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

JULY 1, 1999 THROUGH JUNE 30, 2000

NEBRASKA PUBLIC EMPLOYEES
RETIREMENT SYSTEMS - SCHOOL EMPLOYEES,
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BACKGROUND

The Nebraska Public Employees Retirement Board (NPERB) 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 counties was assumed by the Board in 1973.

The Board has seven members appointed by the Governor, with legislative approval, to five-year terms. Members include:

- Three participants of retirement systems administered by the Board;
- A retired participant of a retirement system administered by the Board;
- Three public representatives who are not State employees or employees of its subdivisions; and
- The State investment officer as a nonvoting, ex officio member.

All appointed members must be Nebraska Citizens.

The Board meets monthly. Members are not paid, but are reimbursed for their expenses.

The Board hires a director to equitably distribute expenses among the retirement systems it administers. 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.

NEBRASKA PUBLIC EMPLOYEES
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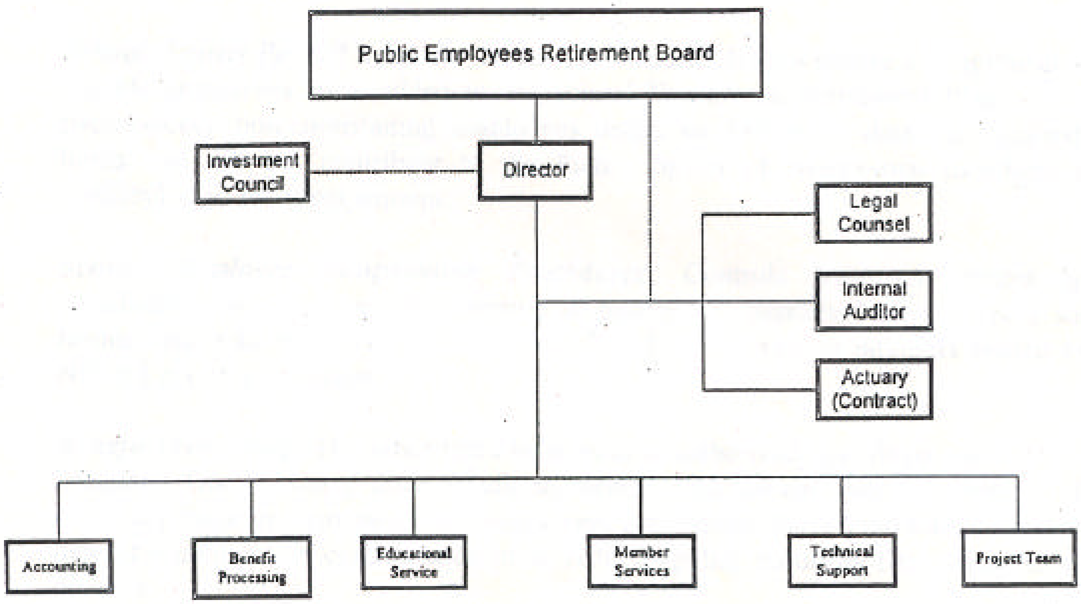
ORGANIZATIONAL CHART



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

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. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***School District Payroll Records:*** NPERS procedures did not ensure all eligible and only eligible employees were added to the School Employees Retirement Plan. Seven of twenty-seven non-contributing employees tested worked more than the required 516 hours and did not contribute to the Plan. Seven of twenty-two members tested contributed an incorrect amount.

2. S***chool Employee Contribution Procedures:*** Controls over the processing of contributions were inadequate to ensure all money was deposited intact. There was no reconciliation to ensure amounts deposited to NAS agreed to amounts posted to the NPERS mainframe system.

3. ***Benefit Processing:*** The procedures to prevent unauthorized benefit payments were not adequate. One of twenty-three benefit payments tested was calculated incorrectly. Three of twenty-three first payments to retirees were made more than 90 days after the effective date of retirement, in contradiction of an NPERB policy requiring first payments within 60 days.

4. ***Controls Over Court Fees:*** There were no procedures to ensure court fees received were deposited intact.

5. ***Computer Controls:*** Controls over the access to NPERS computer systems were not adequate. Staff had access to the mainframe and also to NAS. Reports of changes to the mainframe were not adequately reviewed.

6. ***Accounting Information:*** The amount of cash per NPERS records was approximately $30,000 less than per NAS. NPERS cash basis and accrual basis financial statements prepared by NPERS were incorrect.

7. ***Service Years:*** Inaccurate member service years were noted in each plan, ranging from .08 years to 7.83 years.

8. ***Outstanding Warrants:*** At June 2000, NPERS had 190 outstanding warrants for a total of $55,697. NPERS procedures to follow up on outstanding warrants were not timely and adequate.

9. ***Disbursement Procedures:*** There was a lack of segregation of duties over the disbursement process at NPERS. We also noted unreasonable expense reimbursements.

SUMMARY OF COMMENTS
(Concluded)

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 and does not include our observations on any strong features of NPERS.

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.

COMMENTS AND RECOMMENDATIONS

1. School District Payroll Records

Neb. Rev. Stat. Section 79-905 R.S. Supp., 2000, states, "The retirement board shall: (1) Determine the eligibility of an individual to be a member of the retirement system and other questions of fact in the event of dispute between an individual and a department."

Neb. Rev. Stat. Section 79-910(1) R.S. Supp., 2000, and Neb. Rev. Stat. Section 79-902(11) R.S. Supp., 2000, define the requirements for membership in the retirement system. School employees who acquire 516 hours or more of service in a fiscal year and have arrived at their twenty-first birthday on August 15 preceding are required to join the Plan.

Neb. Rev. Stat. Section 79-902(37)(a) R.S. Supp., 2000 defines compensation and states, "Compensation does not include . . . compensation for unused sick leave or unused vacation leave converted to cash payments, insurance premiums converted into cash payments . . . "

Neb. Rev. Stat. Section 79-961 stated, "The retirement board . . . shall audit the payrolls of all employers, determine the amount deductible from the compensation of members on each payroll, and certify to the amounts so received." This statute was in effect until March 21, 2000 when repealed by 2000 Neb. Laws LB 1192, Section 28.

Good internal control requires procedures to ensure all eligible and only eligible employees join the School Employees Retirement Plan. Good internal control also requires procedures to ensure the contributions remitted by the school district are accurate.

During our testing of school contributions, we reviewed the payroll records of four school districts and noted the following:

- Seven of twenty-seven non-contributing employees tested worked more than 516 hours and should have contributed to the Plan during fiscal year 2000. The seven employees included a janitor, a psychologist, a mentor, a crew worker, an interpreter, and two elementary teachers. The hours worked ranged from 579 hours to 1,994 hours.

- Seven of twenty-two contributing members tested did not have retirement contributions correctly calculated. All seven were based on an incorrect salary amount. Six of the seven members had disability insurance premiums converted to cash payments included in the salary used to calculate the retirement contribution. Three of the seven members had unused sick or personal leave balances converted to cash payments included. As a result, these seven members had excess contributions withheld and remitted to NPERS. Excess contributions ranged from $7 to $234 for the year.

COMMENTS AND RECOMMENDATIONS

1. <u>School District Payroll Records</u> (Concluded)

As noted in each audit report since 1995, NPERS did not have adequate procedures to ensure all eligible and only eligible employees joined the plan. NPERS also did not have procedures to ensure the salary amount upon which the contributions were based was accurate.

While the errors noted may not be material to the Plan as a whole, errors could be significant for individual members. Also, considering a 75% error rate for the schools visited, a 32% error rate for member contributions tested, and a 25% error rate for non-contributing members, we feel it is likely that additional errors have occurred and have not been detected. NPERS procedures to calculate retirement benefits do verify salary information for the final three years; however, this procedure would not help individuals who were never added to the Plan or had excess contributions withheld for several prior years. For this reason, it is imperative NPERS implement procedures to ensure all eligible and only eligible members join the Plan, and that the salary amounts upon which the contributions are based are accurate.

We are aware Neb. Rev. Stat. Section 79-961 R.R.S. 1996 was repealed effective March 21, 2000; however, the statute was in effect for more than eight months of the fiscal year and no audits were performed by NPERS. Furthermore, NPERS has a fiduciary responsibility to ensure contributions withheld are accurate and eligible members are added to the Plan. NPERS is also responsible for the fair presentation of the Plan financial statements and ensuring internal controls over financial reporting are adequate. We do not feel NPERS has fulfilled those responsibilities.

> We again recommend NPERS implement immediate procedures to ensure all eligible and only eligible employees are added to the retirement plan, and to ensure the salary amount upon which the contributions are based is accurate.

2. <u>School Employee Contribution Procedures</u>

Good internal control requires a proper segregation of duties so that no one individual has the ability to both record contributions and handle cash. If an adequate segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation of duties. Good internal control also requires a system to determine whether contributions posted in one computer system agree to the contributions deposited in a separate computer system to ensure money is deposited for all remittances posted. Good internal control requires procedures to ensure remittances are posted timely and to ensure contributions begin on time for all members.

COMMENTS AND RECOMMENDATIONS

2. <u>School Employee Contribution Procedures</u> (Concluded)

During our testing of school employee contributions, we noted the following:

- There was a lack of segregation of duties over the processing of contributions from school districts. NPERS did not have procedures to ensure all contributions received were deposited. Beginning in March 2000, there was no initial control log created and the mailroom forwarded both the unendorsed checks and the remittance reports to an accountant. The accountant endorsed the checks, recorded the checks in a cash receipts register, and forwarded the checks to a second accountant for deposit. The remittance reports were sent to a third accountant to enter into the mainframe system. If a check was not posted to the mainframe, the first accountant was the only person who would review the report of non-contributing schools who would detect this. The second accountant also reconciled the deposit from the Nebraska Accounting System (NAS) to the cash receipts register. There was no independent verification that all money received by the second accountant was actually deposited. As a result, both the initial and second accountant would be in positions to perpetrate and conceal errors, greatly increasing the risk of loss due to errors or fraud.

- Contributions could be posted to the mainframe whether or not money had been received and deposited. There were no procedures to ensure contributions posted to the mainframe computer system agreed to the contributions deposited in NAS.

- Five of fifteen school employees tested had contributions posted late by NPERS. We noted NPERS posted remittances late for these five employees in the months of August, September, October, and November of 1999, and March of 2000. NPERS has calculated and posted late interest for these members; however, we noted that one of the five member’s late interest was calculated incorrectly. The incorrect calculation of late interest affected 1,700 members. This was also a comment in the prior year.

- There were inadequate procedures to ensure contributions for new School Plan members began during their first pay period or began at all. If a membership application was received prior to the contribution, NPERS set up a “dummy” account for the member. The mainframe generated a listing of all members with the “dummy” retirement number; however, NPERS did not review the report to ensure contributions began for those members.

Without adequate controls over the processing and depositing of school employee contributions, the risk of loss or misuse of plan assets greatly increases.

COMMENTS AND RECOMMENDATIONS

2. School Employee Contribution Procedures (Concluded)

We recommend NPERS implement procedures to ensure:

- an adequate segregation of duties exists over the processing of school district contributions to determine all contributions are deposited intact. A proper segregation of duties would include the separation of the processing of contributions and the cash handling function
- contributions posted to the mainframe agree with contributions deposited to NAS to ensure money has been received for all contributions posted
- remittances are posted timely in order for the member to receive the correct amount of interest. Late interest calculations should be reviewed to ensure the calculation is accurate
- all members who have submitted a membership application have contributions started in a timely manner.

3. Benefit Processing

Good internal control requires an adequate segregation of duties to prevent or detect unauthorized benefit payments. Good internal control also requires discrepancies in benefit calculations by separate employees be adequately resolved. Good internal control also requires warrants returned to the agency be properly controlled and safeguarded.

In September 1998, The NPERB approved a process to send provisional checks based upon 90 percent of estimated benefits when the NPERS is not ready to send an official retirement check to a school member within 60 days after the effective date of retirement. In November 1998, the NPERB clarified its policy by requiring provisional checks be sent only if NPERS knows at the end of 60 days that there will be a problem completing the process within 90 days.

During our review of the processing of benefits, we noted:

- There were inadequate controls over processing benefit payments for all three Plans. The mainframe automatically generated a letter for new retirements processed. One retirement specialist reviewed the letters and compared the amounts to the retirement calculation. This retirement specialist also had authority to process a benefit payment, adjust contributions, and change membership data. An unauthorized benefit processed by this individual could go undetected by NPERS resulting in the loss or misuse of plan assets. The same retirement specialist performed procedures to suspend, purge, and reactivate payments on members' accounts. There was no independent review of the accounts that were suspended, purged, or reactivated.

COMMENTS AND RECOMMENDATIONS

3. Benefit Processing (Continued)

- Benefit checks returned to NPERS were not properly controlled. Warrants returned as undeliverable are more susceptible to employee theft. The risk for loss or misuse of these warrants increases without adequate procedures to control the returned warrants.

- One of twenty-three new school retirees tested had an incorrect benefit calculated. The service year portion of the benefit calculation was not correct. One retirement specialist calculated 12.50 years of service. Another retirement specialist recalculated the benefit and calculated 12.56 years of service. The second retirement specialist changed the service calculation to 12.56 years; however, 12.50 was the correct amount of service years. The risk of loss or misuse of plan assets also increases when the procedures for calculating a retirement benefit are not adequate.

- Three of twenty-three new school retirees tested received first payments more than 90 days after the effective date of retirement. Only one of the three members was issued a check at 90 percent of the estimated benefits. These three members did not have a break in income during that time. However, we noted a member who received his first retirement check 77 days after his effective date of retirement and did have a break in income during that time.

We recommend NPERS implement procedures to ensure:

- adequate segregation of duties exist over the processing of benefit payments to ensure unauthorized transactions would be detected in a timely manner
- warrants are properly controlled
- benefit calculations are accurate
- benefit payments are processed timely.

4. Controls Over Court Fees

Good internal control requires a segregation of duties over processing court fees and cash handling. If a segregation of duties is not possible, controls should be in place to compensate for the lack of segregation of duties. Good internal control also requires an initial control record be established for cash receipts.

We noted a lack of segregation of duties over the processing of county and district court fees for the Judges Retirement Plan. Beginning in March 2000, no initial control log was created and the mailroom forwarded both the unendorsed checks and the remittance reports to an accountant.

COMMENTS AND RECOMMENDATIONS

4. Controls Over Court Fees (Concluded)

The accountant endorsed the checks, verified the amount agreed to the remittance reports, and recorded the checks in a cash receipts register. The accountant forwarded the checks to a second accountant for deposit. There was no independent verification that all amounts received were forwarded. The second accountant also reconciled the deposit from the Nebraska Accounting System (NAS) to the cash receipts register. There were no procedures to ensure the second accountant deposited cash intact, as there was no independent verification that all money received by the second accountant was actually deposited. As a result, both accountants were in a position to both perpetrate and conceal errors, greatly increasing the risk of fraud.

> We recommend NPERS implement procedures to ensure an adequate segregation of duties exists over court fees received. Procedures should ensure all monies received are deposited intact.

5. Computer Controls

Good internal control requires a proper segregation over computer access so no one individual has the ability to process a transaction from beginning to end. When two separate systems are used, data and amounts between the systems should be reconciled and access restricted between systems to prevent unauthorized transactions to be processed and not be detected. Good internal control requires an adequate review of reports to ensure all changes are authorized and that only necessary individuals have authorization to approve accounting transactions.

During our audit, we noted:

- The reports detailing changes made to the mainframe were not adequately reviewed. A daily activity report for all changes to membership data of retired members was not adequately reviewed to ensure changes were authorized. Additionally, an individual who made transfers in and out of members' accounts was the only person to review the report detailing the transfers made. Unauthorized transfers could go undetected. Activity reports detailing changes made to membership data of active and inactive members (for example: name, address, social security number, or beneficiary) were also not adequately reviewed to ensure changes were authorized. The activity reports generated from the mainframe did not indicate which user made the change, making it more difficult to determine whether the change was authorized.

- NPERS had not adequately reviewed staff authorized to access NAS and the mainframe system to ensure proper segregation of duties. An employee in the accounting area was authorized to process transactions on NAS and authorized to process benefits on the mainframe. We further noted three employees whose duties changed after the agency

COMMENTS AND RECOMMENDATIONS

5. <u>Computer Controls</u> (Concluded)

reorganization, but authorizations to NAS were not revoked. The employees had previously worked in accounting and were authorized to approve transactions on NAS. In March 2000, the employees moved to benefits processing and were given authorization to process retirements on the mainframe. The ability to authorize transactions on both NAS and the mainframe increases the risk for an individual to perpetrate and conceal errors.

- The agency had 12 individuals authorized to approve accounting transactions on NAS. The number of individuals authorized did not appear to be appropriate for the size of the agency.

Without effective controls over access to computer systems and the review of reports generated from those systems, the risk that unauthorized changes could go undetected increases. The risk for loss or misuse of plan assets also increases.

> We recommend NPERS implement procedures to ensure staff access to computer systems provides an adequate segregation of duties. We also recommend NPERS implement procedures to ensure unauthorized changes to the mainframe will be detected in a timely manner.

6. <u>Accounting Information</u>

Good internal control requires procedures and records to provide reliable financial information.

We noted the following:

- The cash basis financial statements prepared by NPERS for the School Plan did not agree to NAS. The cash balance per NPERS was approximately $30,000 less than the cash balance per NAS. NPERS did not reconcile their financial statements to NAS prior to providing them to the auditors.

- The accrual basis financial statements prepared by NPERS for all three plans were not accurate. The beginning balance of each plan did not reconcile to the ending balance from the prior year. After the auditor brought this to NPERS' attention, the accrual basis financial statements were revised. Additionally, NPERS provided the incorrect accrual basis financial statements to the actuary. After the actuary received the revised financial statements, the actuarial report was adjusted, which increased the cost of services.

COMMENTS AND RECOMMENDATIONS

6. Accounting Information (Concluded)

- In the School Plan, two of six school refunds tested were not correctly identified as a payable at June 30, 2000. School refunds payable provided by NPERS was $923,016; the two errors noted totaled $12,263. Additionally, NPERS did not accrue school benefits payable at year-end. The amount calculated by the auditor was $520,036.

- In the School Plan, 2 of 17 deposits recorded as contributions receivable at June 30, 2000 were not accurate. The two deposits included $81,343 in contributions for July 2000.

- In the Judges Plan, we noted NPERS failed to include a District Court remittance of $1,491 received in July 2000 for the court fee receivable at June 30, 2000.

> We recommend NPERS implement procedures to provide reliable financial information including:
> - reconciliation of financial information to NAS
> - procedures to ensure benefits and refunds payable are accurately reported
> - procedures to ensure contributions and court fees receivable are accurately reported.

7. Service Years

Service years of plan members are used by the actuary to determine the funding status of the plan and contributions needed. Good internal control requires service years provided to the actuary be accurate in order for the actuary to perform an accurate actuarial valuation.

We noted the following:

- In the Patrol Plan, six of nine members tested had incorrect service years per NPERS records, which were also sent to the actuary. The differences ranged from .08 year to 7.83 years.

- In the Judges Plan, four of eight members tested had incorrect service years per NPERS records, which were also sent to the actuary. The differences ranged from .5 year to 1.08 years.

- In the School Plan, five of twenty-five members tested had incorrect service years per NPERS records, which were also sent to the actuary. The differences ranged from .05 year to 1 year.

COMMENTS AND RECOMMENDATIONS

7. <u>Service Years</u> (Concluded)

- The actuarial tape for the Judges and Patrol members had service years that included .08 year more than NPERS records for each member due to the method used to calculate service years by the actuary tape program.

Four of the fifteen exceptions noted were one year or greater, an error rate of approximately 10% for 42 members tested.

Actuarial valuations could be affected when inaccurate service years are provided to the actuary.

> We recommend NPERS implement procedures to ensure service years are accurate in their records and that information provided to the actuary is accurate.

8. <u>Outstanding Warrants</u>

Good internal control requires NPERS to implement timely, adequate procedures for the follow up of outstanding warrants. Sound business policy requires payments be suspended to members who cannot be located. Warrants over one year old expire and are credited to the State General Fund. If a member does not complete the process to claim the expired funds through the Department of Administrative Services – Risk Management, the funds remain in the State General Fund. As noted in each audit since fiscal year ending 1997, NPERS procedures for the follow-up of outstanding warrants should be improved.

At June 2000, NPERS had 190 warrants outstanding totaling $55,697. Of these, 89 warrants totaling $21,007 were over 6 months old. Additionally, 12 warrants totaling $2,573 had expired.

We noted the following:

- NPERS procedures to monitor outstanding warrants before they expire were not adequate. If the warrants were cancelled before they expired, the funds would be returned to the retirement Plan. We noted warrants for one retiree, who died in February 2000, were not cancelled when we reviewed the June 2000 outstanding warrants list. The payee had nine warrants on the list. Five warrants expired. After our review of the list, NPERS cancelled one warrant and issued duplicate warrants for the remaining three in order to have them cancelled.

- NPERS did not have procedures regarding warrants that continue to be issued to members NPERS cannot locate. One retiree had been on the previous three outstanding warrants lists. NPERS had expired warrants from March 1998 to November 1998, and

COMMENTS AND RECOMMENDATIONS

8. <u>Outstanding Warrants</u> (Concluded)

January and February 1999 in their safe. These warrants were not cancelled. NPERS continued to issue warrants to this retiree. In December, after NPERS learned of the retiree's death in November 1999, they cancelled warrants from March 1999 to October 1999. Another retiree had outstanding warrants from October 1999 to May 2000. NPERS indicated they had been unable to locate the retiree, but continued to issue the retiree warrants. Warrants which are issued to members NPERS cannot locate are at a greater risk of loss or misuse. Furthermore, it seems impractical to incur the cost of issuing and mailing a warrant month after month only to have it returned to NPERS as undeliverable.

- One of five outstanding warrants tested did not have an initial letter sent or documented correspondence with the payee. NPERS did not send initial letters to follow up on the warrant list timely. The letters for the December 1999 list, which was available February 7, 2000, were not sent until the end of March. Letters for three of five warrants tested were not sent timely. NPERS procedures to follow up if no response was received to the initial letter also were not adequate. All five warrants tested did not have an adequate or documented follow up performed when no response was received from the initial letter. The five individuals had from one to eleven outstanding warrants.

Without a proper, timely follow up of outstanding warrants, there is the possibility for a warrant to be issued after a member is deceased. There is also an increased risk of loss or misuse of warrants that remain outstanding.

> We continue to recommend NPERS implement procedures to address issuing warrants to members they cannot locate. We also recommend NPERS improve the follow up of outstanding warrants. Initial follow up should be completed timely. If responses are not received to the initial letter, additional follow up procedures should be implemented timely.

9. <u>Disbursement Procedures</u>

Good internal control requires a segregation of duties so no one individual can be involved in all phases of a transaction. Sound business policy requires expense reimbursements be reasonable for the agency. The Department of Administrative Services (DAS) guidelines for reasonable meals are $25 per day, including tax and tips, in the State of Nebraska.

COMMENTS AND RECOMMENDATIONS

9. Disbursement Procedures (Concluded)

During our testing of twelve disbursement documents, we noted the following:

- One individual had the ability to handle all phases of a transaction from beginning to end. This individual also performed the review to NAS, and prepared the list of expenses provided to the NPERB for review.

- One document included meal reimbursement for $18 when the conference agenda stated those meals were provided by the conference. The individual paid for a room upgrade personally, but did not pay for the extra tax charged on the room. The extra tax on the room totaled $33, which NPERS reimbursed to the individual.

- One document included an in-state meal reimbursement of $30 for an evening meal. DAS guidelines are $25 per day.

> We recommend NPERS implement procedures to ensure an adequate segregation of duties or implement compensating controls. We further recommend NPERS implement procedures to ensure that expense reimbursements are reasonable for the agency. NPERS should consider seeking reimbursement for the questioned expenses.

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

February 1, 2001

Ms. Kate Witek
Auditor of Public Accounts
State Capitol, Suite 2307
P.O. Box 94786
Lincoln, NE 68509-4786

Dear Ms. Witek:

We are responding to the Comments and Recommendations Section of the School Employees', Judges', and Patrol Retirement Plan Audit for the year ending June 30, 2000.

1. School District Payroll Records

In response to the requirements of State Statute Section 79-905 R.S. Supp., 2000, NPERS staff devotes a significant amount of time and has always been available to answer "questions of fact in the event of dispute between an individual and a department" when eligibility issues have surfaced. NPERS staff and our system programs place emphasis on testing to ensure that payroll amounts reported for contributions, salaries and hours worked are reasonable and calculated correctly. Our goal is to assist employers in their effort to report all eligible and only eligible members of the School Employees Retirement Plan, and to provide salary and contribution amounts that are accurate. When mistakes are discovered, NPERS works with the school in correcting errors and making adjustments to assure that the member record is accurate, and also that the school personnel have a proper understanding of the rules.

As discussed in last year's audit response, NPERS has considered what should be done to monitor the employer reporting, to educate them and to lower the risk of error. Since on-site reviews of all school districts is prohibitive because of the time, staff and cost involved, our most efficient approach to accomplishing this goal would be through comprehensive and continuous employer education and communication.

NPERS currently strives to provide the necessary employer education for proper administration of the School Employees Retirement Plan through the following means:

- educating and training school staff by providing training manuals
- providing training seminars to school business managers, bookkeepers and accounting firms responsible for conducting school audits

- sending quarterly information and reminder letters to employers outlining procedures for their monthly contribution reporting
- providing on-site training for new school staff if this is requested by any school
- creating "Retirement Roundup" newsletters to educate and update school employees on proposed and newly passed legislation

In addition to the above effort, the agency is developing an extensive "employer education program using principles generally accepted by public employee retirement systems so that all employers have the knowledge and information necessary to prepare and file reports as the board requires," as outlined in State Statute Section 84-1512. Our training team is finalizing an updated Employer Education and Reporting Procedures Manual. This effort will include group training sessions as well as establishment of a regular communication network with schools through e-mail and web site capabilities.

The Strategic Business Technology Plan currently in process at the agency will also have a dramatic effect on employer reporting in the future. Employers will electronically forward the necessary membership data and the system will perform analytical and audit routines to check information against various parameters established by NPERS.

Recent Legislation has made it clear that NPERS is not to assume the responsibility, or liability, for the information reported by employers. School districts have the responsibility for proper and accurate administration of eligibility and contribution procedures, and NPERS is available to assist them in interpreting the rules and accomplishing their duties.

We have informed the schools that an employee must meet the requirements of Section 79-902 in defining a contributing member. For example, regular part-time employees must be hired to work at least sixty hours per month for eligibility purposes. If the school estimates at the beginning of the year that the employee will work at least 516 hours during the fiscal year, the school withholds contributions from the employee's compensation. In cases where an employee did not contribute because of an incorrect hours estimate, but is later discovered to be an eligible member, we contact the schools requesting hours worked and salaries and ensure that the employee is a contributing member.

After discussions with the schools noted in the testing, NPERS believes that they do understand the rules for eligibility and compensation. In most of the exceptions noted, the discrepancy was the result of inaccurate estimation at the beginning of the year of hours to be worked. In one situation, the teacher was in her first month of eligibility at the time of the test, and she was included the following month. Misunderstanding regarding the compensation definition at one school was the result of a new business manager in the position, and this has been corrected.

As a final comment to this audit point and consistent with last year's response, NPERS must again respectfully disagree with the conclusion that "NPERS has not fulfilled" their responsibilities for the fair presentation of the Plan financial statements and adequate internal controls over financial reporting. The above noted omissions by employers do not warrant a conclusion of that extent. As stated in last year's audit response, at a 5% materiality level, misstatement in contributions reported on the financial statements would have to be over $6.5 million in order to have a material effect on the financials. We do not feel that level of risk is apparent.

2. School Employee Contribution Procedures

This audit comment addresses the concern as to whether adequate controls are in place for the processing, depositing and recording of school contributions to reduce the risk of loss or misuse of these plan assets. Many of the school contributions are remitted through ACH functions, and our goal is to continue to add more. The checks that are received in our office for school remittances are payable to the "State of Nebraska." As such, these items would be extremely difficult for an employee to negotiate, and NPERS feels the risk of loss due to fraud in the check processing would be minimal.

Following installation of the new "Traverse" accounting software package for NPERS reporting, new procedures have been adopted for cash receipts processing. The cash receipts clerk is now totaling all check batches received, followed by entry into the Traverse system. The clerk then completes the transaction by preparing a "receipt transaction" document for NAS reporting and Treasury deposit of the checks. After balancing to the check, the remittance report sent by the school is forwarded to another accounting clerk for the actual posting of member contribution amounts to the mainframe system. The Accounting II staff member is responsible for the subsequent reconciliation of mainframe reporting to the Traverse accounting system and NAS, with this step providing the assurance that all receipts are properly posted. As an added control for proper and timely remittance, invoices will be generated each month from the Traverse accounting system for schools that have not sent a remittance. This invoice is sent to the school as a means of alerting them that no remittance has been received, and also informing them of the late penalty assessment.

NPERS feels the above procedures provide adequate segregation of duties over processing of school district contributions, and also ensure proper reconciliation between all accounting systems involved.

It is the goal of NPERS to post all school remittances for the month by the end of the month and prior to the interest posting cycle. Due to short-staffing situations, there have been instances when the postings have not been completed in that time frame. Late interest calculations are completed on a spreadsheet program for all remittances posted after the end of the month, and these calculations are reviewed and approved by the Accountant II staff member before posting to the mainframe.

During the audit, it was discovered that a mainframe report listing all temporary "dummy" retirement numbers was not being reviewed to make certain that contributions did begin for these new members. This was an oversight due to the functional reorganization in the agency, and the report is now being adequately reviewed.

3. Benefit Processing

The agency currently has procedures in place for the review of maintenance reports as a means of providing control and verification for all demographic changes made to the active files on the mainframe system. This responsibility is handled in the Data Services area, independent from the Benefits Processing area, and all documentation supporting the changes is provided to the department. Your audit identified that a maintenance report listing changes made by an employee responsible for the retiree file on the mainframe was not being reviewed. The accounting supervisor had previously reviewed this report. Following the reorganization, this specialist was transferred to the benefit processing area, but the review function had not been assumed by any one individual. This review process has now been assigned to a responsible member of the benefits processing staff.

See response to #8. "Outstanding Warrants" for discussion of control over benefit checks or warrants returned.

In response to the comment regarding the accuracy of benefit calculations, NPERS feels strongly that proper procedures are in place to ensure accurate calculations. Policies require verification through second party review of all benefit calculations. Your testing did confirm that a second retirement specialist reviewed all calculations. The sampling resulted in one $.66 error from a sample size of 23 with total calculated benefits valued at over $33,000. In the one instance noted, the difference in calculation was the result of a service year discrepancy between 12.56 and 12.50 years. The error was not in the benefit calculation step, but rather in an earlier step in verification of the years of service when service years were changed, which created the .06 year difference. The audit test resulted in an error rate based on sample size of 4%, but .002% based on dollar benefit amount. NPERS would ask that sample size be increased if there is concern regarding the accuracy of benefit calculation as the above test results may not provide enough conclusive evidence.

To assure that no retiree will experience an extended period without income during the heavy retirement period when benefit processing may be delayed, the PERB approved a procedure allowing for issuance of a 90% provisional check if it is determined benefit processing will not be completed within 90 days. Every effort is made to operate in conformity with this policy. In the two situations noted, one retiree was still receiving pay and therefore her checks could not be issued until her contributions to the plan ceased, and the second retiree's payment was delayed because the proper "Non-Contributing" paperwork had not been received from the employer. NPERS feels that agency personnel have been attentive to this policy.

4. Controls Over Court Fees

The discussion of procedures for Cash Receipts processing included in the response to #2 "School Employee Contribution Procedures" also applies to Court Fees processing. Checks for Court Fees would also be payable to the "State of Nebraska" and processed by the Cash Receipts Clerk in the same manner as school contributions. A later reconciliation of the NPERS accounting records with NAS reports and the mainframe system would be completed by the Accounting II staff member.

5. Computer Controls

Our Strategic Business Technology Plan includes a short-term recommendation to "Complete the Reengineering of the Current Business Processes." We began work on this in February 2000 with the formation of a project team, and the initial step was a reorganization of our office by function rather than plan.

As we realigned duties, we concentrated on ways to become more efficient and to reduce the time and steps involved in completing processes. One procedural change was to allow all employees working with member files the ability to change addresses and other demographic information. This eliminated the extra effort in retyping demographic information on change forms, which were then forwarded to an office clerk for data entry into the mainframe.

Current mainframe reporting does not have the capability to identify the user. As a result of the reorganization, maintenance reports that were being reviewed by the Data Services area, as defined in #3 Benefit Processing, were only partially reviewed as the department was unable to determine the origination of each change. Revised procedures are now in place that all agency employees are forwarding documentation to the Data Services area to enable a more thorough review of maintenance changes.

NPERS has the proper controls in place and more than one individual is involved when retirements are processed. When a new retirement is added to the mainframe, a payment register is generated. A retirement specialist receives that report and reconciles it to the accounts that were scheduled to be processed. The Accountant II also reconciles the amounts transferred from the account balances to the total monthly retirement payments. The Accountant II receives the microfiche and batches the disbursement document before submitting to DAS accounting. We also reconcile the new retirement payments to the prior month totals by including changes for the current month.

The office reorganization has been a process rather than a sudden change. As we evaluated the staffing of the teams, we did not immediately change authorizations to ensure that we would have adequate backup. Therefore, at the time of the audit, additional individuals may have remained on the list in some areas. We have since reviewed the NAS and NEIS authorizations for the agency and have realigned and reduced authorizations.

6. Accounting Information

Our Strategic Business Technology Plan had a short-term recommendation to "Implement a PC General Ledger Package with Budget Tracking Capability." The accounting system used by NPERS during FY 1999-2000 consisted of over 900 spreadsheets, and was cumbersome and time consuming. This system was also prone to errors in spreadsheet formulas that linked cells from one spreadsheet to another.

For FY 1999-2000 reporting, some errors occurred in the NPERS School Plan spreadsheets related to the reporting of retirement payments for a new cost of living adjustment, the repayment of prior year retirement benefits, and the direct deposit of retirement contributions. The cash amount on NAS was correct, and has been reconciled and adjusted for NPERS reporting at the beginning of FY 2000-2001.

By purchasing a general ledger package, we can improve our procedures of reconciling balances to NAS and mainframe records. The general ledger will enable our agency to eliminate multiple transcriptions of information associated with the many spreadsheets. A general ledger package, Traverse, was purchased at the end of the FY 1999-2000 and we are implementing it for use during the current fiscal year. One unit of the general ledger package is a reconciliation program which will be useful in all of our reconciliation functions.

The identification of payables and receivables is a manual process. We had new employees compiling the information and some deposits or payments were misidentified. We will add a step to the process of reviewing all the payables and receivables to make sure they are accurate.

7. Service Years

NPERS has always placed importance on accurate data, and has a very thorough verification process in place to ensure that all retirements are accurately calculated. This requires that the hours of service provided by the reporting agencies be correct. We initially started a data purification project in July 1997 in an effort to review service credit for members. Our intent was to look at the accounts of members most likely to retire. We began with two temporary employees, and in July 1998, we were able to hire two full-time office clerks to replace the temporary positions.

In August 1999, school members received a certified mailer regarding service credit. They were asked to contact our office if they disputed the amount of service credit listed on the mailer. Of the approximately 43,000 mailers sent, less than 3% of the members disputed their service credit.

Our Strategic Business Technology Plan, initiated in January 2000, also lists a short-term recommendation to "Conduct a Data Purification Project" to allow for successful implementation of the automated system. The system must have accurate and reliable information in order to process a benefit. Without clean data, the automated system will require manual intervention from the staff. There are over 45,000 active and inactive plan members whose quality of data is unknown and the sources for clarification may be in paper files within the agency, on PC databases, in spreadsheets, on the mainframe, at employer locations, or with the member.

The data purification project involves review of member files beginning with those most apt to retire. The review of the member data will include examination of documents in member files and on agency data systems, and may include contacting the member's employer or the member for clarification. The data purification project is anticipated to continue through the 2003-2004 fiscal year. A total of 4.0 FTE are currently dedicated to this project.

It is an ongoing procedure to correct service records that are found to be inaccurately reported by the employer, and, as stated previously, service credit is reviewed before retirement benefits are paid.

Programs to update service credit for purposes of the actuary tape and to update service on the mainframe are run at different times with different criteria. The program to update service credit for purposes of the actuary tape runs on June 30, and begins with June of the prior year and totals the number of months present. The number of months worked is divided by 12. In most cases, one year of service credit is added to the service credit amount listed on the mainframe. This service credit is not added to the mainframe, but recorded on the actuary tape and associated printouts.

The program to update service credit on the mainframe runs on request (after all the school employer reports have been entered). This program looks at the fiscal year – July through June – and totals the number of months present, and again divides this by 12. This service credit is added to the service credit amount listed on the mainframe. It is usually one year of service credit unless the member stopped working or contributing during the fiscal year.

The service credit listed on the actuary tape did include .08 year more than NPERS records due to timing. It is an estimate for the June current year service that is not recorded on NPERS records until the program to update service credit on the mainframe is run. This allows the actuarial information to be as close as possible to the NPERS records after service credit on the mainframe is updated.

Our actuary states in his response to auditor questions: "Service differences would generally not have a significant impact on active liability, provided that the differences are infrequent, random, or are not a result of a systematic error. . . The service differences included on the audit list are generally minor and did not result from a systematic error as evidenced by only effecting some members of the sample selected. As a result, these differences would not have a material impact on the actuarial results."

8. Outstanding Warrants

One member of the accounting staff has responsibility for the follow-up on outstanding warrants. This individual does not have access to the mainframe system; therefore, there is proper segregation of duties and no risk of manipulation of these checks or the benefit amounts.

Warrants returned to NPERS are stored in a safe in full view of a supervisor. The accounting staff member does immediate follow-up on these items, reviewing the files for proper addresses and sending confirmation correspondence to the retiree. A follow-up letter is sent after 1-1 ½ months if no response is received. Since November 2000, the accounting staff member has been preparing an extensive listing of these returned warrants, which includes the action taken for each account.

A biannual listing of outstanding warrants is received from the State Treasurer's Office. This listing is usually not available until 1 ½ months after the cutoff date, and does not include warrants issued in the month of cutoff. Therefore, a warrant that has not been returned to our office could feasibly be over 8 months old, and additional checks issued during that 8-month period, before NPERS is aware of the problem. There may be a need to receive these outstanding listings from the Treasurer's Office on a more frequent basis.

Since we are only receiving biannual reports, it is not unusual to see 190 new items on an outstanding report when considering the probable instability of this population. NPERS issues over 18,000 warrants in each 6-month period; therefore, less than 1% of those remain uncashed when you reduce that number for items remaining from the prior 6-month period.

In the case of the outstanding warrants noted in the audit, the staff member had not updated her report for all information received. Some phone conversations with the parties involved were not noted, and returned letters were not indicated on the report. In one instance, the initial letter was mailed, but this was not entered on the report. One retiree included in the testing continually chooses to hold her checks, as the amount of $11.32 does not make it worthwhile to cash each month. In reviewing the situation involving the death of the retiree, benefits were cancelled following his death in February 2000, as there were no outstanding warrants after that date. Other outstanding items could not be cancelled or reissued until proper review of all death documents.

As a means of minimizing the risk and additional paperwork required with these items, NPERS makes every attempt to encourage electronic deposit of these payments. But we do feel the payee is entitled to the funds, and that cancellation of these outstanding payments may cause an adverse effect to the retiree. Our goal in monitoring the outstanding warrant listing is to notify the payee prior to expiration of their warrant, to alert them of the risk in not cashing the negotiable items and to possibly locate current addresses for the payee. We also make every attempt to determine if the payee is deceased through an annual death audit, review of newspaper obituaries and notification from former employers if no notice has been received from family.

We will review our procedures to determine if a policy should be established to "suspend" payments after all warrants and correspondence has been returned to our office for a designated period of time. Also, to assure proper follow-up is being completed and documented, the supervisor of the area will review the status of the reports periodically.

9. Disbursement Procedures

The Director maintains very tight control over all agency expenditures, and any unauthorized amount would be detected during review of monthly NAS reports. We have reviewed agency policies and authorization levels regarding approval of invoices and NAS transactions. For internal purposes, the individual identified did not have the authority to approve invoices, but did have authority to sign NAS documents. NAS does not distinguish between the two; therefore, technically the staff member could authorize a disbursement for an invoice. Changes have been made, and this position no longer has authority for approval of NAS documents. Also, all future reconciliations of NPERS financials to NAS will be completed by another staff member in the accounting area.

As authorized in Statute section 84-1501, members of the Board shall be "reimbursed for their actual and necessary expenses as provided in sections 81-1174 and 81-1177." In the instances cited, members were reimbursed for amounts paid for meals, and NPERS has determined that these amounts were reasonable based on the appropriate NAS guidelines. We also do not feel compelled to question board members regarding their choice of, or need for, a meal beyond that provided at the event. On the second point, a board member clearly made personal payment for a room upgrade, but the fact that tax was not included on that difference was an honest oversight. Therefore, based on the above and the insignificance of the amounts, NPERS does not choose to pursue these matters.

Sincerely,

Anna J. Sullivan

Anna J. Sullivan, CM
Director

AGENCY RESPONSE
AUDITORS' RESPONSE

1. School District Payroll Records

This comment has been noted in each report since 1995. In our opinion, NPERS has not taken steps to adequately resolve the issue. The critical issue involves whether all eligible and only eligible employees join the Plan, and whether the member's compensation, from which the retirement deduction is based, is accurate. Based on our testing over the years, we have concluded NPERS procedures are not adequate.

The procedures performed by NPERS, in our opinion, are not sufficient to ensure all eligible and only eligible employees join the Plan or to ensure whether the member contributions are based on accurate compensation amounts. The edits by the NPERS computer system simply ensures the employer contribution is the correct percentage of the employee contribution. NPERS staff reviews the reports to ensure hours appear reasonable. However, salary information is not verified to determine whether the correct compensation amount is used to calculate the retirement deduction.

We believe on-site reviews of school payrolls is the most effective and efficient method to obtain assurance that all eligible and only eligible employees have joined the Plan and that the compensation amount upon which contributions are based is accurate.

Despite the opinion of the NPERS that comprehensive and continuous employer education and communication is the most efficient approach to monitor employer reporting, it is not the most effective method. With the number of errors noted over the years, we do not feel the employer education in which NPERS refers has worked well.

Neb. Rev. Stat. Section 84-1503(2)(b) R.S. Supp., 2000, states that in administering the retirement systems, it shall be the duty of the Board to determine the eligibility of an individual to be a member of the retirement system. Neb. Rev. Stat. Section 84-1503(1)(f) R.S. Supp., 2000, however, states that NPERB shall adopt and implement procedures for reporting information by employers, as well as sampling and monitoring procedures. This statute also states the information necessary to determine membership shall be provided by the employer. The employers (schools) currently do not regularly provide NPERS information on non-contributing employees; therefore NPERS is unable to determine whether there are non-contributing employees who should be members of the Plan. Additionally, the salary information reported to NPERS by the schools is not at a detailed level that would enable NPERS to make any judgment on the components that make up the salary amount. We also feel that NPERS has not implemented appropriate sampling or monitoring procedures as prescribed by the statute.

1. <u>School District Payroll Records</u> (Concluded)

Although the financial statements for the School Plan may not be materially misstated, errors could be significant to individual members. Considering the error rate for the testing completed this year and in years past, we feel it is likely that additional errors have occurred and not been detected.

For this reason we will continue to recommend NPERS take prompt and appropriate action to adequately resolve this issue.

2. <u>School Employee Contribution Procedures</u>

Our primary concern involves a proper segregation of duties to include the separation of the processing of contributions and the cash handling function especially in an agency with the volume and dollar amount of checks processed as NPERS.

3. <u>Benefit Processing</u>

We are confident in our selection of sample sizes for this audit. Our method of sample selection is in accordance with AICPA professional standards. The purpose of our audit is to express an opinion on the financial statements as a whole. The NPERS has a fiduciary responsibility to each member to accurately determine benefit payments. While the error noted did not affect our opinion on the financial statements, the procedure which allowed the error to occur could significantly affect individual members if not corrected.

7. <u>Service Years</u>

We would also like to point out this statement from the actuary regarding service years errors: "Service differences would generally not have a significant impact on active liability, provided that the differences are infrequent, random, or are not a result of a systematic error. If the differences are systematic, as in the example of adding an extra month of service to all participants, the result would have a slight effect of the active liability. In this case the liability would be higher than normal, creating a more conservative estimate of future benefit obligations."

Again, we recommend NPERS ensure service years are accurate.

9. Disbursement Procedures

This comment was also noted in the prior audit. DAS has set guidelines for what is a reasonable meal reimbursement for overnight travel within the State of Nebraska. In our opinion, whether an unpaid board member or state employee requests reimbursement, these guidelines for meal reimbursement are reasonable. We will continue to recommend any agency, board, or commission follow the guidelines set by DAS.

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Auditor of Public Accounts

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

INDEPENDENT AUDITORS' REPORT

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) - Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans as of and for the fiscal year ended June 30, 2000, 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 generally accepted auditing standards 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans as of June 30, 2000, and the results of each plan's operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2001, 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 each plan's compliance with certain provisions of laws, regulations, and contracts.

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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying supplementary schedule of Service Efforts and Accomplishments is presented for purposes of additional analysis and is not a required part of the 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 financial statements taken as a whole.

Pat Reding, CPA

January 3, 2001 Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL
RETIREMENT PLANS
STATEMENTS OF PLAN NET ASSETS
June 30, 2000

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury (Note 3)	$ 7,832,423	$ 285,997	$ 771,822
Deposits with Vendors	9,091	94	94
Prepaid Fees	864	-	-
Receivables:			
Contributions	19,449,075	177,788	644,975
Interest and Dividend Income	21,235,965	439,539	1,003,082
Total Receivables	40,685,040	617,327	1,648,057
Pooled Investments, at fair value (Note 3):			
U.S. Government Securities	929,527,887	19,077,801	43,485,494
Corporate Bonds	547,553,765	11,238,094	25,615,849
Equity Securities	1,284,016,585	26,353,393	60,069,306
Municipal Bonds	7,560,091	155,165	353,679
Mutual Funds	1,609,381,328	33,031,239	75,290,632
Total Investments	4,378,039,656	89,855,692	204,814,960
Invested Securities Lending Collateral	189,199,989	3,883,175	8,851,219
TOTAL ASSETS	4,615,767,063	94,642,285	216,086,152
LIABILITIES			
Benefits and Refunds Payable	923,016	-	-
Compensated Absences	137,344	4,011	4,389
Accounts Payable and Accrued Liabilities	1,223,986	29,355	65,570
Obligations under Securities Lending	189,199,989	3,883,175	8,851,219
Contributions for Omaha Public Schools (Note 5)	2,153,719	-	-
TOTAL LIABILITIES	193,638,054	3,916,541	8,921,178
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress for each plan is presented on page 41.)	$ 4,422,129,009	$ 90,725,744	$ 207,164,974

See Notes to 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, 2000

	School Employees	Judges	State Patrol
ADDITIONS:			
Contributions:			
Employee	$ 69,618,201	$ 689,463	$ 1,855,688
Employer	69,990,565	-	1,855,707
Court Fees	-	473,838	-
State	14,102,170	72,244	348,028
Total Contributions	153,710,936	1,235,545	4,059,423
Investment Income:			
Net appreciation in fair value of investments	228,287,681	4,708,444	10,754,850
Interest & Dividends	118,853,766	2,485,816	5,653,585
Securities Lending Income	14,886,024	305,523	696,403
Total Investment Income	362,027,471	7,499,783	17,104,838
Investment Expenses	9,049,174	187,861	427,531
Securities Lending Expenses	13,882,931	284,936	649,476
Net Investment Income	339,095,366	7,026,986	16,027,831
Other Additions	25,815	4	4
Total Additions	492,832,117	8,262,535	20,087,258
DEDUCTIONS:			
Benefits	99,501,638	3,080,021	6,908,835
Refunds of contributions	14,210,597	171,120	169,344
Administrative expense	1,891,100	37,783	40,845
Total Deductions	115,603,335	3,288,924	7,119,024
Net increase	377,228,782	4,973,611	12,968,234
Net assets held in trust for pension benefits			
Beginning of year	4,044,900,227	85,752,133	194,196,740
End of year	$ 4,422,129,009	$ 90,725,744	$ 207,164,974

See Notes to 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, 2000

Background

The Nebraska Public Employees Retirement Systems (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 as follows:

Name	Type
School Employees Retirement	Defined Benefit
State Patrol Retirement	Defined Benefit
Judges Retirement	Defined Benefit
State Employees Retirement	Defined Contribution
County Employees Retirement	Defined Contribution

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

Separate reports have been issued for the State Employees and County Employees Retirement Plans.

1. Summary of Significant Accounting Policies

Basis of Accounting. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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 balance sheet.

The accrual basis of accounting is utilized by the Plans. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Employee and employer contributions are recognized as revenues 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.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

1. Summary of Significant Accounting Policies (Concluded)

Furniture and Equipment. Furniture and equipment are not capitalized by the Public Employees Retirement Board (NPERB). Instead NPERB records capital acquisition as an expense at the time of payment.

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2000, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	10,371	163	269
Terminated plan members entitled to but not yet receiving benefits	13,918	22	16
Active plan members	34,718	159	386
Total	59,007	344	671

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. Sections 79-901 through 79-977.03 for the School Employees Retirement Plan, Neb. Rev. Stat. Sections 24-701 through 24-714 for the Judges Retirement Plan and Neb. Rev. Stat. Sections 81-2014 through 81-2040 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 systems administered by the NPERB, 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. As of June 30, 2000, there were 592 participating school districts. All regular public school employees in Nebraska, other than those who have their own retirement plan (Class V

2. Plan Descriptions and Contribution Information (Continued)

school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan. The benefits are based on both service and salary.

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 highest years of salary, multiplied by total years of creditable service, multiplied by a formula factor .0190 as 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.

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to .7 percent of the compensation of all members. The employees' contribution is equal to the greater of: 1) 49.75 percent of the overall rate necessary to fund the liability attributable to benefits in excess of service annuities, or 2) 7.25 percent of their compensation. The school district's (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 final average monthly salary, multiplied by the total years of service and the formula factor of 3.5%; subject to a maximum of 70 percent of 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 one dollar fee for each case is collected from District and County courts plus a ten percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Judges contribute six percent of their salary.

2. Plan Descriptions and Contribution Information (Concluded)

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

Contributions. Members are required to contribute eleven percent of their annual pay plus 11% of pay received at termination for unused sick leave and vacation leave, which is matched by the State Patrol (employer). The State's contribution is based on an annual actuarial valuation.

3. Cash, Investments, and Securities Lending

Neb. Rev. Stat. Section 72-1247, R.R.S. 2000, authorizes the State Investment Officer to invest the State's funds in accordance with the prudent person rule. The State Investment Officer may not buy on margin, buy call options, or buy put options. The two categories of investments on the Statements of Plan Net Assets are Cash in State Treasury and Pooled Investments. The Nebraska Investment Council has contracted with outside managers to manage all of the funds of the School Employees, Judges, and State Patrol Retirement Plans, except for the funds in the State Treasury.

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

Governmental Accounting Standards Board (GASB) Statement Number 3 requires government entities to categorize investments for the purpose of giving an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which securities are held by the System or its agent in the name of the System. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty trust department or agent in the name of the System. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department but not in the System's name.

3. Cash, Investments, and Securities Lending (Continued)

Neb. Rev. Stat. Section 72-1247, R.R.S. 2000, authorizes the State Investment Officer to participate 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 NPERS custodial bank administers the securities lending program and receives cash, United States Government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the following schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, NPERS had no credit risk exposure to borrowers because the amounts NPERS owes the borrowers exceed the amounts the borrowers owe NPERS. The collateral securities cannot be pledged or sold by NPERS unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Generally, either NPERS or the borrowers can terminate securities loans on demand. Cash collateral is invested in one of the lending agent’s short-term investment pools that had average durations of 66 and 74 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to NPERS by the contract with the custodian.

Derivative instruments are financial contracts in which underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. The System invests in futures contracts related to securities of the U.S. Government or Government Agency obligations, which are traded on organized exchanges, thereby minimizing the System’s credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. At June 30, 2000, the System held $118,493,538 of futures contracts.

Cash in State Treasury. Cash in State Treasury monies are pooled with other agencies' cash accounts to form the State Treasurer’s Short-Term Investment Pool (STIP) which is invested by the Nebraska Investment Council. The STIP consists of a short-term investment group and a medium-term investment group. The medium-term investment group was introduced during the State fiscal year 1996. The short-term investment group is shown at cost which approximates market. The medium-term investment group is presented at market. GASB Statement Number 3 does not require that these pooled investments be categorized as noted above.

3. Cash, Investments, and Securities Lending (Concluded)

Investments. The Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans each own a portion of pooled investments which are managed by the Nebraska Investment Council. These investments meet the criteria of GASB Statement Number 3, Category 1.

The carrying amount of these pooled investments at June 30, 2000, is at market value as set forth below:

Investments - Category 1		
US Government Securities		$ 933,639,062
Corporate Bonds		578,727,686
Equity Securities		
Not on Securities Loan		1,235,859,785
On Securities Loan		1,875,801
Municipal Bonds		8,068,934
Subtotal		2,758,171,268
Not Categorized		
Investments held by broker-dealers		
Under Securities Loan With Cash Collateral		
US Government Securities		$ 58,452,121
Corporate Bonds		5,680,022
Equity Securities		132,703,698
Securities Lending Short-Term Collateral		
Investment Pool		201,934,384
Mutual Funds		1,611,378,154
Cash Equivalents		106,325,044
Total		$ 4,874,644,691
Carrying Amount at Market Value		
School Employees	$ 4,378,039,656	
Judges	89,855,692	
State Patrol	204,814,960	4,672,710,308
Invested Securities Lending Collateral		
School Employees	$ 189,199,989	
Judges	3,883,175	
State Patrol	8,851,219	201,934,383
Total Investments		$ 4,874,644,691

4. Compensated Absences

All permanent employees working for the retirement systems earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board members are not eligible for paid leave.

Employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual 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 for employees under the Nebraska Classified System Personnel Rules and Regulations. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, at which time, the State is liable for 25 percent of the employee's accumulated sick leave.

All plans recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave becomes vested.

The liability for the vested portion of compensated absences for each plan at June 30, 2000, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	$ 96,621	$ 2,822	$ 3,088
Sick Leave	36,141	1,055	1,155
Compensatory Leave	4,582	134	146
	$ 137,344	$ 4,011	$ 4,389

5. Contribution for Omaha Public Schools

Neb. Rev. Stat. Section 79-916, R.R.S. 2000, requires an annual payment to be made to Omaha Public Schools as a result of that school system having a separate retirement system. The contribution amount represents the July payment to Omaha Public Schools. This amount is included in State Contributions additions and recorded as benefits when payment is made.

6. Six-Year Historical Trend Information

Six-year historical trend information designed to provide information about NPERS' progress made in accumulating sufficient assets to pay benefits when due is presented as required supplementary information following the notes to financial statements.

7. Stabilization Funds

Neb. Rev. Stat. Sections 79-947.01(3), 81-2027.03(3), and 24-710.07(3) created the purchasing power stabilization funds for the three Plans. The purpose of the funds is to reflect changes in the cost of living and wage levels that have occurred subsequent to the date of retirement and that have reduced the purchasing power of retirement benefits provided under the retirement system. Commencing with the 1996-97 fiscal year through the 1999-2000 fiscal year, the State shall contribute to the Purchasing Power Stabilization Fund an annual level dollar amount certified by the NPERB. After the 1999-2000 fiscal year, the State shall contribute an annual level dollar amount certified by the NPERB to the Annuity Reserve Fund for School Plan, to the State Patrol Retirement Fund, and to the Nebraska Retirement Fund for Judges. The dollar amounts certified by the NPERB are listed below:

Schools	81.78730%	of	$6,895,000
State Patrol	3.04888%	of	$6,895,000
Judges	1.04778%	of	$6,895,000

The stabilization funds were eliminated, pursuant to the statutes above, effective July 1, 2000. The assets were transferred to the Annuity Reserve Fund for the School Plan, the State Patrol Retirement Fund, and the Nebraska Retirement Fund for Judges.

8. School Employees Retirement System Reserve Fund

Effective September 1996, a one-time 3% COLA (cost of living adjustment) was granted to members who terminated employment prior to April 10, 1996, and began receiving benefits as of September 1996. In addition, a refund of employee contributions towards this COLA will be paid to future terminations upon request for the refund.

During fiscal year 2000, COLA benefits totaling $1,577,666 were paid from the Fund, along with $128,295 of contribution refunds.

The fund has been funded by member and school district contributions.

9. Contingencies and Commitments

Litigation. The potential amount of liability involved in litigation pending against NPERS, if any, could not be determined at this time. However, it is the NPERS' opinion that final settlement of those matters should not have an adverse effect on NPERS' ability to administer current programs. Any judgement 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
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000
UNAUDITED

SCHEDULE 1

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SCHOOL EMPLOYEES						
6/30/00	$1,348,542,467	$1,526,061,507	$177,519,040	88.4%	$933,339,432	19.0%
6/30/99	1,129,546,860	1,345,494,742	215,947,882	84.0%	893,801,152	24.2%
6/30/98	892,780,966	865,412,669	(27,368,297)	103.2%	882,963,179	(3.1%)
6/30/97	742,015,212	771,343,623	29,328,411	96.2%	853,842,959	3.4%
6/30/96	656,168,309	715,569,602	59,401,293	91.7%	820,092,017	7.2%
6/30/95	579,448,575	640,162,938	60,714,363	90.5%	786,569,231	7.7%

The Schedules of Funding Progress for the School Employees Plan include liabilities and assets for the Service Annuity benefits for active and inactive members, and all benefits for retired members and beneficiaries. The Excess Formula Annuity benefits for active and inactive members are funded using the Aggregate Actuarial Cost Method and are not required to be disclosed under Governmental Accounting Standards Board Statement No. 25, ~~Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans~~. The Aggregate Actuarial Cost Method does not identify or separately amortize unfunded actuarial liabilities.

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
JUDGES						
6/30/00	$ 84,483,073	$ 84,483,073	$ -	100%	$ 13,913,264	0.00%
6/30/99	75,521,517	75,521,517	-	100%	13,462,643	0.00%
6/30/98	67,541,962	67,541,962	-	100%	12,729,379	0.00%
6/30/97	60,668,012	60,668,012	-	100%	12,175,863	0.00%
6/30/96	56,060,318	56,060,318	-	100%	11,615,752	0.00%
6/30/95	51,676,228	51,676,228	-	100%	11,131,148	0.00%
STATE PATROL						
6/30/00	$ 193,019,673	$ 169,545,801	$ (23,473,872)	113.8%	$ 15,789,104	(148.7%)
6/30/99	171,124,224	162,222,559	(8,901,665)	105.5%	14,986,973	(59.4%)
6/30/98	150,958,315	108,660,934	(42,297,381)	138.9%	13,995,091	(302.2%)
6/30/97	134,721,462	100,796,787	(33,924,675)	133.7%	13,768,486	(246.4%)
6/30/96	123,349,173	110,301,906	(13,047,267)	111.8%	13,905,497	(93.8%)
6/30/95	111,880,500	105,354,440	(6,526,060)	106.2%	13,512,985	(48.3%)

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, 2000
UNAUDITED

SCHEDULE 2

SCHOOL EMPLOYEES

Year Ended June 30	Annual Required Contribution* State ****	Annual Required Contribution* School	Percentage Contributed
2000	$ 11,948,451	$ 69,990,565	100%
1999	11,853,757	65,672,654	100%
1998	11,687,572	65,331,264	100%
1997	11,451,315	63,914,256	100%
1996	12,049,570	62,832,121	100%
1995	10,743,759	57,809,866	100%

JUDGES

Year Ended June 30	Annual Required Contribution State **	Annual Required Contribution Court Fees ***	Percentage Contributed
2000	$ 72,244	$ 473,838	100%
1999	72,244	442,802	100%
1998	72,244	445,115	100%
1997	72,244	449,776	100%
1996	121,929	464,480	100%
1995	658,833	450,097	100%

STATE PATROL

Year Ended June 30	Annual Required Contribution **	Percentage Contributed
2000	$ 2,203,735	100%
1999	2,294,332	100%
1998	1,891,043	100%
1997	1,904,257	100%
1996	1,522,697	100%
1995	1,147,767	100%

For fiscal years ended June 30, 1996 to June 30, 2000, the actuarial determination of the Annual Required Contribution (ARC) was based on actual covered payroll for the period.

For the fiscal year ended June 30, 1995, the Annual Required Contribution (ARC) was based on a projection of covered payroll for the period to which the ARC will apply. Actual employer contributions are based on a percentage of actual covered for the year. Therefore, ARC will not agree to actual contributions received. The "Percentage Contributed" is based on the same measure as the ARC, projected covered payroll.

* Includes School District contributions at required rates for formula annuity liabilities, and State contributions for formula annuity and service annuity liabilities. Includes contributions for plan year ended June 30 paid after end of plan year.

** Includes contribution toward unfunded actuarial accrued liability, if applicable; and contribution toward purchasing power stabilization fund.

*** A one dollar fee for each case is collected from District and County Courts plus a ten percent charge on certain fees collected in the County Courts.

**** Includes Contribution toward purchasing power stabilization fund and school employees reserve fund, but does not include contribution to Omaha Public Schools.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Unaudited

The information presented in the required supplementary schedules 1 and 2 was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	School Employees	Judges	State Patrol
Valuation Date	June 30,2000	June 30, 2000	June 30, 2000
Actuarial Cost Method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization Method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining Amortization Period	25 Years	25 Years (2)	25 Years (2)
Mortality	1994 Group Annuity Table	1971 Group Annuity Table Set Back 3 Years	1983 Group Annuity Table
Asset Valuation Method	5 year smoothing	5 year smoothing	5 year smoothing
Actuarial Assumptions:			
Investment Rate of Return (1)	8.0%	8.0%	8.0%
Projected Salary Increases (1)	Graded 8.2% to 4.5%	5.0%	Graded 7% to 4.5%
Cost-Of-Living Adjustments (COLA) (3)	2% with a floor benefit equal to 75% purchasing power of original benefit	2% with a floor benefit equal to 75% purchasing power of original benefit	2% with a floor benefit equal to 60% purchasing power of original benefit

(1) Includes assumed inflation of 3.8% per year.

(2) Or the average expected future service of active members.

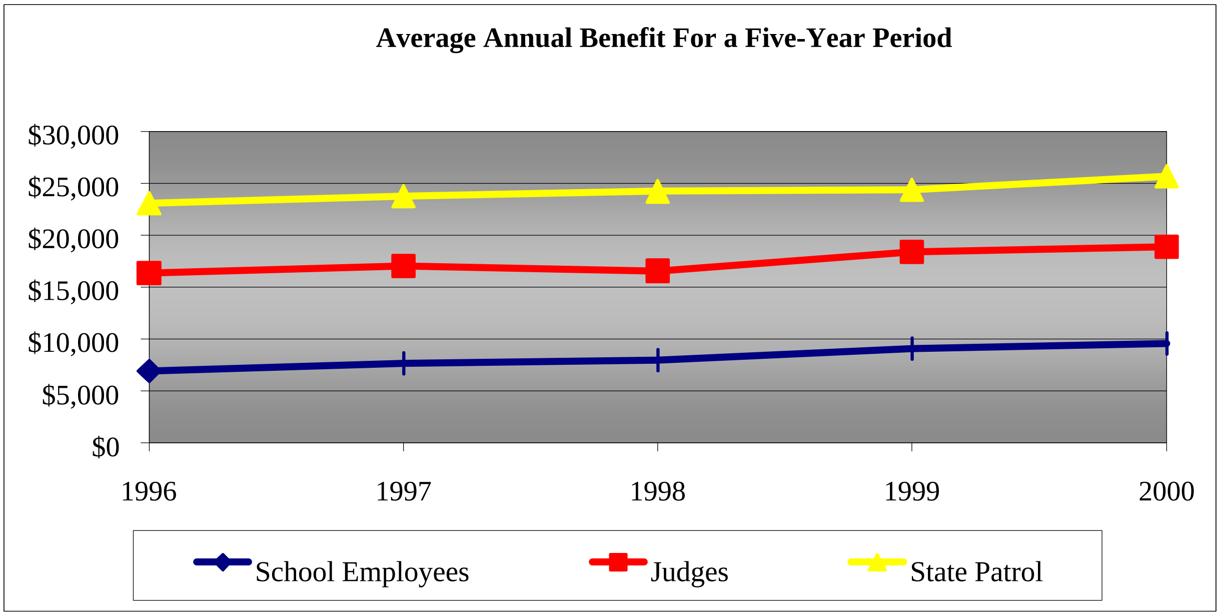
(3) There was a change in plan provisions when 1999 Neb. Laws LB 674 was passed. LB 674 eliminated the Purchasing Power Stabilization Funds and transferred the assets to the Retirement Funds for the Judges and Patrol Plans and the Annuity Reserve Fund for the School Employees Plan. The benefits for the cost of living adjustments will be paid from these funds beginning July 1, 2000.

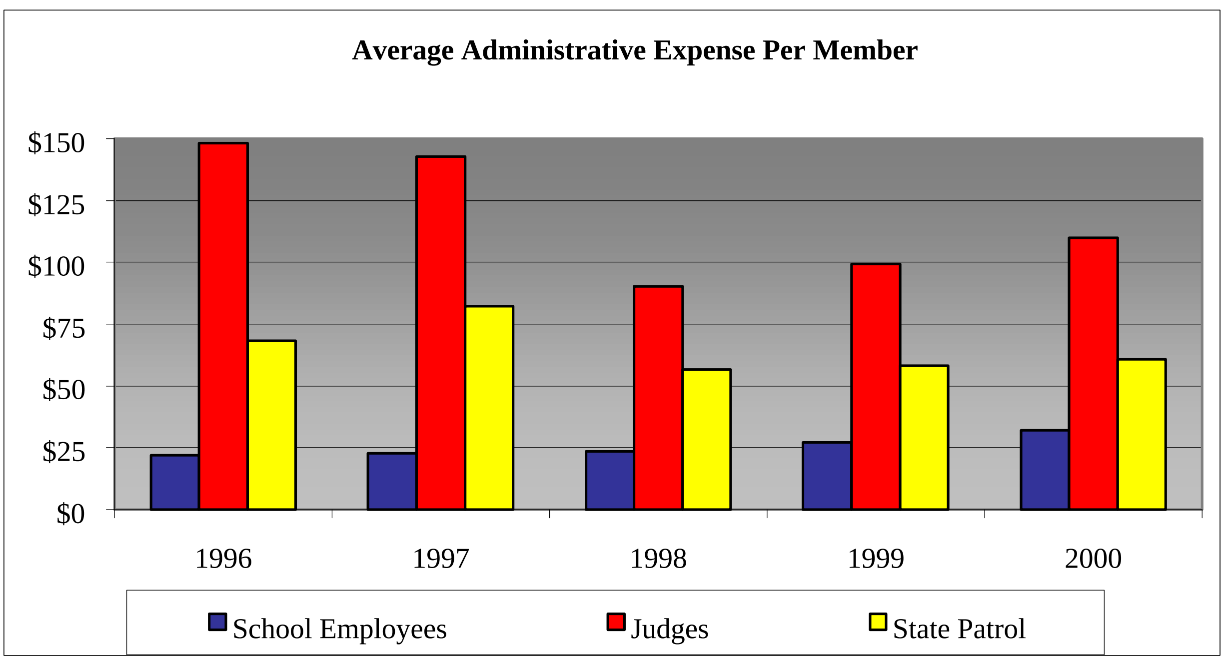
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS

	2000	1999	1998	1997	1996
SCHOOL EMPLOYEES					
Active Members	34,718	34,047	33,546	33,390	33,318
Inactive Members	13,918	10,605	13,004	11,797	11,245
Retirees	10,371	9,911	9,229	8,585	8,248
Total Benefits Paid (3)	$ 99,501,638	$ 89,882,287	$ 73,693,161	$ 65,763,341	$ 57,154,633
Average Annual Benefit (1)	$ 9,594	$ 9,069	$ 7,985	$ 7,660	$ 6,930
Administrative Expenses	$ 1,891,100	$ 1,478,766	$ 1,308,926	$ 1,220,108	$ 1,153,034
Average Admin. Expense Per Member (2)	$ 32.05	$ 27.10	$ 23.47	$ 22.69	$ 21.83
JUDGES					
Active Members	159	166	164	164	164
Inactive Members	22	14	15	15	15
Retirees	163	160	158	148	150
Total Benefits Paid (3)	$ 3,080,021	$ 2,946,584	$ 2,619,494	$ 2,521,286	$ 2,454,591
Average Annual Benefit (1)	$ 18,896	$ 18,416	$ 16,579	$ 17,036	$ 16,364
Administrative Expenses	$ 37,783	$ 33,753	$ 30,430	$ 46,741	$ 48,789
Average Admin. Expense Per Member (2)	$ 109.83	$ 99.27	$ 90.30	$ 142.94	$ 148.29
STATE PATROL					
Active Members	386	382	390	388	392
Inactive Members	16	11	9	8	6
Retirees	269	252	232	221	210
Total Benefits Paid (3)	$ 6,908,835	$ 6,140,771	$ 5,620,425	$ 5,250,723	$ 4,852,777
Average Annual Benefit (1)	$ 25,683	$ 24,368	$ 24,226	$ 23,759	$ 23,108
Administrative Expenses	$ 40,845	$ 37,480	$ 35,836	$ 50,707	$ 41,557
Average Admin. Expense Per Member (2)	$ 60.87	$ 58.11	$ 56.79	$ 82.18	$ 68.35

Notes:
(1) Calculated: Total Benefits Paid/#Total Retirees=Avg Annual Benefit
(2) Calculated: Administrative Expenses/Total Members=Avg Admin Expense per Member
(3) Total benefits paid does not include refunds

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





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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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 year ended June 30, 2000, and have issued our report thereon dated January 3, 2001. The Independent Auditors' Report was modified to disclose that the Required Supplementary Information was unaudited. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 that are required to be reported under Government Auditing Standards. We noted a certain immaterial instance of noncompliance that we have reported to management of the Nebraska Public Employees' Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans in the Comments Section of this report as Comment Number 1 (School District Payroll Records).

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (School District Payroll Records), Comment Number 2 (School Employee Contribution Procedures), Comment Number 3 (Benefit Processing), Comment Number 4 (Controls Over Court Fees), and Comment Number 5 (Computer Controls).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses. We also noted other matters involving internal control over financial reporting that we have 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 6 (Accounting Information), Comment Number 7 (Service Years), Comment Number 8 (Outstanding Warrants), and Comment Number 9 (Disbursement Procedures).

This report is intended solely for the information and use of NPERS, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

Pat Reding, CPA

January 3, 2001 Manager