

**AUDIT REPORT  
OF THE  
NEBRASKA PUBLIC EMPLOYEES RETIREMENT  
SYSTEMS - SCHOOL EMPLOYEES, JUDGES, AND  
STATE PATROL RETIREMENT PLANS**

**PENSION TRUST FUNDS OF THE STATE OF NEBRASKA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**Issued on March 8, 2010**

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
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**BACKGROUND**

The Nebraska Public Employees Retirement Board (Board) was created in 1971 to administer Nebraska retirement plans for school employees, State employees, judges, and the State patrol. Administration of the retirement system for Nebraska county employees was assumed by the Board in 1973.

The Board has eight members appointed by the Governor, with legislative approval, to five-year terms. Six of the appointed members shall be active or retired participants in the retirement system. The six members include:

- ◆ Two participants in the School Retirement System, consisting of one administrator and one teacher;
- ◆ One participant in the Nebraska Judges Retirement System;
- ◆ One participant in the Nebraska State Patrol Retirement System;
- ◆ One participant in the Retirement System for Nebraska Counties; and
- ◆ One participant in the State Employees Retirement System.

Two appointed members must meet the following requirements:

- ◆ Shall not be an employee of the State of Nebraska or any of its political subdivisions; and
- ◆ Shall have at least ten years of experience in the management of a public or private organization or have at least five years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

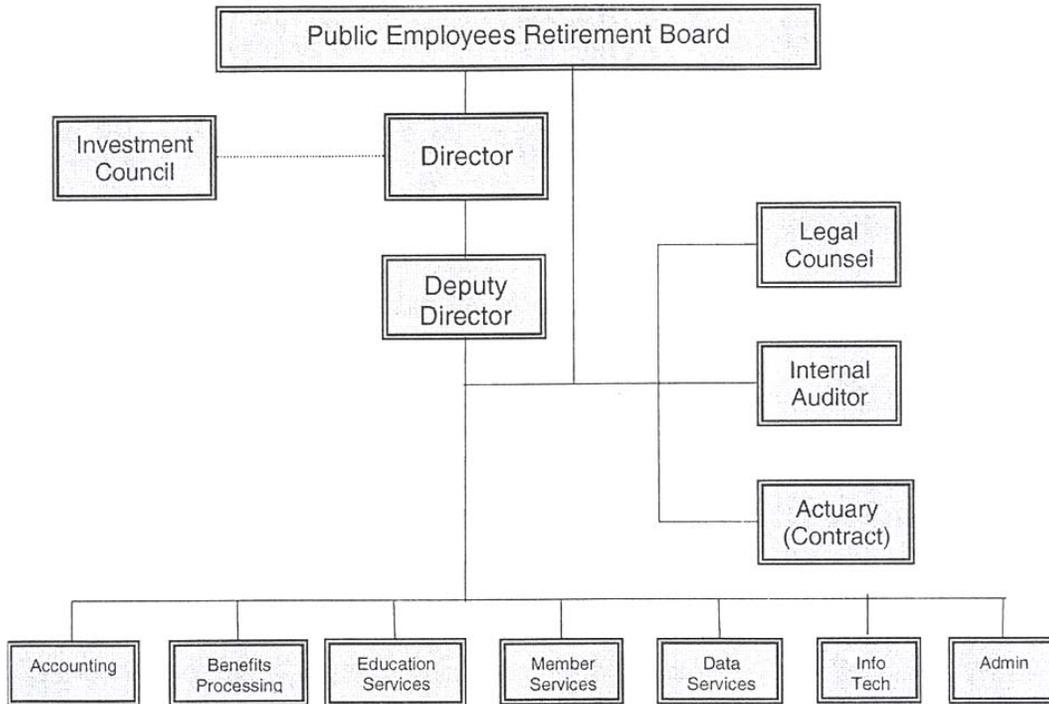
All appointed members must be Nebraska citizens. Members of the Board shall be paid fifty dollars per diem, and all members shall be reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement systems. All expenses must be provided from investment income earned by various retirement funds, unless other fund sources to pay expenses are specified by law.

**MISSION STATEMENT**

The Nebraska Public Employees Retirement Systems recognizes the importance of a successful retirement and is dedicated to providing the highest quality service necessary to assist members in achieving this goal.

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**ORGANIZATIONAL CHART**



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**EXIT CONFERENCE**

An exit conference was held February 23, 2010, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our audit. Those in attendance for NPERS were:

<b>NAME</b>	<b>TITLE</b>
Phyllis Chambers	Director
Denis Blank	Board Chair
Don Pederson	Board Member
Randy Gerke	Deputy Director
Sheryl Hesseltine	Accountant III
Teresa Zulauf	Internal Auditor
Joe Schaefer	Legal Counsel
Fred Turner	IT Manager
Christine Ford	Internal Auditor
Maria Davis	Retirement Specialist II
Mitch Snyder	Retirement Specialist II
Miden Ebert	Benefits Manager

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**SUMMARY OF COMMENTS**

During our audit of the Nebraska Public Employees Retirement Systems (NPERS) - School Employees, Judges, and State Patrol Retirement Plans, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Insufficient Audit and System Controls:*** NPERS lacked adequate policies and procedures to ensure audits of benefit payments, performed by staff, were adequate and consistent. Furthermore, we noted several payments that were not calculated properly by the system and were not identified by NPERS during their auditing procedures. Errors in payment calculations totaled \$4,316 in overpayments and \$320 in an underpayment. Lastly, the NPERS' system allowed staff to backdate transactions that occurred within members' accounts.
2. ***School District Testing:*** During our review of NPERS' internal audit staff testing of school districts, we determined the procedures performed by the staff were not adequate for our reliance. Therefore, we performed further testing of 15 school districts; we noted one member's compensation included long-term disability insurance of \$14, which was not appropriate in accordance with State statute. We also selected 50 non-contributing employees from the 15 school districts and noted three did not begin contributing to the Plan timely and two individuals did not have eligible contributions, as the individuals were not permanent residents of the United States.
3. ***Berwyn Death Audit:*** We noted 34 of 80 findings noted during the attestation review of the Berwyn Death audit were not properly resolved. There still remained \$17,062 in overpayments that NPERS had not received, several accounts where there appeared to be a second account in the system but no procedures had been performed to combine the accounts, and several accounts that had no procedures performed at all to resolve the prior findings. Furthermore, we reviewed NPERS' July 2009 report and noted an overpayment of \$1,524, refunds that were not processed timely, the query used to generate the death audit was not accurate, and follow-up procedures were not sufficient for multiple beneficiaries of member's accounts.
4. ***Retiree Benefit Calculations:*** We noted several State statutes which NPERS was not in compliance with or the statutory intent was not clear. For the Judges Plan we noted one member's benefit exceeded the statutory limit of 70% by \$41 per month. For the School Employees Plan, NPERS did not verify member's compensation that exceeded statutory limitations by amounts ranging from \$372 to \$1,068. We also noted NPERS did not have policies and procedures for the savings and service annuity outlined in statute in order to determine when a member was eligible and the rates used to calculate the annuity. For all three of the Plans we noted the COLA statutes lacked clear intent as to whether the three methods established were to be compared to one another or whether the third method was in addition to the larger of method one or two. This could lead to individuals receiving lesser benefit adjustments than intended by statute.

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**SUMMARY OF COMMENTS**

(Continued)

5. ***Resolution of Prior Year School Audit Findings:*** There were 6 of 24 prior audit findings that were not properly resolved. Findings included individuals that were required to make-up contributions, hours incorrectly reported and not adjusted in the system, and overpayments totaling \$547, due to excess purchases of service that had not been properly refunded to the member.
  
6. ***Inconsistent Plan Documents:*** We noted several plan documents (State statutes, Plan Handbooks, Rules and Regulations, and Applications for Retirement) that were not consistent. We further noted seven State statutes that required corresponding rules and regulations to be established by the Board for which there were none.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to NPERS 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 audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

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**COMMENTS AND RECOMMENDATIONS**

**1. Insufficient Audit and System Controls**

A good internal control plan and sound business practice requires adequate auditing policies and procedures to ensure staff are knowledgeable of what is required to perform job functions. Furthermore, a good internal control plan and good accounting practice requires accurate system calculations and system recording of transactions to ensure information and payments are proper.

When a member retires or terminates employment and requests payment, an NPERS staff person calculates the monthly benefit payments or refund amount to be received by the member. NPERS' system required an audit to be performed by a second individual, separate from the individual who originally processed the member's benefit or refund payment. The system simply required the individual to check a box that the audit was performed. NPERS did not have written procedures to ensure staff performed the audit processes adequately and consistently. Without procedures to ensure staff review the proper documentation there is an increased risk payments will not be made properly.

During testing we noted one member died and the member's estate was entitled to a refund of seven payments, in accordance with the option selected by the member at retirement. The amount due to the estate totaled \$6,669. However, the system calculated and paid the estate \$10,386 for an overpayment of \$3,717. After further review, it was determined the system did not properly calculate the estate payment and the error was not discovered during the audit process performed by NPERS.

As the system error above was specifically related to death refunds to estates, we requested NPERS determine any other payments that met the criteria; we received information dating back to 2006. NPERS noted 22 estate refunds, including the refund noted above. We tested the additional 21 refunds and noted two additional errors the audit process did not uncover as follows:

- One beneficiary died in June 2006 and the estate was entitled to payments through May 2010, in accordance with the option selected by the member at retirement. The amount due to the estate totaled \$23,936. However, the system calculated and paid the estate \$24,535 for an overpayment of \$599. The difference in the payments was due to a cost-of-living adjustment that was incorrectly included in the refund calculation.
- Another beneficiary died in July 2009 and the estate was entitled to payments through May 2012, in accordance with the option selected by the member at retirement. The amount due to the estate totaled \$9,958. However, the system calculated and paid \$9,638 for an underpayment of \$320. NPERS could not explain why the system calculated the payment incorrectly.

Furthermore, during testing we noted the Nebraska Public Retirement Information System (NPRIS), implemented in March 2009, allowed users to backdate transactions in the system. We noted a staff member performed a reversal of interest in a member's account in December 2009;

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Insufficient Audit and System Controls (Concluded)**

however, the staff member recorded the reversal in the system as July 2002. The system contains two dates, 1) the transaction date, which should record the actual date the adjustment was processed, for the reversal noted this should have been December 2009, and 2) the effective date, which should have been July 2002. NPERS recorded in both the transaction and effective dates July 2002. The backdating in the system could make it difficult to determine when a transaction actually occurred, if there were no notes in the system an individual would not know the transaction reversal took place in December 2009. The previous system did not allow for backdating of transactions, the capability was a new feature specifically requested by NPERS staff. According to NPERS, transactions that change a member's account balance require an audit by a second individual; however, other adjustments do not require any further review such as the dating of contributions, etc. If proper accounting records are not maintained this increases the risk improper adjustments will be made to a members' account and not be easily identified.

We recommend NPERS develop written auditing policies and procedures to ensure payments are calculated and paid properly. We also recommend NPERS contact the estates to attempt to collect the overpayments and correctly pay out the underpayment as noted. Furthermore, NPERS should ensure the system will correctly calculate payments and properly record actual dates of the transactions.

*NPERS' Response: Management will assist staff in developing written auditing procedures and policies to ensure all payments are calculated and paid properly. NPERS is in the process of contacting the estates to attempt to collect the overpayment and distribute the underpayment.*

*NPERS has created two PIRs (Process Incident Report) to make certain NPRIS (Nebraska Public Retirement Information System) will correctly calculate payments and properly record the actual dates of transactions completed. Reports are generated by NPRIS to provide the accounting department with adequate documentation for financial statements.*

**2. School District Testing**

Neb. Rev. Stat. § 84-1503(1) (Reissue 2008) states, "It shall be the duty of the Public Employees Retirement Board: (g) To adopt and implement procedures for reporting information by employers, as well as testing and monitoring procedures in order to verify the accuracy of such information. The information necessary to determine membership shall be provided by the employer. The board shall adopt and promulgate rules and regulations and prescribe such forms necessary to carry out this subdivision. Nothing in this subdivision shall be construed to require the board to conduct onsite audits of political subdivisions for compliance with statutes, rules, and regulations governing the retirement systems listed in subdivision (1)(a) of this section regarding membership and contributions."

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. School District Testing (Continued)**

Neb. Rev. Stat. § 84-1512(1) (Reissue 2008) states, “The director shall, from time to time, carry out testing procedures to verify the accuracy of such information.” Furthermore, a good internal control plan requires adequate policies and procedures for testing performed to ensure individuals are properly contributing or not contributing to the Plan in accordance with State statute.

During the audit it was noted NPERS’ internal audit staff performed testing procedures on 18 school districts during the fiscal year. To determine if the work of the internal audit staff was adequate for our audit reliance we reviewed 1 of the 18 school districts and determined the work papers generated by the internal audit staff were not adequate. We noted the following:

- There were no audit programs or comparable working papers to document the procedures performed, no documentation applied to the working papers, such as tickmarks, to indicate the results of the testing, and generally the working papers were not organized in a fashion that permitted an understanding of the procedures performed.
- There was no documented supervisory review and we could not obtain verification that the supervisor had reviewed the working papers.
- Furthermore, during the review of the one school district we noted NPERS had not received a payroll register from the school district for their testing. An Excel spreadsheet of the composition of wages was obtained. Therefore, the testing to ensure the compensation used by the school district was proper would not have been adequate for our reliance as actual records of what was paid to the member were not obtained for testing purposes. Without actual records there is a risk wages reported to NPERS were not in agreement with what was actually paid to the member.

As we were unable to rely on the testing procedures performed by the internal audit staff we performed additional procedures during the audit. We selected 15 school districts to test to ensure contributing members wages, hours, and contributions from the payroll registers agreed to NPERS’ records. We also obtained support for the composition of wages earned to ensure retirement contributions were being properly withheld in compliance with statutes. During testing we noted 1 of 15 members had incorrect compensation reported to NPERS. Compensation included \$14 for long term disability insurance which was not allowable per Neb. Rev. Stat. § 79-902(35)(b) (Reissue 2008).

Additionally, we performed testing of 50 noncontributing employees from the same 15 school districts as selected for testing above. We performed testing to ensure employees were properly not contributing to the School Plan and noted the following:

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. School District Testing (Continued)**

- Three of the fifty employees tested were not contributing to the Plan; however, the individuals met mandatory eligibility, and therefore, were required to begin contributing. Two individuals have since begun contributing to the Plan; however, only one of the two had entered into a make-up agreement after the findings were brought to NPERS' attention. According to the school district, the third individual has since terminated employment.
- One employee tested had ineligible contributions to the Plan. The individual had a work authorization card that expired in 2005 and was not eligible to contribute to the Plan as the employee was not a resident of the United States. The employee terminated employment in November 2009. However, the individual had made contributions from May 2009 through October 2009 totaling \$804.
- Another employee also had a work authorization card and did not become a permanent resident of the United States until September 2007. However, the individual had three months of ineligible contributions from March 2007 through May 2007 totaling \$141. When the ineligible contributions were brought to NPERS' attention they did not refund the member, instead the contributions were withdrawn from the member's account and put into the general School Plan fund. NPERS' claim for not refunding the contributions was cited on Neb. Rev. Stat. § 79-977.01 (Reissue 2008) which states, "Every claim and demand under the School Employees Retirement Act and against the retirement system or the retirement board shall be forever barred unless the action is brought within two years of the time at which the claim accrued." The APA believes the contributions should have been refunded to the member as the school district and NPERS should have had adequate procedures in place to ensure members were eligible to participate in the Plan. Additionally, the APA believes the statute of limitation prevents the member from taking action; however, it does not prevent NPERS from taking action on its own accord to rectify the problem.

Lastly, NPERS did not have a formal, communicated policy regarding mandatory participation in the School Employees Retirement Plan.

Without adequate documentation to support procedures performed, reliance cannot be placed on testing as there is no assurance testing was accurate or complete. Additionally, without adequate procedures to ensure school districts are properly adhering to State statutes and NPERS' policies and procedures there is an increased risk wages remitted will not be proper, employees will not properly contribute when required, or employees will not be eligible to participate in the Plan. A similar finding was noted in the past several audit reports.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. School District Testing (Concluded)**

We recommend NPERS ensure school district testing is adequately documented and reviewed by a supervisor. Additionally, we recommend NPERS ensure proper education is given to the school districts to ensure employees are properly contributing or not contributing to the Plan and that compensation is proper in accordance with State statute. Furthermore, we recommend NPERS establish a formal, communicated policy regarding participation in the Plan.

*NPERS' Response: NPERS has revised our internal audit procedures for school employer audits. Changes have been made to duplicate the State Auditors process for school employer audits. Additional documentation has been included, results of the sampling/testing have been documented on the audit program and supervisory reviews are adequately documented.*

*NPERS currently does provide education to the employer reporting contacts through workshops and quarterly newsletters. NPERS will continue to work with the employer contacts to ensure that proper contributions are being made to the Plan.*

*NPERS has been working with interested parties to structure a formal policy regarding participation rules in the School Employees Retirement Plan. Information has been provided to the Retirement Committee of the Legislature to be drafted into statute with an effective date of July 1, 2010.*

**3. Berwyn Death Audit**

A good internal control plan requires NPERS to follow up on deceased member accounts in a timely manner to ensure the proper resolution of member accounts and to ensure procedures are in place for the timely payment of refunds. Additionally, a good internal control plan and sound accounting practice requires NPERS to maintain precise and complete records on all members.

NPERS annually retains a death check verification service (death audit) from The Berwyn Group. This is used to perform comparisons of the members in the five retirement plans administered by NPERS and the Deferred Compensation Plan against national death records. The Berwyn Group generates a report which includes a listing of individuals matched against the national death records and also a listing of individuals with invalid information, such as social security numbers, names, and dates of birth. NPERS is then responsible for ensuring the data records are adequately reviewed and resolved by terminating retirement benefits to deceased members, recovering ineligible retirement payments, paying the beneficiary or estate the account balance for members who have not previously received retirement benefits and following up on inaccurate account information.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Berwyn Death Audit (Continued)**

During the last fiscal year audit of the School, Judges, and State Patrol Plans, we noted problems regarding NPERS' follow-up and resolution of the death audit report. As NPERS did not perform adequate or timely follow up of all member accounts, the Auditor of Public Accounts (APA) performed additional procedures as reported in the Attestation Review of NPERS Death Audit Procedures as of January 31, 2009, to ensure member accounts were properly handled.

During our review to determine if NPERS had properly followed up on the January 31, 2009, findings, we noted 34 of 80 findings had not been appropriately resolved as follows:

- Six accounts received benefit payments totaling \$17,062 past the date of death and the repayments had not been received by NPERS. NPERS had recently contacted the estates for the repayments.
- Four accounts were reported with a date of death and seven accounts were reported with invalid information and no procedures had been performed by NPERS since the January 31, 2009, report to follow up and resolve the findings. The account balances totaled \$7,072.
- Four accounts (one deceased member and three accounts with invalid information) had not been resolved as NPERS noted no contact could be made as the member or the beneficiaries could not be found. Account balances totaled \$3,615. NPERS should consider whether these accounts should be sent to the State of Nebraska Unclaimed Property Division.
- Eleven accounts reported with invalid information were not adequately resolved as follows:
  - For seven accounts the APA noted there appeared to be a second account for the member in the system. However, follow-up had not been performed by NPERS to combine or resolve the accounts. The invalid account balances totaled \$20,652.
  - Internal Revenue Code 401(a) requires distributions from member's accounts upon reaching the age of 70½. Two accounts noted in the report should have received three different distributions between April 1, 2007, and December 31, 2008. No distributions had been made from the accounts.
  - For two accounts it appeared NPERS obtained the inactive member's social security cards and agreed the number to the system. No further documented procedures were performed. During the APA's follow-up procedures we

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Berwyn Death Audit (Continued)**

contacted the Social Security Office and determined the cards were not valid. As noted during the January 31, 2009, report, if active member accounts had been properly reported to The Berwyn Group by NPERS, invalid information such as this could have been resolved while the employees were still actively participating.

- We also noted NPERS did not have adequate procedures to ensure multiple beneficiaries of a member's account were periodically contacted and accounts resolved. NPERS contacted the multiple beneficiaries for two accounts. For each of the accounts one beneficiary had not claimed or relinquished their rights to the balances and further contact was still required by NPERS to ensure the proper resolution. However, the beneficiaries were not noted on NPERS' manual spreadsheet used to track the death audit to ensure the accounts were resolved.

Furthermore, we reviewed the most current Berwyn Death Audit report received by NPERS during July 2009 and tested 30 individuals on the report, the following was noted:

- One member received payments past their date of death, (May 2009) totaling \$1,524. Payments were not to continue after death, in accordance with the option selected by the member upon retirement. NPERS contacted the member's son in August 2009 but had not received repayment.
- NPERS did not have adequate procedures to ensure refunds were properly audited and paid in a timely manner.
  - One member's beneficiary requested a refund in September 2009. During our review we noted the account was in a pending status, awaiting a refund. After further inquiry it was determined the refund likely would not have been completed until the APA tested the account or the beneficiary had contacted NPERS to question the payment. The refund was subsequently paid in December 2009.
  - We further noted NPERS' system had 163 refunds in the refund audit work pool as of January 6, 2010. Items in this work pool existed dating back to 2005 pending resolution. It is unknown whether there were additional refunds waiting to be processed. NPERS does not have adequate procedures to ensure items in this work pool are properly resolved.
- For the July 2009 report NPERS did not send active members and continued to use a query from the system that sent inactive members with zero account balances to The Berwyn Group. It is unknown how many inactive accounts with zero balances were

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**3. Berwyn Death Audit (Concluded)**

given to The Berwyn Group; however, there were 149 reported with the death audit. This required additional time on NPERS' part to follow up on the accounts that required no further action.

- As noted above, NPERS did not have procedures to ensure multiple beneficiaries were periodically contacted to resolve account balances. During our testing of the July 2009 report we also noted a deceased member with four beneficiaries. Three of the beneficiaries had claimed their balances; however, the fourth beneficiary had not responded. The beneficiary was not included on NPERS' manual spreadsheet used to track the death audit to ensure the account was resolved.

Without adequate procedures to ensure the Berwyn Death Audit report and prior audit findings are properly resolved in a timely manner, there is an increased risk overpayments will be made to deceased individuals, member accounts will not be properly paid out, and NPERS will not be in compliance with Federal regulations requiring distribution of members' accounts.

We recommend NPERS ensure a proper and timely review and resolution of prior audit findings including the repayment of all accounts paid in error. We also recommend NPERS ensure proper information is submitted to The Berwyn Group. Additionally, we recommend NPERS ensure the work pool containing refunds in progress is reviewed and pending items cleared in a timely and accurate manner. Lastly, we recommend NPERS ensure all beneficiaries are periodically followed up on until the account balance is properly resolved.

*NPERS' Response: NPERS will work on resolving the prior audit findings from the special Death Audit performed. Data obtained from NPRIS will be submitted to The Berwyn Group on a bi-annual basis using the same query that the auditors used in their special audit.*

*Benefits staff will formulate procedures to ensure the refund work pool will be reviewed in a timely manner and action taken to clear pending matters.*

*NPERS will update procedures concerning beneficiary accounts and periodically follow-up until the account is distributed or transferred to unclaimed property.*

**4. Retiree Benefit Calculations**

A good internal control plan and good accounting practice requires policies and procedures to ensure benefit calculations are accurate, consistent, and comply with statutory requirements. During testing of retiree benefit payments in the School Employees, Judges, and State Patrol Retirement Plans we noted the following:

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Retiree Benefit Calculations** (Continued)

Judges Retirement Plan

Neb. Rev. Stat. § 24-710(2) (Reissue 2008) states, "...Each such judge shall be entitled to receive an annuity, each monthly payment of which shall be in an amount equal to three and one-half percent of his or her final average compensation as such judge, multiplied by the number of his or her years of creditable service, except that the monthly benefit received under this subsection shall not exceed seventy percent of the final average compensation such judge was receiving when he or she last served as such judge."

One of two member's benefit tested exceeded the 70% limit set forth in statute. NPERS allowed for the actuarial factor used in the calculation to adjust the benefit to an amount greater than the 70% limit. The member tested selected a Life Only annuity upon retirement. With this option the actuarial factor was greater than 1 at 1.00599. This resulted in the monthly benefit being higher than the statutory limit of 70%. The 70% limitation would have lead to a monthly benefit of \$6,876; however, the individual was paid \$6,917, an overpayment of \$41 per month. Without clear statutory intent there is an increased risk members will receive a benefit greater than that allowed by law.

School Employees Retirement Plan

- Neb. Rev. Stat. § 79-902(35)(d) and (e) (Reissue 2008) state, if a member's compensation for a plan year exceeds the member's compensation with the same employer for the preceding plan year by more than seven percent (ten percent for years prior to July 1, 2005), then the employer shall provide information indicating to the director that the member's compensation has exceeded seven percent (or ten percent). Such information shall be provided in an accurate and verifiable form as specified by the director.

All four new retirees tested exceeded the statutory salary cap. For three of the four an exemption from the salary cap was claimed by the school; however, nothing was verified by NPERS to ensure the accuracy. The fourth new retiree exceeded the salary cap; however, there was nothing provided by the school indicating the salary was allowed. The salaries exceeded the statutory cap by amounts ranging from \$372 to \$1,068. One of the member's salaries exceeded the cap for two years. A similar finding was noted in the last two audit reports. Without proper documentation obtained and verified there is an increased risk members will have their benefit calculated on ineligible salary amounts leading to inflated benefit payments.

- Neb. Rev. Stat. § 79-933(1) (Reissue 2008) states, "A member or emeritus member shall receive a school retirement allowance which shall consist of the sum of: (a) A savings annuity which shall be the actuarial equivalent, as determined by the retirement board, of

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Retiree Benefit Calculations** (Continued)

the member's accumulated contributions at the time of his or her retirement or, in the case of an emeritus member, the savings annuity fixed by the retirement board at the time of his or her original retirement; and (b) a service annuity to be paid by the State of Nebraska.”

A member is either eligible for a savings and service annuity as outlined in the statute above or a formula annuity as stated in Neb. Rev. Stat. § 79-934 (Reissue 2008), whichever is greater. However, NPERS did not have documented policies and procedures for the determination and calculation of the savings and service annuity. The calculation must be performed manually; however, NPERS did not have clear written guidelines as to when a savings and service annuity calculation was to be performed and what rates were to be used. Without clear policies and procedures there is an increased risk a member will not have the savings and service annuity calculated or calculated properly to ensure they are receiving the greatest benefit at retirement.

All Retirement Plans

Created in law are statutes which establish the calculation of several different cost of living adjustments (COLA) for retiree benefits under the Plans. Neb. Rev. Stat. § 79-947.01 (Reissue 2008), Neb. Rev. Stat. § 24-710.07 (Reissue 2008), and Neb. Rev. Stat. § 81-2027.03 (Reissue 2008) describe the calculations used to calculate the method one and two COLA for retiree benefits. Additionally, Neb. Rev. Stat. § 79-947.05 (Reissue 2008), Neb. Rev. Stat. § 24-710.11 (Reissue 2008), and Neb. Rev. Stat. § 81-2027.07 (Reissue 2008) describe the calculation used for the method three COLA.

NPERS' procedures were to calculate the three COLA methods and give the retiree the method that resulted in the greatest adjustment to the benefit; with the adjustment being no larger than the change in the Consumer Price Index (CPI) for the year. However, after a careful review of the statutes there was a question as to whether the method three COLA stands alone from the method one and two COLA and therefore, should be in addition to the greater of method one or two, the total adjustment being no larger than the change in CPI.

The statutes state to apply the method two adjustment unless the adjustment would be less than 75% purchasing power of the initial benefit for the School Employees and Judges Plan members and less than 60% purchasing power of the initial benefit for State Patrol Plan members. If the adjustment is less than the required purchasing power percentage then the adjustment under method one is to be applied. Additionally, the method three statutes state, “The retirement board shall adjust the annual benefit adjustment provided in this section so that the total amount of all cost-of-living adjustments provided to the eligible retiree at the time of the annual benefit adjustment does not exceed the change” in the CPI. As the statute states “all” COLA adjustments this could lead to an understanding that there are multiple adjustments to be applied.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**4. Retiree Benefit Calculations (Concluded)**

Furthermore, the statutes establishing the method three COLA were created into law prior to the method one and two COLA. After the method one and two COLA adjustments were created the method three statute was revised to include “all” cost-of-living adjustments. Without clear statutory intent there is an increased risk members are not receiving the proper COLA increases to their benefits as only the largest of the three methods is being applied.

We recommend NPERS ensure the statutes of the Plans clearly state the intent as to ensure benefits and benefit adjustments are properly calculated and applied to members at retirement. Additionally, we recommend NPERS perform routine testing of school exemptions for individuals that exceed salary caps in compliance with statute. Furthermore, we recommend NPERS ensure policies and procedures are established for the savings and service annuity to ensure calculations are performed and performed properly for all members that qualify.

*NPERS’ Response: NPERS will review the statutes of the Plans and determine if any changes need to be made to ensure that the intent is clearly stated.*

*As part of the updates made to our internal audit program for School Employers, we will perform sampling and testing of the Salary Cap Exemption.*

*NPERS will document the savings and service annuity procedures and policies.*

**5. Resolution of Prior Year School Audit Findings**

A good internal control plan requires the timely and thorough resolution of prior audit findings.

NPERS did improve their resolution of prior audit findings for the School Plan as there were 24 prior audit findings for fiscal years 2004 through 2008 and six findings remained for the School Plan. Four findings from the 2008 audit, one from the 2007 audit, and one finding from the 2006 audit were not adequately resolved as follows:

**2008 Findings**

- One individual did not begin contributing to the Plan timely. NPERS further determined the member was eligible as early as 1995. NPERS and the school district were working to determine the proper make-up contributions; however, a make-up agreement had not yet been established.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Resolution of Prior Year School Audit Findings (Continued)**

- One member did not contribute on the proper salary composition, in compliance with State statute. NPERS received documentation from the school district that the issue had been resolved for future payrolls; however, make-up contributions had not been addressed for the individual noted.
- One member did not have the proper hours worked reported to NPERS for two months. It appeared the member's hours were underreported by 12.7 hours which could affect service credits earned, which are used in the calculation of the member's benefit upon retirement. The member's hours had not been corrected in the system.
- One member purchased service for \$16,885, however, when we recalculated the payment we determined the member should have only paid \$16,338, for an excess payment of \$547. NPERS had not followed up on this member to determine if the excess payment should have been refunded.

2007 Finding

One school district reported estimated hours worked for an individual instead of actual hours worked. For the member we noted 15 hours were reported for one month in excess of the hours actually worked. NPERS obtained further information for the entire fiscal year for the individual noted and determined a total of eight hours were underreported for the year. However, NPERS had not recorded an adjustment in the system. Furthermore, NPERS and the school district did not work to determine if there were other hourly employees that were also reported improperly that needed to be adjusted.

2006 Finding

We noted one individual was properly contributing to the Plan; however, according to the school district the member terminated on Friday, September 23, 2005, and then was rehired on the following Monday, September 26, 2005. Starting Monday the member no longer worked full time and stopped contributing to the system. According to the School Handbook the member did not have a break in service and therefore, should still have been contributing to the Plan. NPERS had not worked with the school district to establish a make-up agreement.

A similar finding was noted in the past several audit reports.

Without procedures to ensure prior audit findings are resolved timely, there is an increased risk errors in plan membership and compensation will remain incorrect.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**5. Resolution of Prior Year School Audit Findings (Concluded)**

We recommend NPERS resolve findings from prior audits, require make-up contributions for missed contributions, make appropriate adjustments to members' records as necessary, and ensure overpayments of purchases of service are properly refunded.

*NPERS' Response: NPERS will continue working on the six prior audit findings. 2008 Findings: NPERS will work with school employers to determine the proper amount of make-up contributions and make adjustments to members' records. NPERS accounting department is working on returning the overpayment of purchase service. 2007 Finding: NPERS will contact the school district to determine if there are other hourly employees that need to have hours adjusted in NPRIS. 2006 Finding: NPERS has contacted the school and both agree that the employee should not have stopped remitting contributions; however, the employee's hours are very minimal each month and given the length of time in consideration, requesting make-up contributions for the employee would not only be a hardship to the employee, but would be impractical.*

**6. Inconsistent Plan Documents**

A good internal control plan requires procedures to ensure plan documents are consistent and accurate.

As noted in the previous audit report, there are several plan documents (State statutes, Plan Handbooks, Rules and Regulations, and Applications for Retirement) that were not consistent as follows:

- Neb. Rev. Stat. § 79-902(30)(a) (Reissue 2008) indicates, the members three highest 12-month periods of salary, counting back from the final month of pay, are used to determine the final average compensation for calculating the benefit. However, Title 303 NAC 23-002.01 indicates the salaries should be based on the State's fiscal year. NPERS currently calculates the final average compensation based upon statutory language.
- According to Title 303 NAC 24-002 and the Judges Application for Retirement/ Disability, the Joint and Survivor Annuity options are for an annuity at 50%, 66⅔%, or 100%. However, the Judges Member Handbook states the Joint and Survivor Annuities are offered at the rates of 50%, 75%, and 100%.
- As noted in our prior audit, NPERS had Draft Rules and Regulations which had been approved by the Nebraska Public Employees Retirement Board in 2002 but had not been approved by the Secretary of State. The draft rules and regulations still had not been approved during fiscal year 2009. In the APA's review of the Draft Rules and Regulations, we noted a number of irregularities as follows:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**6. Inconsistent Plan Documents (Continued)**

- The Draft Rules and Regulations, Title 303 NAC 4-003.03(a) states, “The date of distribution of a refund to a member in the School Plan shall not occur earlier than four (4) calendar months after the member’s termination date or three (3) working days after the receipt of the application for a refund, whichever date is later.” However, the School Plan Handbook states, “You are eligible to receive a refund approximately four months after your termination of employment, or no sooner than 20 days after NPERS receives your completed Application for Refund, whichever is later.” Additionally, we noted the system does not calculate four months but rather 120 days. Four months may be more or less than 120 days.
- The Draft Rules and Regulations, Title 303 NAC 4-004.03(a) states, “The date of distribution of a refund to a member in the Judges Plan or the Patrol Plan shall not occur earlier than sixty (60) days after the member’s termination date or three (3) working days after the receipt of an application for a refund, whichever date is later.” However, the State Patrol Handbook states, “... your payment will be processed approximately: 60 days after your termination date...or two weeks after receipt of your application, whichever is later.” Additionally, the Judges Plan Handbook states, “You are eligible to receive a refund approximately 60 days after either your last working day OR receipt of your completed application by NPERS, whichever is later.”
- We also noted seven State statutes for the Plans that required corresponding rules and regulations to be established by the Nebraska Public Employees Retirement Board for which there were none. The statutes were Neb. Rev. Stat. § 79-907 (Reissue 2008), Neb. Rev. Stat. § 79-926 (Reissue 2008), Neb. Rev. Stat. § 79-933.01 (Reissue 2008), Neb. Rev. Stat. § 24-710.05 (Reissue 2008), Neb. Rev. Stat. § 81-2031.03 (Reissue 2008), Neb. Rev. Stat. § 81-2034 (Reissue 2008), and Neb. Rev. Stat. § 81-2041 (Reissue 2008).

Without consistent policies and information provided to members there is an increased risk benefit payments will not be properly calculated. Furthermore, there is an increased risk members may have a misunderstanding of the benefits available if information is not consistent between the different plan documents.

We recommend NPERS ensure Rules and Regulations, Plan Handbooks, State Statutes, and Applications for Retirement are consistent for the Plans. We further recommend NPERS ensure rules and regulations approved by the Nebraska Public Employees Retirement Board are properly submitted and approved by the Secretary of State in a timely manner. Lastly, we recommend NPERS ensure Rules and Regulations are established in compliance with State statute.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**COMMENTS AND RECOMMENDATIONS**

(Continued)

**6. Inconsistent Plan Documents (Concluded)**

*NPERS' Response: As Plan Handbooks are updated, NPERS will review statutes, forms and Rules and Regulations to make information in the handbooks as consistent as possible.*

*NPERS is in the process of updating Rules and Regulations. The Nebraska Public Employees Retirement Board will be involved in the process.*



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

#### INDEPENDENT AUDITOR'S REPORT

Nebraska Public Employees Retirement Board  
Lincoln, Nebraska

We have audited the accompanying Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Retirement Plans as of and for the fiscal year ended June 30, 2009, which collectively comprise NPERS' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of NPERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans, are intended to present the financial position and changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems - School

Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2009, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2010, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

NPERS has not presented Management Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Schedules of Funding Progress and Schedules of Contributions From Employers and Other Contributing Entities are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. The Schedules of Funding Progress and Schedules of Contributions From Employers and Other Contributing Entities have been subjected to the auditing procedures applied in the audit of the Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets and, in our opinion, are fairly stated in all material respects in relation to the financial statements referred to above, taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans’ basic financial statements. The accompanying supplementary schedule of Service Efforts and Accomplishments and related graphs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Signed Original on File

February 23, 2010

Pat Reding, CPA, CFE  
Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**STATEMENTS OF PLAN NET ASSETS**  
AS OF JUNE 30, 2009

	School Employees	Judges	State Patrol
<b>ASSETS</b>			
Cash in State Treasury	\$ 2,390,514	\$ 86,187	\$ 162,856
Deposits with Vendors	9,091	94	94
Receivables:			
Contributions	39,760,285	400,863	1,126,887
Interest and Dividend Income	11,520,175	199,173	445,985
Other Investment Receivables (Note 4)	170,009,949	2,924,941	6,612,159
Total Receivables	221,290,409	3,524,977	8,185,031
Investments, at fair value (Note 4):			
U.S. Treasury Bills	544,565	9,369	21,179
U.S. Treasury Notes and Bonds	50,068,599	861,402	1,947,232
Government Agency Securities	40,085,591	689,650	1,558,980
Corporate Bonds	376,833,586	6,483,211	14,655,539
International Bonds	33,732,024	580,341	1,311,881
Asset Backed Securities	52,882,727	909,818	2,056,677
Guaranteed Investment Contracts	-	-	53,387
Short Term Investments	61,433,935	1,056,958	2,461,243
Commingled Funds	2,647,843,650	45,554,671	103,437,789
Mortgages	700,510,945	12,052,312	27,250,867
Municipal Bonds	17,188,919	295,726	668,499
Private Equity Funds	94,208,501	1,620,805	3,663,889
Equity Securities	1,178,796,538	20,280,536	45,844,901
Options	9,002,712	154,887	350,127
Private Real Estate Funds	84,111,050	1,447,084	3,271,186
Total Investments	5,347,243,342	91,996,770	208,553,376
Invested Securities Lending Collateral (Note 4)	312,458,386	5,375,672	12,151,905
Capital Assets (Note 10):			
Equipment	11,637,651	2,093,794	2,049,386
Less: Accumulated Depreciation	(7,317,138)	(1,855,802)	(1,816,769)
Total Capital Assets	4,320,513	237,992	232,617
<b>TOTAL ASSETS</b>	<b>5,887,712,255</b>	<b>101,221,692</b>	<b>229,285,879</b>
<b>LIABILITIES</b>			
Compensated Absences (Note 5)	193,118	2,929	4,533
Accounts Payable and Accrued Liabilities	2,799,041	45,575	176,371
Obligations under Securities Lending (Note 4)	312,458,386	5,375,672	12,151,905
Capital Lease Obligations (Note 7)	1,019,996	298,535	287,227
Other Investment Payables (Note 4)	301,822,195	5,192,682	11,738,250
Contributions for Omaha Public Schools (Note 6)	3,769,811	-	-
TOTAL LIABILITIES	622,062,547	10,915,393	24,358,286
NET ASSETS HELD IN TRUST FOR			
PENSION BENEFITS (A schedule of funding progress for each plan is presented on page 43.)	\$ 5,265,649,708	\$ 90,306,299	\$ 204,927,593

The accompanying notes are an integral part of the financial statements.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	School Employees	Judges	State Patrol
<b>ADDITIONS:</b>			
Contributions:			
Member (Note 9)	\$ 110,848,494	\$ 1,179,465	\$ 3,688,593
Employer	110,028,942	-	4,257,902
Court Fees	-	3,419,091	-
State	24,390,359	72,244	1,126,887
Total Contributions	<u>245,267,795</u>	<u>4,670,800</u>	<u>9,073,382</u>
Investment Income:			
Net appreciation (depreciation) in fair value of investments	(1,368,395,438)	(23,581,480)	(54,125,503)
Interest & Dividends	126,282,820	2,180,238	4,959,392
Securities Lending Income	7,152,722	123,059	278,178
Total Investment Income	<u>(1,234,959,896)</u>	<u>(21,278,183)</u>	<u>(48,887,933)</u>
Investment Expenses	(12,141,420)	(214,900)	(564,550)
Securities Lending Expenses	<u>(3,611,200)</u>	<u>(62,129)</u>	<u>(140,444)</u>
Net Investment Income	(1,250,712,516)	(21,555,212)	(49,592,927)
Other Additions	<u>21,670</u>	<u>3</u>	<u>507</u>
Total Additions	<u>(1,005,423,051)</u>	<u>(16,884,409)</u>	<u>(40,519,038)</u>
<b>DEDUCTIONS:</b>			
Benefits	289,529,736	5,433,233	13,347,738
Refunds of Contributions	9,394,165	208,417	102,755
Administrative Expense	2,675,297	421,682	582,678
Other Deductions (Note 6)	<u>5,617,247</u>	<u>-</u>	<u>-</u>
Total Deductions	<u>307,216,445</u>	<u>6,063,332</u>	<u>14,033,171</u>
Net Increase (Decrease)	(1,312,639,496)	(22,947,741)	(54,552,209)
Net assets held in trust for pension benefits:			
Beginning of year	<u>6,578,289,204</u>	<u>113,254,040</u>	<u>259,479,802</u>
End of year	<u>\$ 5,265,649,708</u>	<u>\$ 90,306,299</u>	<u>\$ 204,927,593</u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

For the Fiscal Year Ended June 30, 2009

**1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The accompanying basic financial statements of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol Retirement Plans have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

NPERS was restructured by the Legislature in 1971 to administer the existing Nebraska retirement systems. Currently, NPERS is responsible for the administration of five retirement plans and the Deferred Compensation Plan. The five retirement plans administered are: the School Employees, State Patrol, Judges, State Employees, and County Employees Retirement Plans.

NPERS is a part of the State of Nebraska reporting entity. The five retirement plans and the Deferred Compensation Plan are classified as pension trust fund types in the State of Nebraska Comprehensive Annual Financial Report.

Separate reports have been issued for the State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2008, and the Deferred Compensation Plan for the calendar year ended December 31, 2005.

The financial statements reflect only the School Employees, Judges, and State Patrol Retirement Plans and do not reflect all activity of the Nebraska Public Employees Retirement Systems.

**C. Measurement Focus, Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. Pension funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statements of Plan Net Assets.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies (Continued)**

The School Employees, Judges, and State Patrol Retirement Plans' financial statements were prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each Plan.

**D. Cash in State Treasury**

Cash in State Treasury represents the cash balance of a fund as reflected in the State's General Ledger. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on the investments of the three Plans is allocated to funds based on their percentage of the investment pool.

**E. Investments**

Investments as reported in the financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments are stated at fair value based on quoted market prices. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals. The State Treasurer is the custodian of all funds; however, investment of funds is under the responsibility of the Nebraska Investment Council.

Although the investments of the plans are commingled, each plan's investments may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

**F. Capital Assets**

Capital assets consist of computer software and equipment. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist.

Generally, equipment that has a cost in excess of \$5,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Purchased software that is financed with long-term debt or capitalized lease financing is also capitalized. The amount capitalized includes the cost of the software and related expenses necessary to put

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**1. Summary of Significant Accounting Policies (Concluded)**

the software into place. The useful life is determined based on the system and will be depreciated over seven years, the same period as the lease financing arrangement used to purchase the software. Equipment is depreciated over three to ten years using the straight-line method.

**G. Compensated Absences**

All permanent employees working for NPERS earn sick and vacation leave. Temporary and intermittent employees and Board members are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

NPERS employees accrue vested vacation leave at a variable rate based on years of service. Generally, accrued vacation leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or of a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 50 or 60 days.

The Plans recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

**H. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal-year-end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**2. Plan Descriptions and Contribution Information**

Membership of each plan consisted of the following at June 30, 2009, the date of the last actuarial valuation:

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**2. Plan Descriptions and Contribution Information** (Continued)

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	15,949	157	372
Terminated plan members entitled to but not yet receiving benefits	19,413	8	11
Active plan members	39,231	154	468
Total	74,593	319	851

The NPERB was created in 1971 to administer the Nebraska retirement plans. The School Employees, Judges, and State Patrol plans have been created in accordance with Internal Revenue Code Sections 401(a) and 414(h). Participants should refer to Neb. Rev. Stat. §§ 79-901 through 79-977.03 for the School Employees Retirement Plan, Neb. Rev. Stat. §§ 24-701 through 24-714 for the Judges Retirement Plan and Neb. Rev. Stat. §§ 81-2014 through 81-2041 for the State Patrol Retirement Plan. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

By State law, there is to be an equitable allocation of expenses among the retirement plans administered by the Board and all expenses shall be provided from the investment income earned by the various retirement funds. Following is a summary of the School Employees, Judges, and State Patrol Retirement Plans.

**School Employees Retirement**

**Plan Description.** The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. The Legislature in 1945 enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2009, there were 277 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plan (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

Normal retirement is at age 65. The monthly benefit is equal to the greater of: 1) The sum of a savings annuity which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to \$3.50 per year of service, or 2) The average of the three 12-month periods of service as a school employee in which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor set by statute, and an actuarial factor based on age. The calculation varies with early retirement. Employees' benefits are vested after five years of plan participation, or when termination occurs at age 65 or later.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

2. **Plan Descriptions and Contribution Information** (Continued)

**Contributions.** The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to 1.0 percent of the compensation of all members. The employees' contribution was equal to 7.28 percent from July 1, 2008, to June 30, 2009. The school districts' (employer) contribution is 101 percent of the employees' contribution.

**Judges Retirement**

**Plan Description.** The Judges Retirement Plan is a single-employer defined benefit pension plan which was established by the 1955 Legislature. The membership includes judges and associate judges employed by the State for the Supreme Court, Court of Appeals, District Courts, Workers' Compensation Court, County Courts, and Juvenile Courts.

Retirement is age 65 with benefits calculated using the compensation for the three 12-month periods of service as a judge in which compensation was the greatest, or the average monthly compensation, multiplied by the total years of service and the formula factor of 3.5 percent; subject to a maximum of 70 percent of the final average salary. The calculation varies with early retirement. Benefits vest when the judge takes office.

**Contributions.** The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A five dollar fee for each case is collected from District and County courts, Juvenile courts, Workers' Compensation Court, Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Each new member after July 1, 2004, and those active members that elected within 90 days of July 1, 2004, contribute 8 percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit has been earned, such member contributes 4 percent of their monthly salary for the remainder of his or her active service. All other members contribute 6 percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit had been earned, such member makes no further contributions to the fund.

**State Patrol Retirement**

**Plan Description.** The State Patrol Retirement Plan is a single-employer defined benefit pension plan, which was created in 1947 for officers of the patrol. The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the final average salary. To receive maximum benefits, officers are required to have 25 years of service and be at least 50 years old.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**2. Plan Descriptions and Contribution Information** (Concluded)

Normal benefits are calculated using the average monthly salary for the three 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of 3 percent. Calculation will vary with early retirement. Benefits vest after 10 years of service.

**Contributions.** Members are required to contribute 13 percent of their annual pay, plus, for a State Patrol officer employed on or before January 4, 1979, 13 percent of pay received at termination for unused sick leave and vacation leave. The State Patrol's (employer) contribution is 15 percent of the employees' annual pay. The State's contribution is based on an annual actuarial valuation.

**Deferred Retirement Option Plan (DROP).** Neb. Rev. Stat. § 81-2041 (Reissue 2008) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. If the member chooses to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from their paychecks. When the member enters DROP the individual's monthly benefit is calculated and paid into an IRC § 457 Deferred Compensation Plan (DCP), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

**3. Funded Status and Funding Progress**

The funded status of each plan as of June 30, 2009, the most recent actuarial valuation date, is as follows:

	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL) - Entry Age	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
School	\$ 7,007,581,825	\$ 8,092,339,318	\$1,084,757,493	86.6%	\$1,481,568,432	73.2%
Judges	120,992,600	118,558,418	(2,434,182)	102.0%	18,373,339	(13.2%)
State Patrol	274,119,906	305,291,065	31,171,159	89.8%	25,922,439	120.2%

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**3. Funded Status and Funding Progress (Concluded)**

The schedules of funding progress, presented as required supplementary information immediately following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information regarding the plans actuarial methods and significant assumptions, as of the latest actuarial valuation date, is as follows:

	<u>School Employees</u>	<u>Judges</u>	<u>State Patrol</u>
Valuation date	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	28 Years	30 Years	29 Years
Asset valuation method	5 year smoothing	5 year smoothing	5 year smoothing
Actuarial assumptions:			
Investment rate of return*	8.0%	8.0%	8.0%
Projected salary increases*	4.5% to 7.46%	4.5%	4.5% to 9.0%
Cost-Of-Living Adjustments (COLA)	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 60% purchasing power of original benefit

\* Includes assumed inflation of 3.5% per year.

**4. Investments**

**Investments.** Listed below is a summary of the investment portfolio that comprises the Investments on the Statements of Plan Net Assets. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01 (Reissue 2009) authorizes the appointed members of the Nebraska Investment Council to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the assets of the retirement systems.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

NPERS' investments for the School Employees, Judges, and State Patrol Retirement Plans at June 30, 2009, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

**School Employees, Judges, and State Patrol Retirement Plan Investments  
at June 30, 2009**

	Fair Value	Effective Duration
Debt Securities		
U.S. Treasury Notes and Bonds	\$ 52,877,233	6.73
U.S. Treasury Bills	575,113	0.07
Government Agency Securities	42,334,221	4.41
Guaranteed Investment Contracts	53,387	2.87
Corporate Bonds	397,972,336	4.60
International Bonds	35,624,246	4.67
Asset Backed Securities	55,849,222	2.16
Short Term Investments	64,952,136	0.14
Commingled Funds	492,415,619	3.85
Mortgages	739,814,124	3.02
Municipal Bonds	18,153,144	12.31
	1,900,620,781	
Other Investments		
Private Equity Securities	99,493,195	
Equity Securities	1,244,921,975	
Commingled Funds	2,304,420,491	
Options	9,507,726	
Private Real Estate Funds Trust	88,829,320	
Total Investments	5,647,793,488	
Invested Securities Lending Collateral	329,985,963	
Total	\$ 5,977,779,451	

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The State has contracts with investment managers that limit the effective duration to within one year of the effective duration of the benchmark.

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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

**Credit Risk of Debt Securities.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A and BB- for its high yield fixed income account. NPERS' rated debt investments as of June 30, 2009, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

**School Employees, Judges, and State Patrol Retirement Plan Investments  
at June 30, 2009**

	Fair Value	Quality Ratings						
		AAA	AA	A	BBB	BB	B	Unrated
Asset Backed Securities	\$ 55,849,222	\$ 46,897,146	\$ 1,881,015	\$ 1,683,789	\$ 1,051,025	\$ -	\$ 324,816	\$ 4,011,431
Mortgages	739,814,124	490,248,823	1,883,526	5,244,539	8,815,740	1,453,938	4,951,052	227,216,506
International Bonds	35,624,246	3,928,625	10,575,564	1,935,146	11,282,425	7,687,547	63,479	151,460
Corporate Bonds	397,972,336	57,860,116	43,400,354	130,051,577	78,234,667	33,930,027	32,236,008	22,259,587
Government Agency Securities	42,334,221	40,484,652	-	-	-	436,643	257,213	1,155,713
Municipal Bonds	18,153,144	8,424,709	5,038,139	4,313,816	376,480	-	-	-
Short Term Investments	64,952,136	-	-	-	-	-	-	64,952,136
Commingled Funds	492,415,619	-	-	-	-	-	-	492,415,619

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages, and non-U.S. sovereign issuers, to 5 percent of the total account.

At June 30, 2009, NPERS had debt security investments with more than 5 percent of total investments in the Federal National Mortgage Association (7 percent).

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Continued)

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State does not have a formal policy to limit foreign currency risk. NPERS' exposure to foreign currency risk is presented on the following table.

**School Employees, Judges, and State Patrol Retirement Plan**  
**Foreign Currency at June 30, 2009**

	<b>Short Term Investments</b>	<b>Equity Securities</b>	<b>International Bonds</b>	<b>Corporate Bonds</b>
Argentine Peso	\$ 10,755	\$ -	\$ -	\$ -
Australian Dollar	749	23,824,431	977,183	-
Brazilian Real	675,591	2,307,341	729,174	-
Canadian Dollar	11,465	14,348,163	-	39,646
Czech Koruna	59,522	-	-	-
Danish Krone	60,461	2,560,829	-	-
Euro Currency	1,548,654	207,818,001	1,637,631	3,057,478
Hong Kong Dollar	34,621	34,614,924	-	-
Hungarian Forint	7	-	-	-
Iceland Krona	-	-	384,616	-
Indian Rupee	318,721	-	-	-
Indonesian Rupiah	1,333	644,357	-	294,947
Israeli Shekel	2,981	-	-	-
Japanese Yen	557,438	103,100,884	-	-
Mexican Peso	101,089	3,195,101	-	248,559
New Russian Ruble	342,567	-	-	-
New Taiwan Dollar	549,147	-	-	-
New Zealand Dollar	18	-	-	493,752
Norwegian Krone	319	31,567	-	-
Philippine Peso	1,857	-	-	-
Polish Zloty	220	1,636,251	-	-
Pound Sterling	1,069,050	99,257,389	1,550,877	400,236
Singapore Dollar	219	11,187,460	-	1,727,955
South African Rand	159,999	1,938,323	-	-
South Korean Won	715,335	14,730,217	-	-
Swedish Krona	7,067	1,135,894	-	-
Swiss Franc	66,416	71,928,367	-	-
Thailand Baht	6,609	3,958,056	-	-
Yuan Renminbi	877,576	-	-	-
<b>Total</b>	<b>\$ 7,179,786</b>	<b>\$ 598,217,555</b>	<b>\$ 5,279,481</b>	<b>\$ 6,262,573</b>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**4. Investments** (Continued)

**Securities Lending Transactions.** The State participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The State's primary custodial bank administers the securities lending program and receives collateral in the forms of cash, United States government or government agency obligations, sovereign debt rated A or better, or convertible bonds at least equal in value to the market value of the loaned securities. Securities on loan at year end consisted of United States government obligations, equity securities, corporate bonds, and non-US fixed income. At year end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 43 and 46 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities, but does not indemnify against the default by an issuer of a security held in the short term investment funds where cash collateral is invested.

**Derivative Financial Instruments.** Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and/or reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms.

**Other Receivables/Other Payables.** Other receivables consisted of receivables for investments sold, receivables for foreign exchanges, tax reclaim receivables, unrealized appreciation/depreciation on income receivables, unrealized appreciation/depreciation on investment receivables, unrealized appreciation/depreciation on foreign exchange receivables, and other receivables as recorded by the custodial bank. Other payables consisted of payables for investments purchased, payable for foreign currency purchased,

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**4. Investments** (Concluded)

unrealized appreciation/depreciation on investments payable, unrealized appreciation/depreciation on foreign exchange payables, and other payables as recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investments sold and purchased represent securities in which the asset had been recorded as of June 30, 2009, but the security had not settled.

**5. Compensated Absences**

The liability for the vested portion of compensated absences for each Plan at June 30, 2009, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	\$ 109,471	\$ 1,660	\$ 2,570
Sick Leave	83,647	1,269	1,963
	\$ 193,118	\$ 2,929	\$ 4,533

**6. Payments to Omaha Public Schools**

Neb. Rev. Stat. § 79-916(2) (Reissue 2008) requires an annual payment, for one percent of members' compensation, to be made to Omaha Public Schools (OPS) as a result of that school system having a separate retirement system. The amount is included on the Statement of Changes in Plan Assets in State Contributions additions and as Other Deductions for the July 2009 appropriation for the fiscal year ended June 30, 2009. Additionally, on the Statement of Plan Net Assets, the amount is included as a Contribution Receivable and a liability for contributions due to OPS as the appropriation was not received until July 2009.

The School Employee Retirement Plan (School Plan) also administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2008). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), who then in turn make the actual service annuity payments to the Omaha retirees. Previously, payments and sources of such funds were commingled within the School Plan's accounts. In accordance with Neb. Rev. Stat. § 79-916 (Reissue 2008), a separate Service Annuity Fund (Fund) was established for such payments and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**6. Payments to Omaha Public Schools (Concluded)**

the Fund as may be necessary to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the Fund (\$7,278,909, consisting almost entirely of investments) are included in the Statement of Plan Net Assets at June 30, 2009. The service annuity payments to OPS are shown as Other Deductions in the Statement of Changes in Plan Net Assets.

Deductions from the School Plan for the year ended June 30, 2009, were as follows:

	School Employees
Omaha 1% Appropriation	\$ 3,769,811
Omaha Service Annuity Payments	1,847,436
Total Other Deductions	\$ 5,617,247

**7. Contingencies and Capital Lease Commitments**

**Risk Management.** NPERS is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. NPERS, as part of the primary government for the State, participates in the State's risk management program. The Department of Administrative Services (DAS) is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee healthcare, and workers' compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident with a self-insured retention of \$300,000 per accident, except for accidents involving vehicular pursuit, which have a \$1,000,000, self-insured retention per accident. Insurance is also purchased for physical damage and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31 million for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence.

Details of the various coverage is available from Risk Management, a division of the Department of Administrative Services.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**7. Contingencies and Capital Lease Commitments** (Concluded)

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Public Employees Retirement Systems' financial statements.

**Capital Lease Commitment.** The State of Nebraska, through State Accounting (a division of the Department of Administrative Services) has various leases under four Master Lease Indentures. Under such indentures, the State is required to make semiannual payments to trustees for principal and interest under such leases. To acquire funds for these semiannual payments to the trustees, State Accounting bills agencies in advance to ensure there are funds available to make the required payments. As of June 30, 2009, NPERS had agreed to participate in and make payments to State Accounting on four such capital leases. The agreements to pay for the leases are with NPERS, not any of the individual plans. The payments are allocated according to the expense allocation policy of NPERS. The minimum payments to State Accounting and the present value of future minimum payments for all capital leases as of June 30, 2009, are as follows:

Fiscal Year	School Employees	Judges	State Patrol
2010	\$ 786,655	\$ 230,241	\$ 221,519
2011	262,910	76,948	74,035
Total Minimum Payments	1,049,565	307,189	295,554
Less: Interest and Executory costs	29,569	8,654	8,327
Present value of net minimum payments	<u>\$ 1,019,996</u>	<u>\$ 298,535</u>	<u>\$ 287,227</u>

**Litigation.** The potential amount of liability involved in litigation pending against the Board, if any, could not be determined at this time. However, it is NPERS' opinion that final settlement of those matters should not have an adverse effect on NPERS' ability to administer current programs. Any judgment against NPERS would have to be processed through the State Claims Board and be approved by the Legislature.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

**8. Changes in Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2009, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>School Employees:</b>					
Compensated Absences	\$ 176,341	\$ 16,777	\$ -	\$ 193,118	\$ 13,518
Capital Lease Obligations	1,969,942	-	949,946	1,019,996	762,669
Totals	<u>\$ 2,146,283</u>	<u>\$ 16,777</u>	<u>\$ 949,946</u>	<u>\$ 1,213,114</u>	<u>\$ 776,187</u>
<b>Judges:</b>					
Compensated Absences	\$ 2,680	\$ 249	\$ -	\$ 2,929	\$ 205
Capital Lease Obligations	437,429	-	138,894	298,535	223,220
Totals	<u>\$ 440,109</u>	<u>\$ 249</u>	<u>\$ 138,894</u>	<u>\$ 301,464</u>	<u>\$ 223,425</u>
<b>State Patrol:</b>					
Compensated Absences	\$ 3,518	\$ 1,015	\$ -	\$ 4,533	\$ 317
Capital Lease Obligations	450,373	-	163,146	287,227	214,765
Totals	<u>\$ 453,891</u>	<u>\$ 1,015</u>	<u>\$ 163,146</u>	<u>\$ 291,760</u>	<u>\$ 215,082</u>

**9. School Employee Contributions**

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling \$1,964,210. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. § 79-921 (Reissue 2008), Neb. Rev. Stat. § 79-933.05 (Reissue 2008), Neb. Rev. Stat. § 79-933.06 (Reissue 2008), and Neb. Rev. Stat. § 79-933.08 (Reissue 2008).

**10. Capital Assets**

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>School Employees:</b>				
Equipment	\$ 7,483,576	\$ 4,154,075	\$ -	\$ 11,637,651
Less: Accumulated Depreciation	5,891,761	1,425,377	-	7,317,138
Total Capital Assets, Net	<u>\$ 1,591,815</u>	<u>\$ 2,728,698</u>	<u>\$ -</u>	<u>\$ 4,320,513</u>
<b>Judges:</b>				
Equipment	\$ 2,036,889	\$ 56,905	\$ -	\$ 2,093,794
Less: Accumulated Depreciation	1,597,300	258,502	-	1,855,802
Total Capital Assets, Net	<u>\$ 439,589</u>	<u>\$ (201,597)</u>	<u>\$ -</u>	<u>\$ 237,992</u>
<b>State Patrol:</b>				
Equipment	\$ 1,992,481	\$ 56,905	\$ -	\$ 2,049,386
Less: Accumulated Depreciation	1,563,954	252,815	-	1,816,769
Total Capital Assets, Net	<u>\$ 428,527</u>	<u>\$ (195,910)</u>	<u>\$ -</u>	<u>\$ 232,617</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**11. Fees On Investments**

There are several fees that are charged against all investments. Investment income is recorded net of these fees on the financial statements. The following schedule shows the external fees charged against investments for the fiscal year ended June 30, 2009.

<b><u>External Manager Fees</u></b>	<b><u>School Employees, Judges, &amp; State Patrol</u></b>
Abbott Capital	\$ 395,436
Acadian Asset Management, Inc.	767,604
Accel KKR Capital	215,355
Alliance Bernstein Institutional Investment Management	476,938
Ares Management, LLC	242,100
Baillie Gifford	407,684
Barclays Global Investors	780,602
Beacon Capital	335,672
BlackRock Financial Management	1,680,288
Bridgepoint Europe	227,895
CB Richard Ellis Investors	252,361
Citigroup	337,020
CMEA Ventures	235,720
CVC European	312,430
Dimensional Fund Advisors, Inc	632,127
Five Arrows (Rothchild Realty Management)	238,393
Goldman Sachs Asset Management	125,366
Grantham, Mayo, Van Otterloo & Co., LLC	1,532,702
Heitman	198,907
Ironbridge Capital Management, LP	204,486
Loomis Sayles	524,356
McCarthy Capital	12,508
McKinley Capital Management	491,535
MFS Global Equity	1,053,412
Mondrian Investment Partners, Ltd	170,059
New Enterprise Associates	35,766
New Mountain Partners	314,117
Pathway	804,839
PIMCO	2,561,158
Prudential	1,092,920
Quantum	287,909
Rockpoint	420,350
T. Rowe Price Associates, Inc.	113
The Jordan Company	263,765
Turner Investments	1,250,561
UBS Global Asset Management, Inc.	1,013,093
Wayzata Investment Partners	234,944
Total External Manager Fees	<u>\$ 20,130,491</u>

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**11. Fees On Investments** (Concluded)

See the Nebraska Investment Council attestation report for further information regarding other fees.

**12. Subsequent Events**

**State Patrol Additional Contributions.** Neb. Rev. Stat. § 81-2017(3) (Supp. 2008) defines actuarially required contributions. The actuarially determined additional contribution requirement for the State Patrol Plan as of July 1, 2009, is \$1,801,610.

**State Patrol Contribution Rate Increase.** Under the 2009 Neb. Laws LB 188, the member contribution rate increased from 13% to 15% on July 1, 2009. The employer contribution rate remains unchanged at 15%. Effective July 1, 2010, both the member and employer contribution rates increase to 16%.

**School Employee Contribution Rate Increase.** Under the 2009 Neb. Laws LB 187, from September 1, 2009, to September 1, 2014, the member contribution rate increases from 7.28% to 8.28% and at July 1, 2009, the State match increases from 0.7% to 1.0% of covered pay. On September 1, 2014, the member contribution rate returns to 7.28% and at July 1, 2014, the State match returns to 0.7%.

**Judges Contribution Rate Increase.** Under the 2009 Neb. Laws LB 414, all member contribution rates have been increased by 1%, and court fees were increased from \$5 to \$6 per case.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF FUNDING PROGRESS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL)	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
<b>SCHOOL EMPLOYEES</b>						
6/30/2009	\$7,007,581,825	\$8,092,339,318	\$1,084,757,493	86.6%	\$1,481,568,432	73.2%
6/30/2008	6,932,918,638	7,654,536,359	721,617,721	90.6%	1,389,124,819	51.9%
6/30/2007	6,396,336,863	7,070,308,583	673,971,720	90.5%	1,325,616,322	50.8%
6/30/2006	5,739,048,994	6,584,275,406	845,226,412	87.2%	1,247,684,378	67.7%
6/30/2005	5,335,197,409	6,234,657,830	899,460,421	85.6%	1,214,227,197	74.1%
6/30/2004	5,118,011,165	5,868,266,970	750,255,805	87.2%	1,170,601,127	64.1%
<b>JUDGES</b>						
6/30/2009	\$ 120,992,600	\$ 118,558,418	\$ (2,434,182)	102%	\$ 18,373,339	(13.2%)
6/30/2008	119,961,758	114,251,081	(5,710,677)	105%	17,990,072	(31.7%)
6/30/2007	111,006,176	103,704,250	(7,301,926)	107%	17,003,921	(42.9%)
6/30/2006	100,565,893	101,438,239	872,346	99%	16,422,894	5.3%
6/30/2005	94,922,714	98,512,876	3,590,162	96%	16,285,137	22.0%
6/30/2004	92,810,699	95,671,391	2,860,692	97%	16,655,342	17.2%
<b>STATE PATROL</b>						
6/30/2009	\$ 274,119,906	\$ 305,291,065	\$ 31,171,159	89.8%	\$ 25,922,439	120.2%
6/30/2008	273,393,928	291,996,719	18,602,791	93.6%	26,979,643	69.0%
6/30/2007	254,662,819	265,846,597	11,183,778	95.8%	26,072,859	42.9%
6/30/2006	231,740,772	245,373,102	13,632,330	94.4%	24,057,960	56.7%
6/30/2005	219,831,273	236,026,471	16,195,198	93.1%	22,882,413	70.8%
6/30/2004	216,422,556	222,161,512	5,738,956	97.4%	22,640,907	25.3%

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS**  
**AND OTHER CONTRIBUTING ENTITIES**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<b>SCHOOL EMPLOYEES</b>			
Year Ended June 30	Annual Required Contribution (1)		Percentage Contributed
	State (2)	School	
2009	\$ 20,620,548	\$ 110,028,942	100%
2008	15,832,941	105,977,554	100%
2007	15,314,413	107,478,977	100%
2006	30,644,522	102,161,426	100%
2005	29,816,737	90,147,174	90%
2004	14,154,879	87,438,804	100%

<b>JUDGES</b>			
Year Ended June 30	Annual Required Contribution		Percentage Contributed
	State	Court Fees	
2009	\$ 72,244	\$ 3,419,091	100%
2008	72,244	3,280,964	100%
2007	64,354	3,143,599	100%
2006	72,169	3,048,084	100%
2005	501,841	2,217,118	84%
2004	72,244	2,002,153	100%

<b>STATE PATROL</b>			
Year Ended June 30	Annual Required Contribution		Percentage Contributed
	2009	\$ 5,384,789	
2008	4,855,700		100%
2007	5,078,674		100%
2006	5,083,180		100%
2005	3,868,904		82%
2004	3,018,366		96%

The actuarial determination of the Annual Required Contribution was based on actual covered payroll for the period.

- (1) Includes funding for the Excess Formula Annuity, the Service Annuity, and the supplemental funds. Includes appropriations for plan year ended June 30 paid after end of plan year.
- (2) Does not include appropriations to Omaha Public Schools.
- (3) Additional State funding is required for the State Patrol Plan in the amount of \$1,801,610, as of July 1, 2009.

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS**

Fiscal Years Ended June 30, 2005 Through 2009

	2005	2006	2007	2008	2009
<b>SCHOOL EMPLOYEES</b>					
Active Members	36,042	36,414	37,152	37,832	39,231
Inactive Members	16,924	17,755	18,147	18,995	19,413
Retirees	13,049	13,727	14,408	15,339	15,949
Total Benefits Paid (3)	\$ 184,360,473	\$ 206,222,696	\$ 234,129,493	\$ 261,336,738	\$ 289,529,736
Average Annual Benefit (1)	\$ 14,128	\$ 15,023	\$ 16,250	\$ 17,037	\$ 18,153
Average Monthly Benefit (4)	\$ 1,177	\$ 1,252	\$ 1,354	\$ 1,420	\$ 1,513
Administrative Expenses	\$ 3,829,772	\$ 3,830,708	\$ 3,833,125	\$ 5,104,501	\$ 2,675,297
Average Admin. Expense Per Member (2)	\$ 58.01	\$ 56.42	\$ 54.99	\$ 70.73	\$ 35.87
<b>JUDGES</b>					
Active Members	159	154	154	157	154
Inactive Members	9	10	10	9	8
Retirees	164	162	159	155	157
Total Benefits Paid (3)	\$ 4,214,817	\$ 4,703,966	\$ 5,068,066	\$ 5,277,937	\$ 5,433,233
Average Annual Benefit (1)	\$ 25,700	\$ 29,037	\$ 31,875	\$ 34,051	\$ 34,607
Average Monthly Benefit (4)	\$ 2,142	\$ 2,420	\$ 2,656	\$ 2,838	\$ 2,884
Administrative Expenses	\$ 516,027	\$ 436,753	\$ 419,300	\$ 362,628	\$ 421,682
Average Admin. Expense Per Member (2)	\$ 1,554.30	\$ 1,339.73	\$ 1,298.14	\$ 1,129.68	\$ 1,321.89
<b>STATE PATROL</b>					
Active Members	473	477	484	496	468
Inactive Members	10	14	15	9	11
Retirees	316	331	341	352	372
Total Benefits Paid (3)	\$ 10,142,646	\$ 11,168,135	\$ 11,969,795	\$ 12,781,649	\$ 13,347,738
Average Annual Benefit (1)	\$ 32,097	\$ 33,741	\$ 35,102	\$ 36,312	\$ 35,881
Average Monthly Benefit (4)	\$ 2,675	\$ 2,812	\$ 2,925	\$ 3,026	\$ 2,990
Administrative Expenses	\$ 514,411	\$ 432,283	\$ 433,960	\$ 366,917	\$ 582,678
Average Admin. Expense Per Member (2)	\$ 643.82	\$ 525.89	\$ 516.62	\$ 428.14	\$ 684.70

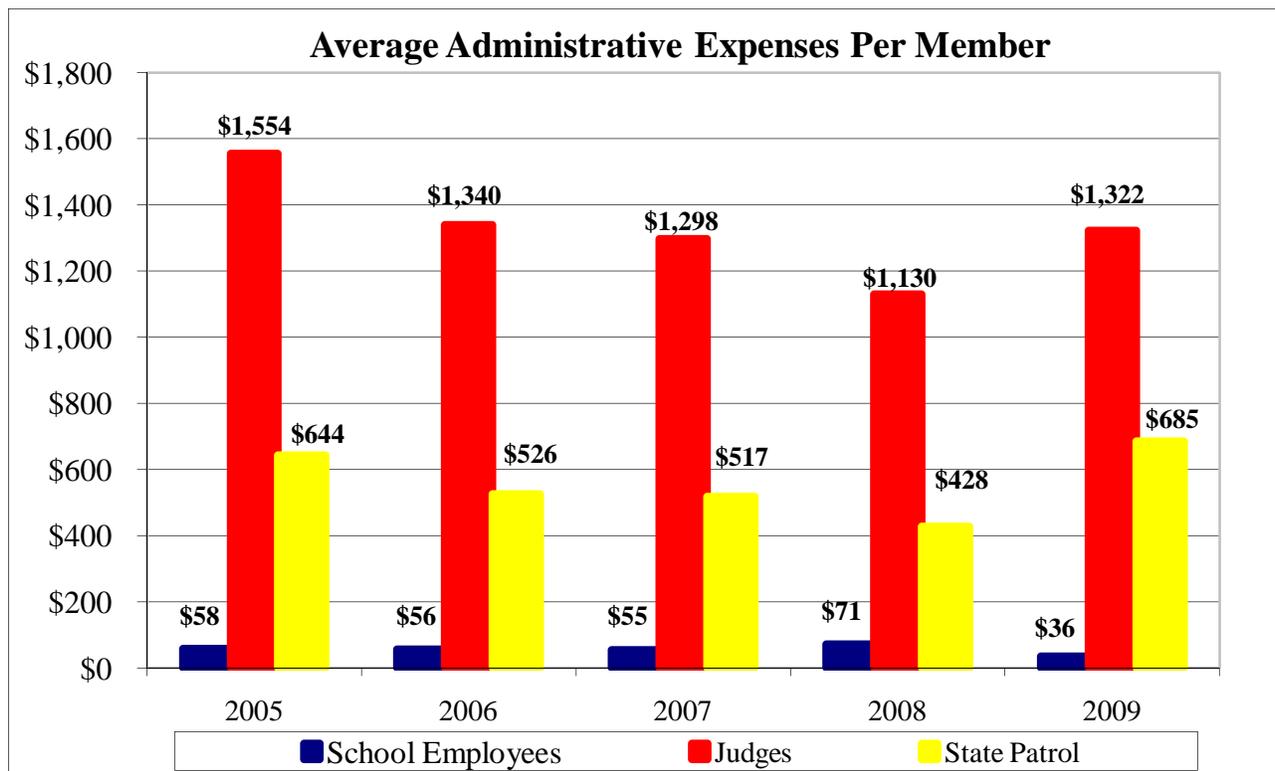
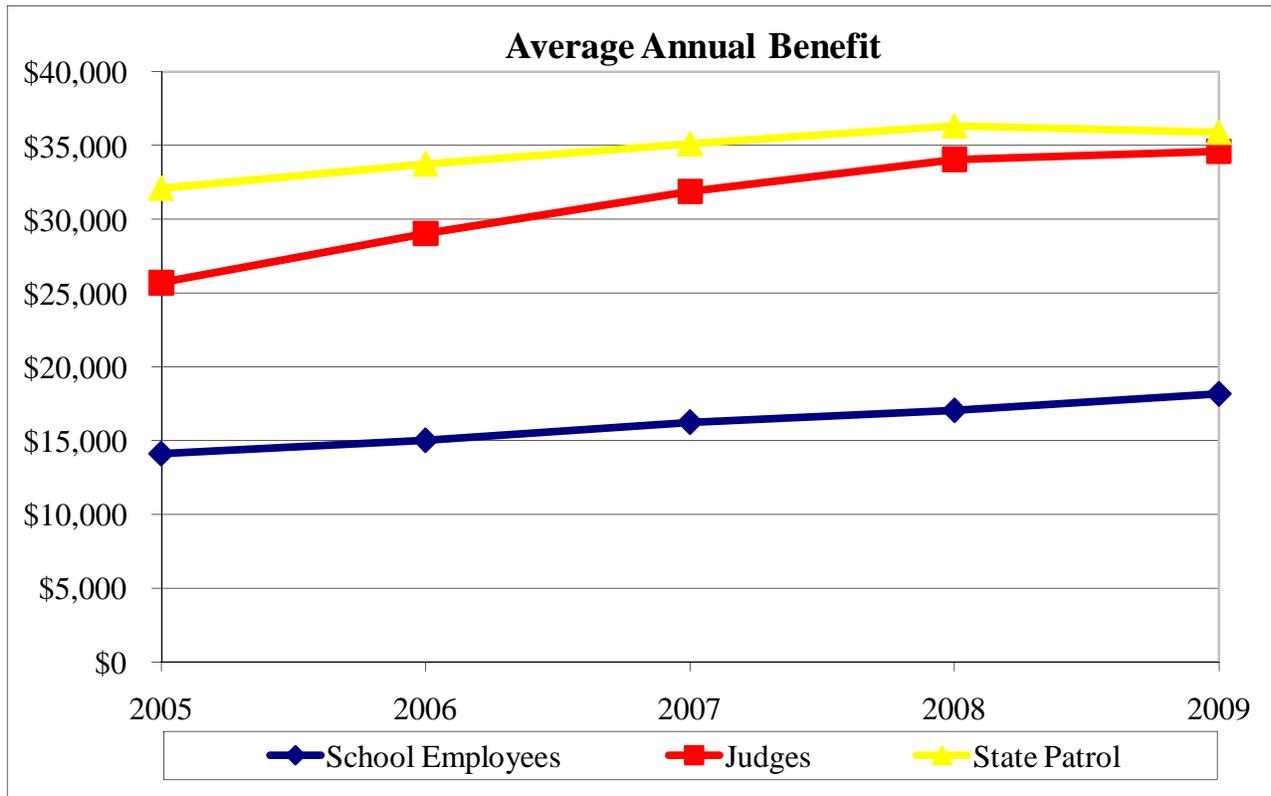
Notes:

(1) Calculated: Total Benefits Paid/#Total Retirees=Avg Annual Benefit  
progress for each plan is presented on page 40.)

(3) Total benefits paid does not include refunds

(4) Calculated: Average Annual Benefit/12 = Avg Monthly Benefit

**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS**





## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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**NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS  
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS  
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Nebraska Public Employees Retirement Board  
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated February 23, 2010. The report was modified to disclose that Management Discussion and Analysis was not presented and to emphasize the financial statements present only the funds of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but, not for the purpose of expressing an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the Comments Section of the report to be significant deficiencies in internal control over financial reporting: Comment Number 1 (Insufficient Audit and System Controls) and Comment Number 2 (School District Testing).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we reported to management of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' in the Comments Section of the report as Comment Number 3 (Berwyn Death Audit), Comment Number 4 (Retiree Benefit Calculations), Comment Number 5 (Resolution of Prior Year School Audit Findings), and Comment Number 6 (Inconsistent Plan Documents).

The Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' written response to the findings identified in our audit are described in the Comments Section of the report. We did not audit Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, others within NPERS, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

February 23, 2010

Pat Reding, CPA, CFE  
Assistant Deputy Auditor