7/21/06, 8/4/06 and 9/13/06. All three transfers were included in the plan data. Additionally, since contributions were processed before transfers at Ameritas, the fund balances used by Ameritas to recreate the transfers were not correct. The transfers reconstructed by Ameritas caused funds to go negative and affected the earnings in the account due to the timing of the processing of contributions and transfers at Ameritas. The member's account at Ameritas is understated by \$33.48 at 10/31/06.</p>

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Plan	Total Account Balance Variances at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly
6 State DC	\$ (3.31)	\$ (3.31)	The member requested three transfers on 7/21/06. The second transfer was not reconstructed properly by Ameritas. The member requested 80% of their small company stock fund balance be transferred to the large company value stock index fund. Ameritas transferred 81% of the account causing an earnings variance. As of 10/31/06 the member's account is understated by \$3.31 in earnings.	No - The second 7/21/06 transfer which Ameritas reconstructed did not agree to the plan data. Member's account is understated at Ameritas by \$3.31 at 10/31/06.
7 State DC	\$ (16.63)	\$ (16.63)	On 8/16/06 the member requested a transfer of 50% of their small company stock fund balance to several other funds. Ameritas transferred a total 51% of the member's balance in the small company stock fund. Additionally, Ameritas transferred \$1,185.12 to the moderate pre-mix fund, but should have transferred it to the aggressive pre-mix fund. These transfer variances caused the member's earnings to be understated by \$16.63 at 10/31/06.	No - The 8/16/06 transfer which Ameritas reconstructed did not agree to plan data. Member's account is understated by \$16.63 at 10/31/06.
8 State DCP	\$ (57.52)	\$ (57.52)	The member requested a transfer of funds on 8/17/06 after 5PM. The cutoff time for processing transactions was 3PM. The transfer was recorded by Union Bank on 8/18/06. Ameritas reconstructed the transfer on 8/17/06. Therefore, as of 10/31/06 the member's account is understated by \$57.52 in earnings.	No - the Interim Agreement, Exhibit B (1)(C)(i) states Ameritas will use the trade date from the Activity File as the 'effective trade date' for transfers. The trade date listed on the activity file provided by Union Bank was 8/18/06, therefore, Ameritas incorrectly recorded the transfer on 8/17/06 causing the member's account to be understated at Ameritas by \$57.52 at 10/31/06.
9 State DCP	\$ 6.91	\$ 6.91	Several errors were noted in the reconstruction of this member's account. First, the member requested an allocation change at 7:44 AM and a transfer of funds at 7:48 AM, both on 7/24/06. The transfer selected by the member was a "conform to target". This means the member requested the balances in each of their funds be distributed according to the selected contribution allocation percentages of each fund. The transfer was not properly reconstructed by Ameritas. During the rebuild Ameritas processed the transfer prior to the allocation change (Ameritas processed on 10/11/06 and 10/17/06 respectively) both were properly back dated to 7/24/06. Because the transfer was processed first the incorrect allocation percentages were used to calculate the transfer and incorrect amounts were recorded. Second, the member had a contribution dated 8/2/06 (processed by Ameritas on 10/17/06). Ameritas did not record the contribution in the member's account according to the allocation percentages selected by the member on 7/24/06.	No - Ameritas did not record two transfers, included in the plan data, correctly due to the timing of the reconstructed transactions at Ameritas and due to errors in previous transfer amounts. In addition, contributions were not allocated to the proper funds due to the timing of the processing of the transactions. Member's account is overstated at Ameritas by \$6.91 at 10/31/06 due to errors made during the rebuild.

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Plan	Total Account Balance Variances at 10/31/06	Variances (after Ameritas corrections in subsequent months)	Reason	Account was rebuilt properly
			<p>Third, the member then requested another allocation change and "conform to target" transfer on 8/7/06. This transfer was also not reconstructed properly by Ameritas because the balances in the funds were incorrect due to the first transfer.</p> <p>Finally, Ameritas recorded the 8/16/06 contribution at the incorrect allocation rate because the contribution was processed on 9/29/06 but the 8/7/06 allocation change was not processed until 10/16/06. As of 10/31/06 the member's account is overstated by \$6.91.</p>	
10 State DCP	\$ (16.50)	\$ (16.50)	<p>The member requested a transfer on 7/24/06 at 3:08 PM. This was after the cut-off time for processing transactions for the day. Union Bank and Ameritas recorded the transfer on 7/24/06. It should have been recorded on 7/25/06. The variance is due to earnings on the one day. As of 10/31/06 member's account is understated by \$16.50.</p>	<p>No - Although Ameritas processed the transfer on the date of the activity file the transfer should have been processed by both Union Bank and Ameritas on 7/25/06. The member account is understated by \$16.50 at 10/31/06.</p>
11 State DC	\$ 112.09	\$ 112.09	<p>The member requested a transfer on 7/26/06 at 3:22 PM. This was after the cut-off time for processing transactions for the day therefore, the transfer was recorded by Union Bank on 7/27/06. Ameritas reconstructed the transfer on 7/26/06, even though the trade date from Union Bank was 7/27/06. The variance is due to the earnings on the one day. As of 10/31/06 the member's account is overstated by \$112.09. Additionally, per the investment election form, NPERS changed the transfer request from the member based on a phone call. Transfers should not be changed from the signed request per a phone conversation.</p>	<p>No - The Interim Agreement, Exhibit B (1)(C) states Ameritas shall use the trade date from the Activity File as the 'effective trade date' and for those not included on the Activity File, Ameritas will process the request using the date and time stamp from the request file as the 'effective trade date'. Ameritas will use 3:00 pm as the cutoff time. The trade date listed on the activity file provided by Union Bank was 7/27/06, therefore, Ameritas incorrectly recorded the transfer on 7/26/06 causing the member's account to be overstated at Ameritas by \$112.09 at 10/31/06.</p>

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ABBREVIATIONS

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EXHIBIT E

<u>Acronym</u>	<u>Description</u>
ACH	Automated Clearing House payment
APA	Auditor of Public Accounts
CB	Cash Balance
DC	Defined Contribution
DCP	Deferred Compensation Plan
EE	Employee
ER	Employer
Maui	UBT accounting system
NIS	Nebraska Information System
NPERB	Nebraska Public Employees Retirement Board
NPERS	Nebraska Public Employees Retirement System
OMNI	Ameritas record keeping system
Pioneer	NPERS system
Relius	UBT record keeping system
RFD	Request for Distribution
SWO	Systematic Withdrawal Option
UBT	Union Bank and Trust
VRU	Voice Response Unit