AUDIT REPORT
OF THE
NEBRASKA PUBLIC EMPLOYEES
RETIREMENT SYSTEMS - STATE AND
COUNTY EMPLOYEES RETIREMENT PLANS

JANUARY 1, 2000 THROUGH DECEMBER 31, 2000

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

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BACKGROUND

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

The 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.

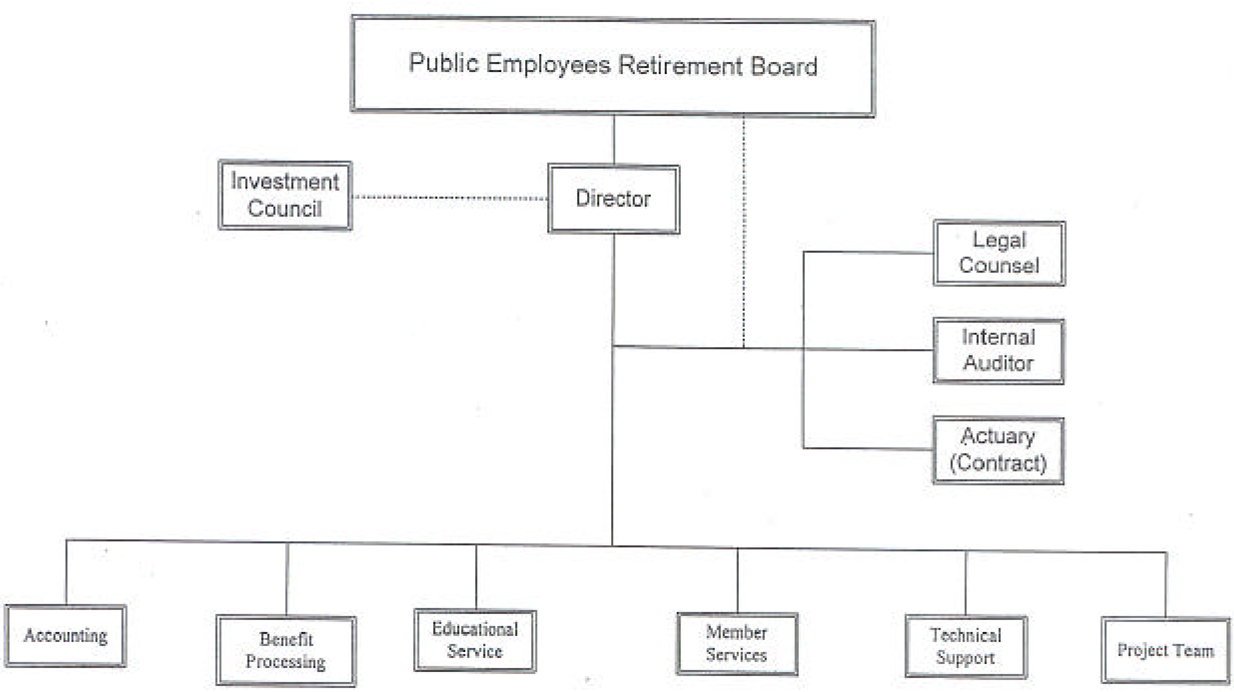
The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement systems. All expenses must be provided from investment income earned by various retirement funds, unless other fund sources to pay expenses are specified by law.

MISSION STATEMENT

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

ORGANIZATIONAL CHART



SUMMARY OF COMMENTS

During our audit of the Nebraska Public Employees Retirement Systems (NPERS) - State and County Employees 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. ***County Plan Membership Eligibility:*** NPERS did not have adequate procedures to ensure all eligible and only eligible employees became members of the County Employees Retirement Plan. One of 25 employees tested began contributing to the Plan before eligibility requirements were met.

2. ***Monitoring Retirement Contributions:*** Two of 39 State Plan members tested did not have contributions begin after they met requirements for mandatory participation in the Plan. The same two members had not made up the missed contributions as of the end of the audit period. Subsequent to the audit period, the employer calculated one member's missed contribution incorrectly.

3. ***Inadequate Resolution of Prior Audit Findings:*** NPERS did not have adequate procedures to ensure prior audit exceptions were resolved. At least 20 exceptions from the prior audit had not been resolved.

4. ***Incorrect Information In OMNI:*** One of 25 County Plan members tested had an incorrect plan entry date in OMNI (computer software used by the record keeper). Two of 32 State Plan members tested had birth dates in OMNI that did not agree to the birth dates listed on the enrollment forms.

5. ***Reconciliation of Forfeitures:*** NPERS did not have adequate procedures to ensure the forfeiture amount reported by Ameritas was correct. The County Plan forfeiture balance at December 31, 2000 was $395,560. The State Plan forfeiture balance at December 31, 2000 was $809,125.

6. ***Benefit Payment Procedures:*** One of 20 State Plan members tested did not have an enrollment form on file, but received a benefit payment. NPERS did not document the member was eligible for participation in the Plan prior to payment.

More detailed information on the above items is provided hereafter. It should be noted 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 the NPERS.

SUMMARY OF COMMENTS
(Concluded)

Draft copies of this report were furnished to the 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. County Plan Membership Eligibility

Neb. Rev. Stat. Section 84-1503(2)(b) R.S.Supp. 2000, states that it shall be the duty of the Board, "To determine the eligibility of an individual to be a member of the retirement system and other questions of fact in the event of a dispute between an individual and the individual's employer."

Neb. Rev. Stat. Section 23-2306(1) R.S.Supp. 2000, states, "The membership of the retirement system shall be composed of (a) all full-time employees who have been employees for a period of twelve continuous months, except that full-time elected officials shall be members on taking office, (b) all full-time or part-time employees who have attained the age of twenty-five, have been employed for a total of twelve months within a five year period, and exercise the option to join the retirement system, and (c) all part-time elected officials who exercise the option to join the retirement system."

Neb. Rev. Stat. Section 23-2306(5) R.S.Supp. 2000, states, "Information necessary to determine membership in the retirement system shall be provided by the employer."

Neb. Rev. Stat. Section 23-2312(1) R.S.Supp. 2000, states, "The director of the Nebraska Public Employees Retirement Systems shall keep a complete record of all members with respect to names, current addresses, ages, contributions, and any other facts as may be necessary in the administration of the County Employees Retirement Act. The information in the records shall be provided by the employer in an accurate and verifiable form, as specified by the director. The director may, from time to time, carry out sampling procedures to verify the accuracy of such information. For the purpose of obtaining such facts and information, the director shall have access to the records of the various counties and state department and agencies."

In addition to these statutory requirements, good internal control also requires procedures to ensure all eligible and only eligible employees are members of the County Employees Retirement Plan.

Our prior audits noted NPERS did not have adequate procedures to ensure all eligible and only eligible employees had joined the Plan. We agree with the prior audit response of NPERS that employers are responsible for providing accurate and verifiable information as a result of the passage of 2000 Neb. Laws LB 1192, and that NPERS may perform sampling procedures to verify the information submitted by the counties is accurate. However, when the above statutes are read together, it appears the Board has the duty to determine eligibility, based on the information provided by the employer as specified by the Director, in both the State Employees Retirement Plan and the County Employees Retirement Plan.

COMMENTS AND RECOMMENDATIONS

1. <u>County Plan Membership Eligibility</u> (Continued)

We noted NPERS did not have adequate procedures to ensure all eligible members had joined the County Employees Retirement Plan (Plan). In the prior audit, NPERS had developed a quarterly questionnaire to assist them in determining all eligible employees had joined the Plan. We also noted NPERS had requested counties to send in quarterly payroll reports listing all employees paid by the County. However, as noted in the prior report, we did not feel the procedures were adequate to ensure all eligible employees joined the Plan.

In calendar year 2000, the questionnaires were discontinued. Additionally, the procedures regarding the quarterly payroll reports were not strengthened. In the first quarter of 2000, only 20% of counties responded. In the second quarter of 2000, 29% of counties responded. In the third quarter of 2000, 67% of the counties responded. NPERS reviewed the list of possible errors in membership and indicated there were no errors in the third quarter reports. However, as noted previously, not all counties responded, so the risk that errors have occurred still exists. The fourth quarter reports had not been reviewed until the end of our audit fieldwork.

In our opinion, Sections 23-2312(1) and 23-2306(5) give the director the authority to prescribe to the counties what information the employer must provide in order for the Board to determine membership in the Plan. Therefore, in order to ensure all eligible employees have joined the Plan, we would expect NPERS to follow up with counties that do not submit quarterly payroll reports, perform a timely review of the reports submitted, and document follow-up procedures to possible errors in membership in the Plan.

We also noted NPERS did not have adequate procedures to ensure only eligible members had joined the Plan. One of twenty-five employees tested began contributing to the Plan before she was eligible. The employee's plan participation date was February 1, 2000, but the County deducted the retirement contribution for this employee for the month of January 2000. At that time the employee had not met the requirements for membership in the Plan.

> We continue to recommend NPERS strengthen its procedures to determine whether all eligible and only eligible employees are members of the County Employees Retirement Plan.

NPERS Response: The initial audit point recommends that NPERS strengthen procedures related to county membership in the Plan. NPERS completed a review of comprehensive payroll listings from 62% of the counties for the third and fourth quarters of 2000 to determine if all eligible employees were enrolled in the Plan. Following discussions with county personnel on exceptions noted, we were pleased to conclude that there were no membership omissions in this sampling. County employees responsible for payroll and personnel functions were found to have a very thorough understanding of the eligibility rules, and NPERS feels our educational effort has been effective.

COMMENTS AND RECOMMENDATIONS

1. <u>County Plan Membership Eligibility</u> (Continued)

Based on the above results, it is difficult to respond to this comment for strengthened procedures since no significant weakness was found in a 62% sampling. Nebraska Rev. Stat. Section 84-1503(1)(f) states that the Board shall have the duty to "adopt and implement procedures for reporting information by employers, as well as sampling and monitoring procedures." It appears that the intent of the statute is to allow for "sampling" procedures rather than total review. Counties are currently asked to report quarterly; we will continue to assess the extent of our review and the reporting that will be required from the counties in the future. Some counties use their own in-house payroll system, and providing the necessary data for the quarterly reports has been a hardship and additional cost for them.

We must also point out a correction to the statistics included in the Auditor's Comments for this report item. The comment states that reports were received from only 20% of the counties for the first quarter, and 29% for the second quarter of 2000. Actually, an audit was completed from a sampling of 20% and 29% of the reports received. The audit comment misrepresented this as the number received rather than the number actually audited; well over 50% of the counties provided reports for those two quarters.

Your audit test did discover one new county member that began contributions one month early. The error occurred in a prior calendar year, and since amendment to the W-2 would be necessary to correct the error, the county asks that no correction be required due to the small amount involved. The plan entry date will reflect the 2-1-00 eligibility and the employee will be required to participate the appropriate 5 years before vesting will be earned. To assist in monitoring for the 12-month eligibility period in the future, we have asked our recordkeeper to install a test that will check for a 12-month employment period before entry into the Plan.

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

As a final comment on this point, we must again reiterate that it is the responsibility of the county to make certain that all eligible employees are enrolled in the Plan. County officials take an oath to uphold the statutes of the State of Nebraska. As a state agency, we administer the Retirement System for the counties and thus are responsible for educating them on the specific requirements of the statutes and assisting them with interpretations in the event of dispute. We cannot guarantee total compliance by each county as we cannot monitor each and every payroll. When an error occurs in the county reporting, the county is liable for that mistake.

COMMENTS AND RECOMMENDATIONS

1. <u>County Plan Membership Eligibility</u> (Continued)

Auditors' Response: The procedure in need of strengthening is to receive payroll information from each county and to review the information timely. As noted in the comment, Neb. Rev. Stat. Section 23-2312(1) R.S.Supp., 2000, gives the Director the responsibility to specify the information submitted by the employer (County). In our opinion, the procedure for reviewing payroll information from counties is not adequate unless all counties respond with the requested information. As noted in the comment, Neb. Rev. Stat. Section 23-2306(5) requires employers (counties) to provide such information as specified by the Director.

Because comments relating to determination of eligibility have been included in recent audit reports for all five plans (School, Judges, Patrol, State, and County), NPERS requested an opinion from the Attorney General regarding the interpretation of Neb. Rev. Stat. Section 79-905(1), which imposes a duty upon the NPERB to "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." Essentially the same language is found at Neb. Rev. Stat. Section 84-1503(2)(b), applying to all five plans.

Attorney General Opinion No. 01-021 issued May 16, 2001, stated, in part, "We do not believe that one clause of a section that is part of a comprehensive set of statutes may appropriately be applied to restrict the duties of the Retirement Board to determine the eligibility of a school employee only in the event of a dispute. . . . The administration of the retirement systems necessarily involves determining membership eligibility issues. Two of the most important responsibilities of the Retirement Board include determining eligibility for membership and determining entitlement to benefits in the retirement systems administered by the Board. . . . We think that the statutory duties of the Retirement Board necessarily require a determination of eligibility for membership on a continuing basis to assure that only employees qualified for membership are participating in the retirement systems administered by the Board. On a continuing and ongoing basis, the Public Employees Retirement Systems applies the statutory qualifications for membership in the retirement systems. Determining eligibility for participation is necessary to safeguard the integrity of the systems and to fulfill the Board's duty to administer all systems in a manner to maintain each plan's status as a qualified plan pursuant to the requirements for the Internal Revenue Code."

At least part of NPERS' response appears to be in contradiction to the Attorney General's Opinion. Again, acknowledging the duty of employers (counties) to provide NPERS with accurate and verifiable eligibility information, it is NPERS' responsibility to maintain effective and adequate procedures to ensure all eligible and only eligible employees are members of the County Employees Retirement Plan.

COMMENTS AND RECOMMENDATIONS

1. County Plan Membership Eligibility (Concluded)

AICPA Professional Standards Section AU 350.01 defines audit sampling as the application of an audit procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristic of the balance or class. Section AU 350.24 states that sample items should be selected in such a way that the sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected.

The population in relation to this particular comment and recommendation would be each county participating in the County Employees Retirement Plan, or 91 counties. Since NPERS did not receive payroll listings from all 91 counties, all items in the population did not have an opportunity to be selected. Therefore, the sampling procedure utilized by NPERS was not effective. Additionally, as noted in the comment, the fourth quarter reports were not reviewed until after the end of our fieldwork.

2. Monitoring Retirement Contributions

Good internal control requires procedures to monitor members who recently enrolled in the State Plan to ensure contributions began in the first pay period after the member met requirements for membership in the Plan.

NPERS Rules and Regulations Title 303 NAC 18-002.08 defines insufficient contributions to mean an employee contribution or employer contribution, which is not timely remitted, not remitted due to errors on the part of the employer, or not remitted due to failure of the employer to enroll the employee in the retirement system when such employee was required to be enrolled. Title 303 NAC 18-004.01(iv) requires additional contributions to be deducted from the employee's compensation in a time period which shall "not exceed the lessor of (a) four times the number of pay periods over which the error occurred or (b) five years." Good internal control also requires a review of these additional contributions to ensure the amount of any missed contribution is calculated correctly, and to ensure missed contributions are remitted in accordance with the Rules and Regulations.

Our prior audit noted NPERS did not have adequate procedures to ensure contributions had begun in the pay period after the effective date of enrollment. NPERS implemented procedures in calendar year 2000 to detect State employees who had met mandatory requirements for membership. However, we noted 2 of 39 State Plan members tested did not have contributions start after they met the requirements for mandatory participation in the Plan. One member missed 3 pay periods; the other member missed 13 pay periods.

COMMENTS AND RECOMMENDATIONS

2. <u>Monitoring Retirement Contributions</u> (Continued)

NPERS also did not have procedures to ensure the amount of missed contributions were calculated correctly or made up in accordance with the Rules and Regulations. The same two members noted above had not made up the missed contributions during our audit. For one member, the time period to make up the missed contribution per Title 303 NAC 18-004.01(iv) had expired. Subsequent to the audit period, the auditor sent a confirmation to the other member's employer, and an agreement signed by the member was sent to NPERS detailing the amount and time period of the missed contributions. However, we noted the employer incorrectly calculated the missed contributions at 4.8% of the employee's payroll for the entire period of missed contributions.

> We continue to recommend NPERS strengthen its procedures to ensure contributions begin after the employee has met the requirements for membership in the Plan or after the member elects to join the Plan. We also continue to recommend NPERS implement procedures to ensure the amount of missed contributions are calculated correctly and made up in accordance with Rules and Regulations.

NPERS Response: NPERS has developed a NEIS report that is run on a monthly basis with defined selection criteria that should identify those employees who have met eligibility requirements for the Plan, and have not yet begun deductions. This allows us to monitor the State Plan for eligibility based on the limited access our agency currently has to the NEIS system. We continue to campaign for greater inquiry access to NEIS which would allow us to review and monitor exceptions in a more expeditious and efficient manner.

Agencies are notified when their employees appear on this exception report so that the necessary action can be taken. A NPERS staff member makes certain agencies respond and establish the necessary deductions for the new member, but this staff person has not been responsible for follow-up on any possible make-up contributions. In the future, the responsibility for monitoring insufficient contributions will remain with this staff member. They will continue to monitor these possible new enrollments, and also make certain make-up contributions are initiated. A high level review or sampling of the make-up contributions after they have been initiated will be continued until completion.

With our agency's limited access to NEIS, it is difficult to confirm the accuracy of make-up contributions. Any review would have to be completed with the assumption that the salary amounts provided are accurate. Another complexity in calculating the make-up contributions involves determining when the step in the contribution rate will be reached. It is difficult to determine when the identified $864 level will be attained, and a higher rate warranted for the calculation. Use of the lower percentage of 4.33 for the total calculation could result in an

COMMENTS AND RECOMMENDATIONS

2. Monitoring Retirement Contributions (Concluded)

understatement of the make-up contribution, while the 4.8% would result in an over-contribution by the member. NPERS will continue with high level reviews of the make-up calculations, and hopefully some of the complication will be eliminated if new legislation is adopted for a single rate contribution percentage.

Auditors' Response: We agree that NPERS should continue to pursue greater access to NEIS and also recommend NPERS implement procedures, possibly through revised Rules and Regulations, to ensure agencies calculate and remit missed contributions in accordance with NPERS Rules and Regulations.

3. Inadequate Resolution of Prior Audit Findings

Good internal control requires timely and appropriate action to resolve audit findings. Government Auditing Standards paragraph 5.26j and the American Institute of Certified Public Accountants (AICPA) Professional Standards AU 325.21 regard the failure to follow up and correct previously identified internal control deficiencies to be a reportable condition.

We noted at least 20 State Plan members with exceptions in the prior year were not adequately resolved during the current audit. Contributions were not made for eleven employees who had met the requirements for Plan participation in 1999. During calendar year 2000, all eleven employees began contributing to the Plan. However, there was no documentation the employees had made up the missed contributions. We also noted eight employees who had met the requirements for Plan participation in 1999 were making additional contributions during calendar year 2000. However, the amount of additional contributions we calculated did not agree to the amount of additional contributions calculated by the employer. Finally, we noted one member in the prior audit had an incorrect plan entry date that had not been changed.

We noted a similar comment in the prior audit.

> We recommend NPERS implement procedures to ensure prior audit exceptions are adequately followed up and resolved.

NPERS Response: Regarding the State Plan members with required make-up contributions from the prior year that had not been initiated before the current audit, ten of the eleven members who met the requirements for plan participation in 1999 had been contacted by their agency regarding the make-up contributions, but did not respond to the notice. The representative for the agency involved has agreed to complete the necessary paperwork and begin these contributions automatically with the June payroll. An additional member with possible make-up contributions from 1998 is still under review as the agency has stated that the employee was hired as a temporary for a portion of their employment.

COMMENTS AND RECOMMENDATIONS

3. Inadequate Resolution of Prior Audit Findings (Concluded)

In addition, you noted that make-up contributions for eight employees who had met requirements for participation in 1999 were not calculated correctly. Five of the eight noted have terminated their employment prior to vesting and any contributions have been returned to them or forfeited to the State, and therefore no further action is warranted. One member's entry date was 12-1-99, and the 12-5-99 payroll was not used by the agency in their make-up calculation since it is reasonable that the employee was not eligible for most of that pay period. That pay period was included in your calculations, resulting in a portion of the difference of $74.63. Since the member has since retired, no additional action will be taken. Review of another member has resulted in the determination that the member's enrollment was under voluntary terms since their status was part-time, and therefore no mandatory make-up contributions are required. The final exception involves an immaterial difference of $11.47 and will not be adjusted.

Nebraska statute does not reference the percentage that should be used for make-up contributions. Due to several factors, including the time of the year pay periods were missed and possible increases in gross pay throughout the year, it is difficult for the employer, as well as NPERS, to determine what rate(s) to use for the calculations and therefore differences may occur in the calculations. Also, with our limited access to NEIS, it is difficult to verify the accuracy of all make-up calculations. NPERS will continue with high level review of make-up calculations, as stated previously.

With the reorganization of the agency during 2000, several changes in staff were made, and follow-up was not completed on some of the required make-up contributions. NPERS is now in a better position to monitor exceptions in a more timely manner, and will take appropriate action to resolve any current audit findings.

Auditors' Response: If an employee terminates employment prior to vesting, the employer portion of their account is forfeited to the State. If the members in question did not remit the correct amount of their pay, then the Plan would be losing the employer portion of the contribution. Additionally, if NPERS had performed timely follow-up procedures, it is possible the additional contributions could have been made prior to the employee's termination.

NPERS stated in their response that one member enrollment was voluntary, but per review of our prior audit work papers, the employee in question worked more than one-half of the regularly scheduled work hours each pay period, and therefore the enrollment was, in fact, mandatory. The Auditor's Office has discussed this member with NPERS' Internal Auditor, and was advised that NPERS would review the employee again.

COMMENTS AND RECOMMENDATIONS

4. Incorrect Information In OMNI

Good internal control requires procedures to ensure the accuracy of information entered into the OMNI (computer software used by the record keeper) system.

In July 2000, NPERS began entering enrollment information into OMNI. Ameritas (the record keeper) had previously completed this task. Dates recorded in OMNI, such as plan entry dates and alternate vesting dates are critical, as the vesting determination is made from these dates. Birth dates recorded in OMNI are also critical, as the retirement determination is based on the age recorded in the system.

County Plan

We noted 1 of 25 members tested had incorrect dates in OMNI. The member had a plan entry date and alternate vesting date in OMNI and on the enrollment form of July 1, 2000. However, the employee was a voluntary member and did not have an initial contribution until the pay period September 4, 2000 through September 16, 2000. The member did not make up the missed contributions. His enrollment form was received by NPERS in October 2000. NPERS entered the information from the enrollment form into OMNI at that time. The plan entry date and alternate vesting date should have been changed by NPERS to September 1, 2000.

State Plan

Beginning in March 2001, the Nebraska Employee Information System (NEIS) payroll tapes uploaded birth date information into OMNI. Since approximately the end of 1999, no dates had been uploaded from NEIS to OMNI. If the employer agency has entered an incorrect birth date into NEIS, the incorrect date will override the date entered when the member joined the Plan. We also noted during benefit processing, NPERS only verifies the accuracy of information on 20% of the number of disbursements processed each week.

We noted 2 of 32 members tested had birth dates listed in OMNI that did not agree to the birth dates listed on the enrollment forms. The differences were 10 months and 5 years. Prior to March 2001, the dates in OMNI agreed to the enrollment form. However, when the NEIS override was activated, two incorrect dates were uploaded to OMNI from NEIS.

A similar comment was noted in the prior audit report. The risk for inaccurate information to be uploaded to OMNI increases when the NEIS override is activated. Inadequate procedures over the enrollment process also increase the risk that inaccurate information be input into OMNI. Inaccurate information in OMNI increases the risk that a benefit payment will be incorrectly paid.

> We continue to recommend NPERS establish procedures to ensure the retirement data entered into the OMNI system is accurate.

COMMENTS AND RECOMMENDATIONS

4. Incorrect Information In OMNI (Continued)

NPERS Response: This audit point addresses the possible effect of inaccurate data on the OMNI system. NPERS has been aware of discrepancies in data or missing data on OMNI, and since February has been involved in an extensive project of "data purification" with the recordkeeper, Ameritas. This will be an ongoing, long-term project with the goal of using dates in the future that are automatically downloaded from respective payroll programs, or established at Ameritas based on when contributions to the Plan begin.

As mentioned previously, our Strategic Business Technology Plan will allow employers in the future to electronically forward the necessary membership data and the system will automatically perform analytical and audit routines to check information against various parameters established by NPERS.

As an agency responsible for thousands of members, we must be able to rely on data provided from the payroll systems of our reporting entities. With current I-9 filing requirements for verification of employee data, we feel birth dates entered on the payroll should be at least as reliable as handwritten dates on enrollment forms that must be translated by another party and manually entered on OMNI. Therefore, we respectfully disagree with the audit comment that "the risk of inaccurate information to be uploaded to OMNI increases when the NEIS override is activated." Even though hire dates on NEIS become impossible to track in rehire and transfer situations, we must be able to place some reliance on our State payroll system as dates from members themselves cannot solely determine eligibility and vesting. Enrollment Forms also cannot be the final authority for entry dates as indicated in the exception noted in this point for a County enrollment.

Once eligibility is established, dates in the State and County Plans only become critical upon attainment of retirement age, age 70 ½ or upon termination. At termination, vesting is checked for all members before distribution paperwork is forwarded to the member. All distribution requests are again verified by NPERS personnel prior to their release to Ameritas. Vesting is also checked at Ameritas by comparing the status based on the dates within the OMNI system against the distribution request. Ameritas frequently contacts our office if there is any question regarding the vesting status before payout is completed. Finally, as stated in the Audit Comments, NPERS also reviews 20% of the benefit distributions to confirm the accuracy of the final payment. NPERS feels our extensive review process should affirm that a member's vesting status is accurate before any payout of employer contribution is completed. Therefore, we do not feel the missing or incomplete data on the OMNI system has caused an adverse affect to plan administration, but will continue with our process of data purification at Ameritas.

Auditor's Response: In discussion with NPERS staff during the course of the audit, we determined that NPERS staff did not thoroughly verify vesting dates at retirement. The procedure, as described to us, was to verify the vesting date on the OMNI system to

COMMENTS AND RECOMMENDATIONS

4. <u>Incorrect Information In OMNI</u> (Concluded)

determine if the member was vested, i.e. participated in the plan for more than five years, or not vested. NPERS staff was not determining if the vesting date was accurate or verifying it to an independent source. In addition, NPERS verified the accuracy of information on only 20% of the number of disbursements processed each week. These two factors support our opinion that the risk of inaccurate information in OMNI increases the risk a benefit payment will be incorrectly paid.

Additionally, a sample of 2 of 32 members had an accurate birth date overridden by the NEIS tape when the NEIS override of the birth date in OMNI was activated. This represents over 6% of our sample. This supports the statement, "The risk for inaccurate information to be uploaded to OMNI increases when the NEIS override is activated."

5. <u>Reconciliation of Forfeitures</u>

Good internal control requires NPERS to review amounts recorded by Ameritas for accuracy, as processing performed by Ameritas is an integral part of the internal control over retirement transactions.

During our audit, NPERS did not have adequate procedures in place to ensure the forfeiture amount reported by Ameritas agreed to NPERS records. This comment has been noted in the last two audit reports. We noted in the prior audit NPERS had implemented procedures to reconcile the forfeiture amount reported by Ameritas, but did not determine whether the amount of forfeited accounts agreed with their records. We also noted the individual who had performed this reconciliation in the prior audit period terminated in September 2000. There was no documentation available that the reconciliation had been performed during calendar year 2000. The responsibility for performing the reconciliation had not been passed on to another employee. At December 31, 2000, the forfeiture balance was $395,560 for the County Plan and $809,125 for the State Plan.

The risk of loss or misuse of forfeitures increases without an adequate reconciliation of the forfeiture accounts.

> We recommend NPERS document a reconciliation of the forfeitures reported by Ameritas with their own list of forfeitures. We further recommend more than one individual at NPERS be trained to perform this reconciliation in the event of employee turnover.

COMMENTS AND RECOMMENDATIONS

5. Reconciliation of Forfeitures (Concluded)

NPERS Response: Forfeitures in both the State and County Plans are reconciled at Ameritas, the recordkeeper for the Plans, and activity and balances in the forfeiture accounts are reported to NPERS on a quarterly basis. We are directly involved in activity within the accounts as these funds are used to pay plan expenses. Due to our reorganization and a staff termination, no overall forfeiture accounting was being maintained at NPERS. Balances in the accounts were frequently reviewed, and transactions noted, as the funds were required for use in expense reimbursements.

Through the use of our new GL software package, Traverse, NPERS is now maintaining accounting records for the State and County Plans, including their forfeiture accounts, and reconciling these amounts with Ameritas. This process was begun for the 2001 calendar year, and will provide a reconciliation in total to the amounts held in the forfeiture accounts at Ameritas.

6. Benefit Payment Procedures

Good internal control and NPERS written procedures require an enrollment form be on file before benefits are distributed to the member in order to ensure the member was eligible for participation in the Plan.

NPERS procedures were not adequate to ensure an enrollment form was on file before a benefit was paid. One of 20 members tested in the State Plan did not have an enrollment form on file. There was no documentation that NPERS verified the member was eligible for Plan participation prior to processing the benefit payment. This comment was also noted in the prior audit.

If a member is not eligible for Plan participation, the employee would not be eligible for and should not receive the State (employer) contribution.

> We again recommend NPERS implement adequate procedures to ensure an enrollment form is on file, or to provide a documented verification that the member was eligible for Plan participation, before the benefit payment is disbursed.

NPERS Response: One member in a sample size of 20 was found to not have an enrollment form on file prior to payment of his benefit. This member was 70 ½ years of age; his payout was mandatory based on very rigid IRS regulations. The member was hired in 1958, enrolled in 1964 when enrollment cards were used and maintained at Ameritas, and terminated employment in 1974. The fact that the enrollment card was not available was noted on his Request for Disbursement. Numerous correspondences had been directed to this member and received from him regarding this mandatory payout. All of the above information was shared with the audit

COMMENTS AND RECOMMENDATIONS

6. Benefit Payment Procedures (Concluded)

staff. We must now respectfully request the State Auditor's office to describe to us exactly what additional step needed to be taken in this process? Are you actually requesting that we send the member an Enrollment Form to complete as a way of verifying his eligibility after 25 years of holding his account in a deferred status? Would we truly have a case against this individual after all this time that he is ineligible, and could we not allow him the distribution?

Auditors' Response: As discussed with NPERS' Internal Auditor, we recommend the verification of eligibility for these members be adequately documented. A note on the enrollment form stating the enrollment form or card could not be found is not sufficient documentation. If past correspondence or ledger cards detailing the employees contributions are reviewed to determine the member's eligibility to be in the Plan, the review should be documented.

STATE OF NEBRASKA
Auditor of Public Accounts

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

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES 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) - State and County Employees Retirement Plans as of and for the calendar year ended December 31, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the 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.

As discussed in Note 1, the financial statements present only the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans and are not intended to present fairly the financial position and results of operations of the Nebraska Public Employees Retirement Systems in conformity with generally accepted accounting principles.

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 - State and County Employees Retirement Plans as of December 31, 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 May 14, 2001 on our consideration of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans' internal control over financial reporting and our tests of each plan's compliance with certain provisions of laws, regulations, and contracts.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans taken as a whole. The accompanying supplementary schedule is presented for purposes of additional analysis and is not a required part of the financial statements of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans. Such information has been subjected to the auditing procedures applied in the audit of the 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

May 14, 2001 Manager

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
STATEMENTS OF PLAN NET ASSETS
AS OF DECEMBER 31, 2000

	STATE	COUNTY
ASSETS		
Deposits with State Treasurer	$ 52,411	$ 32,064
Receivables:		
Contributions	3,067	419,954
Interest	735,134	172,558
Investments, at fair value (Note 3)	538,035,986	125,803,959
Guaranteed Investment Contracts, at contract value (Note 3)	207,652,113	48,542,868
Invested Securities Lending Collateral (Note 3)	1,084,062	251,645
Total Assets	747,562,773	175,223,048
LIABILITIES		
Accrued Compensated Absences (Note 7)	19,570	13,862
Investment Fees Payable	107,434	25,551
Obligations Under Securities Lending (Note 3)	1,084,062	251,645
Total Liabilities	1,211,066	291,058
Plan Net Assets Held in Trust	$ 746,351,707	$ 174,931,990

See Notes to Financial Statements

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2000

	STATE	COUNTY
Additions:		
Investment Income:		
Net Income (Loss) from Investing Activities	$ (6,573,607)	$ (1,219,051)
Securities Lending Income	89,845	20,856
Securities Lending Expense	(84,661)	(19,653)
Total Net Investment Income	(6,568,423)	(1,217,848)
Contributions:		
Employee	18,459,539	5,277,916
Employer (Note 4)	27,524,516	7,344,076
Total Contributions	45,984,055	12,621,992
Total Additions	39,415,632	11,404,144
Deductions:		
Benefits paid to participants	47,783,164	9,368,530
Administrative expenses	735,793	387,804
Total Deductions	48,518,957	9,756,334
Net Increase	(9,103,325)	1,647,810
Plan Net Assets Held in Trust:		
Beginning of Year	755,455,032	173,284,180
End of Year	$ 746,351,707	$ 174,931,990

See Notes to Financial Statements.
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NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2000

Background

The Nebraska Public Employees Retirement Systems 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 School Employees, Judges and State Patrol Retirement Plans and the Deferred Compensation Plan.

The financial statements reflect only the two defined contribution plans, the State and County Employees Retirement Plans and do not reflect all the activity of the Nebraska Public Employees Retirement Systems.

1. Plan Descriptions

The following summary description of the NPERS is provided for general information purposes. Participants should refer to Neb. Rev. Stat. Section 84-1301 through 84-1333, R.R.S. 1999 and R.S.Supp. 2000 for the State Employees Retirement Plan, and Neb. Rev. Stat. Sections 23-2301 through 23-2335, R.R.S. 1997 and R.S.Supp. 2000 for the County Employees Retirement Plan for more complete information.

A. Nebraska State Employees Retirement Plan - Defined Contribution

This single employer plan became effective by Statute on January 1, 1964, and is a defined contribution plan that covers State employees. Participation in the State Employees Retirement Plan is required for all permanent full-time employees (working one-half or more of the regularly scheduled hours) upon reaching the age of 30 and completion of 24 months of continuous service.

NOTES TO FINANCIAL STATEMENTS

1. Plan Descriptions (Continued)

Voluntary participation is permitted upon reaching age 20 and 12 months of permanent, full or part-time (less than one-half of regularly scheduled hours) service within a five-year period. Each member contributes 4.33 percent of his or her monthly compensation until $864 has been contributed and 4.8 percent of pay for the rest of the calendar year. The State matches a member's contribution at a rate of 156 percent. The employees' and employer's contributions are kept in separate accounts. The employees' account is fully vested. The employer's account is fully vested after five years plan participation plus eligibility and vesting credit, or at retirement. The amount contributed by the State for terminated employees who are not fully vested is forfeited and to be used to reduce NPERS expenses and then reduce employer contributions. As of December 31, 2000, there were 12,861 active members and 1,828 inactive members.

B. Nebraska County Employees Retirement Plan - Defined Contribution

In 1973 the State Legislature brought the County Employees Retirement Plan under the administration of the Board. This multiple-employer plan is a defined contribution plan that covers employees of 91 of the State's 93 counties. Douglas and Lancaster counties have separate retirement plans for their employees as listed in Neb. Rev. Stat. Section 23-2301(6), R.S.Supp. 2000. Participation in the County Employees Retirement Plan is required of all full-time employees upon the completion of 12 months of continuous service and of all full-time elected officials upon taking office. Full-time or part-time employees (working less than one-half of regularly scheduled hours) may elect voluntary participation upon reaching age 25 and completing a total of 12 months service within a five-year period. Part-time elected officials may exercise the option to join.

County employees and elected officials contribute 4% and commissioned law enforcement personnel (for participating counties with an excess of eighty-five thousand inhabitants) contribute 6% of their total compensation. In addition, the County contributes 6% and 8%, respectively. The employees' and employer's contributions are kept in separate accounts. The employees' account is fully vested. The employer's account is fully vested after five years of plan participation plus eligibility and vesting credit, or at retirement. The amount contributed by the County for terminated employees who are not fully vested is forfeited and to be used to reduce NPERS expenses and then reduce employer contributions. As of December 31, 2000, there were 5,921 active members and 951 inactive members.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Accounting Policies

Basis of Presentation. The accompanying financial statements of NPERS - State and County Employees Retirement Plans, have been prepared in conformance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Basis of Accounting

The State and County Employees Retirement Plans' financial statements were prepared on the accrual basis. Investments are presented at fair value or contract value, as noted below, revenues are recorded when earned, and expenditures are recorded at the time liabilities are incurred.

B. Investments

Neb. Rev. Stat. Section 72-1246, R.R.S. 1996, authorizes the State Investment Officer to invest the State's funds in accordance with the prudent man rule. Neb. Rev. Stat. Sections 23-2309.01, R.S.Supp. 2000, and 84-1310.01, R.S.Supp. 2000, details investment options for the County Employees Retirement Plan and the State Employees Retirement Plan, respectively, and require the stable return account to be in one or more guaranteed investment contracts. Under Neb. Rev. Stat. Section 23-2301(11), R.S.Supp. 2000, and 84-1301(10), R.S.Supp. 2000, guaranteed investment contract means "an investment contract or account offering a return of principal invested plus interest at a specified rate."

Investments, which are held by outside investment firms, are carried at fair value to properly reflect the asset values of the funds at December 31, 2000. Investments are valued at quoted market price (closing price) on the last business day of the calendar year. Guaranteed Investment Contracts are carried at contract value as reported to the Nebraska Investment Council by the investment fund manager.

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.

NOTES TO FINANCIAL STATEMENTS

3. Investments and Securities Lending

Upon enrollment in the plans, a participant may direct employee contributions in five-percent increments in any of several investment options. Employer contributions are required by statute to be invested in the Employer Fund. There were three pre-mixed funds in which the members could allocate their employer account. The following are the investment options available to members:

Stable Fund – Funds invested primarily in Guaranteed Investment Contracts (GICs), Synthetic Investment Contracts (SICs), and other money market instruments. GICs are deposits with a financial institution, usually and insurance company, who agrees to repay the principal plus interest at maturity with a guarantee against capital loss due to the changing market conditions.

Bond Market Index Fund – Funds employed a passive bond indexing strategy by investing in a well diversified portfolio that is representative of the broad domestic bond market.

Conservative Premixed Fund – Funds invested in a combination of 25% stocks and 75% fixed income investments. The fund consisted of a mixture of some of the other investment options in the Plan, including the Bond Market Index Fund, the Money Market Fund, the S & P 500 Stock Index Fund, the International Stock Fund, and the Small Company Stock Fund.

Moderate Premixed Fund – Funds invested in a combination of 50% stocks and 50% fixed income investments. The fund consists of a mixture of some of the other investment options in the Plan, including the Bond Market Index Fund, the S & P 500 Stock Index Fund, the Money Market Fund, the International Stock Fund, and the Small Company Stock Fund.

Aggressive Premixed Fund – Funds invested in a combination of 75% stocks and 25% fixed income investments. The fund consists of a mixture of some of the other investment options in the Plan, including the S & P 500 Stock Index Fund, the Bond Market Index Fund, the International Stock Fund, and the Small Company Stock Fund.

S & P 500 Stock Index Fund - Funds invested to replicate the returns and characteristics of the S & P 500 Index. The S & P 500 Index is a broad based index comprised of 500 common stocks representing 90 industries and over 70% of the capitalization of the U.S. equity market.

NOTES TO FINANCIAL STATEMENTS

3. Investments and Securities Lending (Continued)

Large Company Growth Stock Index Fund – Funds invested to replicate the returns and characteristics of the Russell 1000 Growth Index. The Russell 1000 Index includes the 1,000 largest U.S. domiciled stocks based on market capitalization. Growth characteristics consist of higher historical earning and revenue increases per share as well as higher price ratios to earnings and book values.

Large Company Value Stock Index Fund – Funds invested to replicate the returns and characteristics of the Russell 1000 Value Index. The Russell 1000 Index includes the 1,000 largest U.S. domiciled stocks based on market capitalization. Value characteristics consist of lower price ratios to earnings and book values for stocks currently out of favor in the marketplace or with lower forecasted growth rates.

Small Company Stock Fund – The fund objective is capital appreciation through investment in small capitalization domestic common stocks. The fund tries to capture the returns and diversification benefits of a broad cross-section of small U.S. companies.

International Stock Fund – Funds invested in established stocks of companies based outside of the United States.

Money Market Fund – Funds invested in a diversified portfolio of high quality, short-term instruments such as U.S. government and agency obligations, commercial paper, repurchase agreements, bankers' acceptances, certificates of deposits, time deposits, and corporate bonds.

Employer Conservative Fund – Funds invested in a combination of 25% stocks and 75% fixed income investments. The fund consists of a mixture of some of the other investment options in the Plan, including the Bond Market Index Fund, the Money Market Fund, the S & P 500 Stock Index Fund, the Small Company Stock Fund, and GICs.

Employer Moderate Fund – Funds invested in a combination of 50% stocks and 50% fixed income investments. The fund consists of a mixture of some of the other investment options in the Plan, including the S & P 500 Stock Index Fund, the Bond Market Index Fund, the Money Market Fund, the Small Company Stock Fund, and GICs.

NOTES TO FINANCIAL STATEMENTS

3. Investments and Securities Lending (Continued)

Employer Aggressive Fund – Funds invested in a combination of 75% stocks and 25% fixed income investments. The fund consists of a mixture of some of the other investment options in the Plan, including the S & P 500 Stock Index Fund the Bond Market Index Fund, the Small Company Stock Fund, and GICs.

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 or unregistered investments for which securities are held by the bank's 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 broker or dealer but not in the System's name.

Neb. Rev. Stat. Section 72-1247, R.S.Supp. 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 of 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 amount the borrowers owe NPERS. 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.

Short-term investments are invested in State Street Global Advisors Short Term Investment Fund, which is a money market fund. Mutual funds are not categorized securities and are not required to be categorized for GASB Statement Number 3.

NOTES TO FINANCIAL STATEMENTS

3. Investments and Securities Lending (Concluded)

State and County Employees Retirement Plans have several contracts with insurance companies. The accounts are credited with interest earnings and charges for plan withdrawals and expenses as stated in the contract. The contracts are included in the financial statements at December 31, 2000 at contract value as reported to the Nebraska Investment Council by the investment fund manager. Contract value represents contributions made under the contract, plus earnings, less withdrawals, and expenses. The December 31, 2000, balance was $207,652,113 for the State Employees Retirement Plan and $48,542,868 for the County Employees Retirement Plan. Activity is recorded in the Stable Fund and the Employer Funds. Guaranteed investment contracts are not required to be categorized per GASB 3.

The S & P 500 Stock Index Fund, International Stock Fund, Money Market Fund, Bond Market Index Fund, Large Company Growth Stock Index Fund, Large Company Value Stock Index Fund, and Small Company Stock Fund are investments held in external pools. The International Stock Fund is registered with the Security Exchange Commission (SEC). The other external pools are bank-registered funds regulated by bank examiners. The fair value of their position in the pool is the same as the value of the pool shares.

The following is a summary of the type of investments at carrying value at December 31, 2000:

Not Categorized

Investments held in external pools	$ 663,839,945
Guaranteed Investment Contracts	201,739,819
Synthetic Investment Contracts	53,149,455
Investments held by broker-dealers Under Securities Loan with Cash Collateral	
Synthetic Investment Contracts	1,305,707
Securities Lending Short-Term Collateral Investment Pool	1,335,707
TOTAL	$ 921,370,633

	State	County	Total
Investments, at fair value	$538,035,986	$125,803,959	$663,839,945
Guaranteed Investment Contracts	207,652,113	48,542,868	256,194,981
Invested Securities Lending Collateral	1,084,062	251,645	1,335,707
Total Investments	$746,772,161	$174,598,472	$921,370,633

NOTES TO FINANCIAL STATEMENTS

4. Employer Contributions

Employer contributions are reported net of forfeitures. Forfeitures result when a member terminates prior to vesting in the employer contribution portion of his or her account. In accordance with Neb. Rev. Stat. Sections 23-2319.01(1), R.S.Supp. 2000, and 84-1321.01(1), R.S.Supp. 2000, forfeitures are first used to pay administrative expenses of the Board. The remaining balance can then be used to reduce State and County employer contributions respectively. The balance of the forfeiture accounts at December 31, 2000 was $809,125 for the State Plan and $395,560 for the County Plan.

5. Concentrations

The State and County Retirement Plans held Guaranteed Investment Contracts (GICs) with insurance companies that represent five percent or more of the plan net assets. At December 31, 2000, the following company held five percent or more of the State Employees Retirement Plan's Net Assets:

Ameritas Life Insurance Company	6.67%

At December 31, 2000, the following company held five percent or more of the County Employees Retirement Plan's Net Assets:

Ameritas Life Insurance Company	6.60%

6. Contingencies and Commitments

Obligations Under Other Financing Arrangements. The State of Nebraska, through the Department of Administrative Services (DAS) – Accounting Division, has a Master Lease Agreement to be used by various agencies to purchase equipment. In December 2000, the Board used this financing arrangement to finance the acquisition and installation of certain information technology equipment. The Master Lease Agreement was for $1,597,620, including interest costs of $262,620.

A summary of the future minimum contractual obligations, including interest at a rate of 5.239% as of December 31, 2000, is as follows:

Year	Principal	Interest	Total
2001	$162,851	$65,380	$228,231
2002	171,591	56,640	228,231
2003	180,800	47,431	228,231
2004	190,504	37,727	228,231
2005	200,728	27,503	228,231
Thereafter	415,335	22,108	437,443

NOTES TO FINANCIAL STATEMENTS

6. Contingencies and Commitments (Concluded)

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

7. Compensated Absences

All permanent employees working for NPERS 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.

NPERS 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. In general, there is no maximum limit on the accumulation of sick days for employees under a labor contract. 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. Employees under labor contracts can be paid a maximum of 50 days.

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

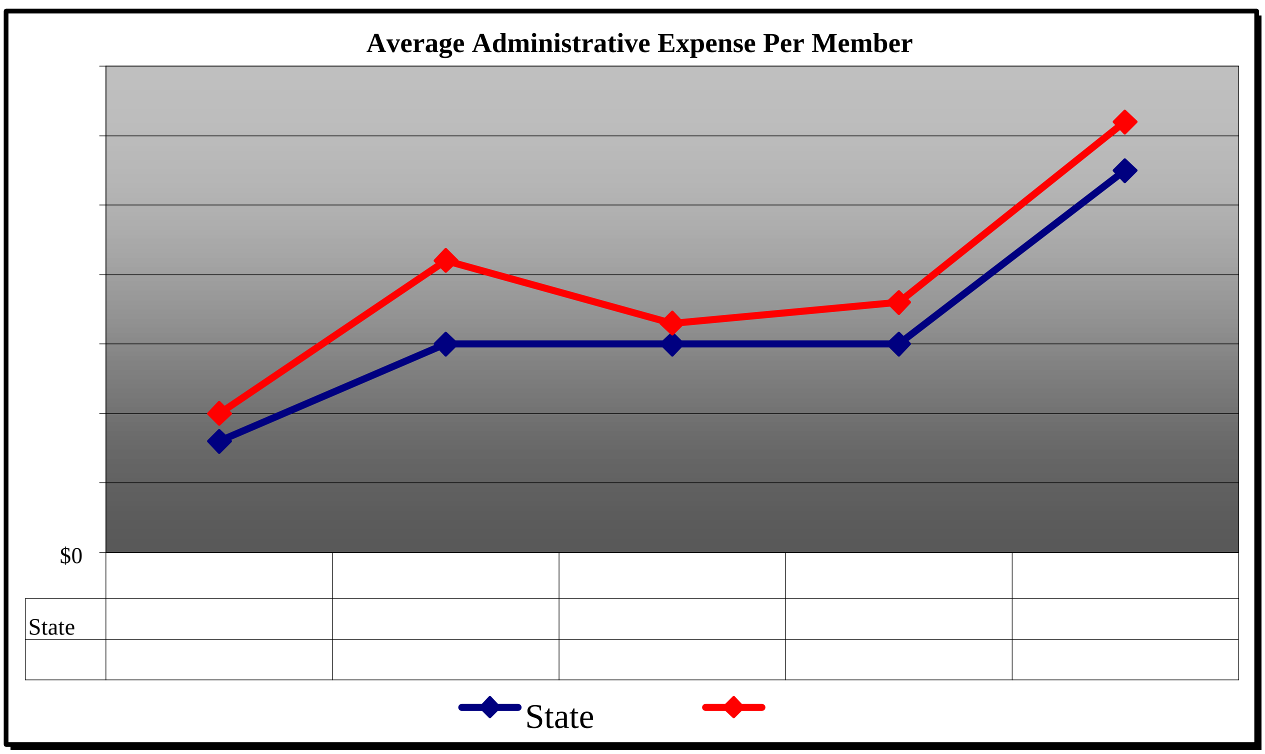
The liability for the vested portion of compensated absences for each plan at December 31, 2000, is as follows:

	State Employees	County Employees
Annual Leave	$ 13,032	$ 9,231
Sick Leave	5,665	4,012
Compensatory Leave	873	619
	$ 19,570	$ 13,862

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS

	1996	1997	1998	1999	2000
STATE					
Members:					
Active	12,982	13,165	13,025	12,840	12,861
Inactive	1,882	1,570	1,438	1,656	1,828
Total Members	14,864	14,735	14,463	14,496	14,689
Administrative Expenses: (1)					
PERS	$ 151,932	$ 287,779	$ 249,879	$ 263,287	$ 523,675
Total Expenses (3)	$ 232,554	$ 448,702	$ 435,124	$ 440,278	$ 804,471
Average Administrative Expense Per Member (2)	$ 16	$ 30	$ 30	$ 30	$ 55
COUNTY					
Members:					
Active	6,036	6,038	6,071	5,840	5,921
Inactive	994	864	810	877	951
Total Members	7,030	6,902	6,881	6,717	6,872
Administrative Expenses: (1)					
PERS	$ 78,211	$ 160,842	$ 137,693	$ 158,164	$ 292,074
Total Expenses (3)	$ 139,640	$ 290,474	$ 224,447	$ 241,613	$ 425,022
Average Administrative Expense Per Member (2)	$ 20	$ 42	$ 33	$ 36	$ 62

(1) Administrative Expenses are on a Cash Basis.
(2) Calculated: Total Administrative Expenses/Total Members=Avg. Admin. Expense
(3) Total Administrative Expenses includes PERS expenses and record keeper fees charged to plan members.



STATE OF NEBRASKA
Auditor of Public Accounts

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

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES 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 - State and County Employees Retirement Plans as of and for the year ended December 31, 2000, and have issued our report thereon dated May 14, 2001. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans. 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 - State and County Employees Retirement Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 certain immaterial instances of noncompliance that we have reported to management of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans in the Comments Section of this report as Comment Number 1 (County Plan Membership Eligibility) and Comment Number 2 (Monitoring Retirement Contributions).

Internal Control Over Financial Reporting

Systems State and County Employees Retirement Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the rol over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its

coming to our attention relating to significant deficiencies in the design or operation of the

Public Employees Retirement Systems - o record, process, summarize and report financial data consistent with the assertions of management

report as Comment Number 1 (County Plan Membership Eligibility), Comment Number 2

Audit Findings), and Comment Number 4 (Incorrect Information in OMNI).

A material weakness is a condition in which the design or operation of one or more of the internal

amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period 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, ingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider none of the reportable conditions described above to ternal control over financial reporting that we have reported to management of the Nebraska Public Employees Retirement - State and County Employees Retirement Plans in the Comments Section of the report itures) and Comment Number 6 (Benefit Payment Procedures).

This report is intended for the information of management and state regulatory agencies.

Pat Reding, CPA

May 14, 2001 Manager