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

JANUARY 1, 2001 THROUGH DECEMBER 31, 2001

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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.
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:** Seven of ten counties tested did not monitor part-time employees to ensure mandatory enrollment requirements were being met. Eleven of eighty-one employees tested were not properly contributing to the Plan. Two of thirty members tested began participation in the Plan before all eligibility requirements were met.

2. **Inadequate Resolution of Prior Audit Findings:** Four calendar year 1999 prior audit findings and three calendar year 2000 prior audit findings for the State Plan were not adequately resolved. One calendar year 2000 prior audit finding for the County Plan was not adequately resolved.

3. **Monitoring of Retirement Contributions:** NPERS did not have adequate procedures to ensure all required contributions were properly remitted or were remitted timely. Three employees missed required contributions and did not properly remit the additional contribution or did not remit the additional contribution timely. Two of four members tested did not have a retirement deduction on their final gross pay.

4. **Unreasonable Travel Expenses:** Nine Board or staff members were provided lodging while less than 60 miles from the headquarter city. The State and counties would benefit through an offset of the required employer contribution if NPERS held their annual retreat in a more economical location such as Lincoln or Omaha. NPERS also overpaid a vendor for their annual retreat in the amount of $1,188.

5. **Incorrect Dates:** Two of forty State plan members tested had incorrect plan entry dates, and one of forty members tested had an incorrect alternate vesting date in the OMNI System. Nine of forty County plan members tested had incorrect plan entry dates, and one of nine members tested had an incorrect alternate vesting date in the OMNI System.

6. **Expense Allocation Method:** Effective July 1, 2001, NPERS allocated expenses based on staff estimates of time worked on each plan administered by the Board. There was no comparison of actual time worked on each plan to the estimates. Therefore, there was no verifiable evidence that the estimated time worked was consistent with the actual time worked on each plan. We also noted two documents in which the allocation method was not consistently applied.
7. **Receipt of Non-Contributing Member Forms:** Five of thirty-nine County members tested did not have Non-Contributing Member forms received timely and two of thirty-nine County members tested did not have Non-Contributing Member forms on file with NPERS.

8. **Enrollment Forms Not on File:** NPERS’ written procedures require an enrollment form before benefits are paid. NPERS indicated they did not require enrollment forms for calendar year 2001. Three of thirty-eight members tested did not have enrollment forms on file. There was no documentation to indicate whether NPERS had verified the member was eligible for Plan participation.

9. **State Plan Policy Manual:** NPERS is required by statute to provide education regarding the retirement plans to the State agencies. An integral part of the education process is the Nebraska State Retirement System Manual for State Agencies. This manual has not been updated since January 1997.

10. **Policy for Starting Contributions When the Plan Entry Date is in the Middle of the Pay Period:** NPERS’ policy was not clear regarding whether contributions should begin in the pay period that included the effective date of enrollment, or the first full pay period following the effective date of enrollment. State agencies and counties were not consistent when initiating deductions for employees whose effective date fell in the middle of a pay period.

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.

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., 2001 stated, 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.”

Attorney General Opinion Number 01021, issued May 16, 2001, stated, in part, “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 of the Internal Revenue Code.”

Neb. Rev. Stat. Section 23-2306(1) R.S.Supp., 2001 stated, “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 23-2301(6) R.S.Supp., 2001 stated, “Employees means all persons or officers who are employed by a county of the State of Nebraska on a permanent basis. . . ”

Neb. Rev. Stat. Section 23-2301(8) R.S.Supp., 2001 stated, “Full-time employee means an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period.”

Neb. Rev. Stat. Section 23-2301(13) R.S.Supp., 2001 stated, “Part-time employee means an employee who is employed to work less than one-half of the regularly scheduled hours during each pay period.”

In addition to these statutory requirements, good internal control also requires procedures to ensure all eligible employees participate in the County Employees Retirement Plan as required by Statute.
1. **County Plan Membership Eligibility** (Continued)

We noted the following related to County employee membership requirements:

1) We tested ten counties to determine compliance with Plan eligibility requirements, including determining whether all eligible employees were contributing to the Plan. We noted the following:

- Seven of the ten counties tested did not adequately monitor their part-time employees to ensure mandatory enrollment requirements were being met.

- Nine of fifty-one employees tested were not properly contributing to the Plan as required by statute. The nine employees were in five of the ten counties tested.

In the prior audit report, NPERS indicated they had reviewed 62% of the 91 counties in 2000 and “were pleased to conclude that there were no membership omissions in this sampling.” Our response to NPERS in the prior audit report included a reference to the American Institute of Certified Public Accountants (AICPA) Professional Standards defining audit sampling. We felt the review performed by NPERS was ineffective since not all counties remitted payroll information to NPERS, and therefore, did not have an opportunity to be selected.

Four of the ten counties tested were reviewed by NPERS in calendar year 2000. We noted three of twenty-one employees tested in two counties were not properly contributing to the plan.

- One employee began participation after the audit period, but the County had considered her a temporary employee for over six years. Temporary employees are not allowed to participate in the County Plan. However, the County policy defined temporary employees as those hired to complete a specific assignment or for a specific amount of time not to exceed six months. It appeared the employee should have begun Plan participation sooner.

- Two employees were classified as part-time employees by their counties. However, both employees worked over 1,300 hours during calendar year 2001 and did not enter the Plan when required by statute.

We also tested six counties that were not included in NPERS’ 2000 review. We noted six of thirty employees tested in three counties were not properly contributing to the plan.

- Two employees were classified as “reserve” employees and did not participate in the Plan. They worked over 1,400 hours during calendar year 2001. Therefore, they did not begin plan participation as required by statute.
COMMENTS AND RECOMMENDATIONS

1. **County Plan Membership Eligibility** (Continued)

- Another employee was a member of the County Plan at the start of the year, but was classified as a “reserve” employee for the same county later during the year. The member stopped contributing to the Plan in September 2001. The County completed a Non-Contributing Member form to indicate the employee no longer worked for the county. However, his employment with the county continued and he worked over 1,500 hours during calendar year 2001.

- One employee was considered a temporary employee since November 1999. Only permanent employees are allowed to participate in the County Plan, per both section 23-2301(6) and the Nebraska County Retirement System Manual for County Clerks. The County policy defined temporary employees as those employees who are hired with the intent that the County’s need for their continuous employment will not exceed one year. It appeared the employee should have been participating in the Plan as required by statute.

- One employee had been a part-time employee for the county since the late 1970’s. He went to full-time status in August 1998. He was on call for 2,400 hours during calendar year 2001. He had not contributed to the Plan as required by statute.

- Another employee was on call for close to 2,500 hours during calendar year 2001, but was not properly contributing to the Plan as required by statute. This employee terminated after the audit period.

2) Two of thirty members tested separately did not begin plan participation as required by statute. Both employees missed contributions for approximately one year because the counties considered the employees to be part-time. The employees worked over one-half of the regularly scheduled hours.

3) NPERS did not have adequate procedures to ensure only eligible members had joined the Plan. Two of thirty employees tested began participation in the Plan before they met the eligibility requirements. Both employees began participation one month prior to becoming eligible. We also noted this comment in the prior audit report.

As indicated by the results of testing, without adequate procedures to ensure all eligible employees participate in the County Employees Retirement Plan as required by statute, the risk that employees are not participating in the Plan increases significantly.

We continue to recommend NPERS implement procedures to ensure county employees participate in the County Employees Retirement Plan as required by statute.
1. **County Plan Membership Eligibility** (Continued)

NPERS’ Response: The audit of county payrolls resulted in questions as to whether counties are properly classifying the “status” of their employees. Since each county may have their own individual policy and definition regarding employees that should be included in the various employment categories, it is difficult for our office to make these determinations. Our Employer Manual clearly states that “employees who work one half or more of the regularly scheduled work hours during each pay period” must enroll in the County Employees’ Retirement System. The Manual also states that “temporary employees are not permitted to join the County Retirement System.”

Five of the nine employees included in this audit exception were categorized by County administrators as “temporary” since no commitment had been made by either side regarding hours, and the employee often was not receiving any other benefits. Their hours usually were difficult to predict as well as their length of employment, and in most situations their employment was anticipated to be short term. Therefore, they would never reach a vested status in the Plan, and would not qualify for matching employer contributions.

Following discussions with the county regarding the first exception noted with over six years of employment, in hindsight a status of part-time rather than temporary may have been more accurate as she was working very few hours and it was uncertain how long her assistance would be required. Hours worked during each of the six years questioned were 321, 102, 224, 513, 737 and 268, and it is obvious that participation was not mandatory. This individual began working more hours and became a permanent part-time employee in 01-2001. She entered the Plan one year later, and we do not feel any adjustments are required for this member's account. The additional findings that were questionable temporary employees have fewer years of service and will be reviewed to determine if they are still working and if adjustments are required.

The remaining four exceptions had part-time statuses and include two employees that have terminated employment with less than five years of service, and therefore no further review is warranted. One employee worked a short time in a part-time status and was later rehired in the same part-time position that was increased to full time five months later. This member appears to have entered the Plan at the appropriate date as his work experience prior to full time was at less than half-time hours.

We will continue to remind the County administrators that they must monitor the hours and employment time for both part-time and temporary employees to make certain they are within their appropriate categories. Make-up agreements are always executed if it is determined that members should have entered the Plan at an earlier date.
1. County Plan Membership Eligibility (Concluded)

NPERS’ Response, Concluded:
As a final comment on this point, NPERS’s position is that it is the responsibility of the county to make certain that all eligible employees are enrolled in the Plan. Our agency administers the Retirement Plan and assumes responsibility for educating the counties on the specific requirements of the statutes and assists 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 and appropriate adjustments can be made at that time.

Auditors’ Response: As mentioned previously, Attorney General Opinion Number 01021, issued May 16, 2001, stated, in part, “Administration of the retirement systems necessarily involves determining membership eligibility issues . . . 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 of the Internal Revenue Code.”

2. Inadequate Resolution of Prior Audit Findings

Good internal control requires the timely and thorough resolution of prior 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 four findings from the calendar year 1999 audit and three findings from the calendar year 2000 audit of the State Plan that were not adequately resolved during the current audit:

Calendar year 1999 audit findings

- One employee was required to join the plan on October 1, 1998. However, the initial contribution was not made until June 30, 2000. The employee had not made up the missed required contribution in excess of $2,000.
- One employee was required to join the plan as of June 1, 1999. However, the initial contribution was not made until April 30, 2000. The amount of additional contributions calculated by the auditors did not agree to the amount of additional contributions calculated by the employer. The difference was $268.
- One employee did not make up missed contributions. The employee terminated employment in March 2001 and was not vested in the Plan at termination. Since the amount of missed employer contributions was not properly remitted, the required employer share was not actually forfeited in accordance with statutes. Forfeitures are first used to pay for the administrative expenses of NPERS for the State and County Plans and then are used to offset the employer (State) contribution. The member missed $506 in employee contributions. Therefore, the employer share was $789.
2. **Inadequate Resolution of Prior Audit Findings** (Continued)

- One employee did not completely make up missed contributions. The employee terminated employment in May 2001 prior to making all required contributions to the Plan. This employee also was not vested in the Plan at termination. Again, since the amount of missed employer contributions was not properly remitted, the required employer share was not actually forfeited in accordance with statutes. The member missed $95 in employee contributions. Therefore, the employer share was $148.

**Calendar year 2000 audit findings**

- One employee was required to begin plan participation on February 1, 2000. The plan entry date in the OMNI system was February 1, 1999 and had not been corrected. The initial contribution was not made until March 2000. There was no documentation at NPERS that the employee had made up the missed contributions of $141.
- One employee was required to join the Plan as of June 1, 2000. However, the initial contribution was not made until December 2000. The amount of additional contributions calculated by the auditors did not agree to the amount of additional contributions calculated by the employer. The difference was $66. NPERS did not follow up on the discrepancy.
- One employee’s alternate vesting date in the OMNI System was incorrect. The alternate vesting date determined whether employees receive the employer share of contributions at termination. The alternate vesting date for the member should have been May 1, 2000. However the OMNI System still had April 1, 2000.

We noted a calendar year 2000 audit finding for the County Plan that was not adequately resolved during the current audit:

- A member contributed to the Plan one month early since temporary service did not count toward the 12-month service requirement in statute. The employee terminated employment and was not vested in the Plan. NPERS was notified that the contribution needed to be returned to the employee and county. However, NPERS did not adjust the excess contribution and the excess County share was forfeited.

We noted a similar comment in the previous two audit reports. In the prior audit response NPERS indicated that due to the reorganization of the agency during 2000, several changes in staff were made, and followup was not completed on some of the required makeup contributions. NPERS also indicated they were now in a better position to monitor exceptions in a more timely manner, and will take appropriate action to resolve any current audit findings.

We continue to recommend NPERS implement procedures to ensure prior audit exceptions are adequately followed up and resolved.
2. Inadequate Resolution of Prior Audit Findings (Concluded)

NPERS’ Response: The prior year audit findings cited in this section relate to Make-up Contributions. In most cases, state agencies had been notified regarding the deficiencies, but we have not been able to receive the appropriate action. In the first exception cited, the agency involved had personnel problems, and we could not reach resolution on the make-up situation after repeated attempts. The employee responsible for these payroll issues has been terminated and the agency has uncovered this pending item, as well as others, and is now assisting us in resolving the issue. Agency personnel also express problems they encounter dealing with members as they are often not in agreement with the make-up, or feel it is a financial hardship to absorb the additional deduction from their paycheck.

The other three employee make-up deficiencies involve $268, $141 and $66, and, even though the amounts are small, we will once again review these and notify the agencies if action is required. We continue our position that in some cases the cost of the time spent in follow-up by all parties involved is much more than the dollar amount of the adjustment and therefore the amount of the adjustment should be considered before we pursue the deficiency.

The Vesting Date that is in error by one month will be corrected. You also included a finding from the 2000 audit that involved a one month discrepancy and was not included in our Exit Agenda, and therefore we are uncertain as to the specific exception information. Our response to the 2000 audit included a comment that since the contribution for one month was an insignificant amount and was for a prior year, the county had requested that no adjustment be required, and our office did not feel it was necessary. That may have been the reason for lack of follow up on that item. The remaining two findings relate to remittance of employer contributions in make-up situations, and will be addressed in Comment 3.

During the audit, we attempted to convey to the auditors that 2001 was truly an intense year as our staff was devoting an extraordinary amount of time to our Technology Project, sometimes requiring 50-75% of our time. Taking that information into account, as well as the size and significance of the discrepancies, we feel our staff has done a good job at maintaining the quality of our administration.

3. Monitoring of Retirement Contributions

Good internal control requires procedures to ensure all required contributions are properly remitted and are remitted timely.

NPERS Rules and Regulations Title 303 NAC 18-002.08 states, “Insufficient contribution means an employee contribution or employer contribution, or both, which is (a) less than the statutorily mandated deduction from compensation, (b) less than the statutorily mandated matching contribution required of
3. Monitoring of Retirement Contributions (Continued)

an employer, (c) not timely remitted, (d) not remitted due to administrative errors on the part of the employer, (e) not remitted due to the failure of the employer to enroll the employee in the retirement system when such employee was required to be enrolled, or (f) due to a retroactive salary payment paid pursuant to court order, arbitration, or litigation and grievance settlements.”

NPERS Rules and Regulations Title 303 NAC 18-004.01(i) states, “If NPERS determines that a retirement system has received insufficient contributions from an active member or employer, or both, NPERS shall require the member and/or the employer to remit additional contributions.”

We noted the following:

- NPERS did not have adequate procedures in either the State or County Plan to ensure all required and all insufficient contributions were properly remitted or remitted timely. This was noted in the prior audit report.
- NPERS also did not have adequate procedures to ensure the amount of missed contributions were calculated correctly by the counties or State agencies since NPERS did not verify the missed contributions to the member’s salary for the missed period. This was also noted in the prior audit report.

State Plan

- Two of four terminated members tested did not properly remit the required contribution from their final pay. Both members were vested in the Plan upon termination and did not receive the required State matching contribution of 156% of their employee contribution since their agencies failed to remit the required contributions. The members did not receive $65 and $252, respectively, for the employer share.
- One of forty members tested was required to participate in the Plan effective May 1, 2001. NPERS first contacted the agency in June 2001 regarding the missed required contribution. The initial contribution was remitted in August 2001. A Make Up Agreement was not on file at NPERS until requested by the auditor in June 2002. The agency began remitting the missed contributions in March 2002, which was not timely.
- One of fifteen members tested was required to participate in the Plan effective October 1, 2001. NPERS contacted the agency in November 2001 regarding the missed required contribution. The initial contribution was remitted in December 2001. A Make Up Agreement was not on file at NPERS until requested by the auditor in June 2002. The agency initiated the deduction of missed contributions effective June 2002, which was not timely.
3. Monitoring of Retirement Contributions (Continued)

County Plan

- One of thirty members tested was required to participate in the Plan effective July 1, 2001. The initial contribution was remitted in August 2001. NPERS did not have procedures to determine if required contributions were missed in the County Plan. Therefore, the county had not been contacted regarding the missed required contribution and the missed contribution had not been remitted.
- One of ten counties tested did not remit required contributions timely. The contributions did not post to the OMNI system for 41 days after the check date on the report. The members lose interest when contributions are not posted to their accounts timely. The total contributions were $1,470.

Without adequate procedures to ensure required contributions are properly remitted and remitted timely, the risk increases that members vested in the Plans will not receive all possible benefits, and that the Plans will not receive all possible forfeiture amounts for members who are not vested at termination. The risk for errors in the determination of the missed required contribution amounts increases without procedures to verify the employee’s salary for the period of missed required contributions.

We continue to recommend NPERS improve its procedures to ensure all required and all insufficient contributions are remitted and remitted timely. We also recommend NPERS verify the member’s salary for the time period a member has missed contributions to ensure the calculation of the missed contribution is accurate. Finally, we recommend NPERS ensure interest is posted to the members’ accounts for the county with the late contribution, in accordance with NPERS Rules and Regulations.

NPERS’ Response: NPERS runs a NEIS payroll report after all payroll processing has been completed for each month with defined selection criteria that should identify those employees who have met eligibility requirements for the State Plan, and have not yet begun deductions. This allows us to monitor the State Plan for eligibility, but clearly, review of the report, necessary follow-up with agencies, and final determinations and notification cannot be completed until two – three months following their eligibility date. We must then depend on the agency personnel to take the steps necessary toward discussion of repayment options and completion of the Make-up Agreement with the member, and beginning the make-up contribution deductions. We will continue to monitor the process at a high level, but must state that a three–six month time frame is not unusual.

Regarding insufficient Employer Make-up Contributions that were addressed in this comment as well as Comment 2, we ask that the auditors review NPERS Rules and Regulations Title 303,
3. **Monitoring of Retirement Contributions** (Concluded)

NPERS’ Response, Concluded:

*Chapter 18-004.01(v).* This rule states that “Any additional employer contribution which is dependent upon an additional employee contribution shall be made in conjunction with the employee contribution.” Therefore, matching employer contributions cannot be requested if the employee share has not been remitted. If a vested member terminated employment prior to completion of a make-up agreement, we would not want to provide Employer “Matching” Contributions for their account if no employee contributions were remitted.

*Finally, one county was found to be more than one month late in remitting contributions due to problems at the county with staffing as well as computer systems. The contribution file had been submitted to the recordkeeper, but the county was unaware it had not been received until they were notified at the end of the month. NPERS will try to monitor these on a monthly basis, but it is very difficult when counties are on varying payroll cycles.*

4. **Unreasonable Travel Expenses**

The employer share of members’ accounts is forfeited when a member is not vested in the Plan. Prior to April 18, 2002, vesting was attained after a total of five years of (a) participation in the system plus (b) eligibility and vesting credit. Forfeitures are first used to pay for the administrative expenses of the State and County Employees Retirement Plans. The remainder of the forfeited amount shall be used to reduce the employer (State or County) contribution. In other words, the State and counties benefit when administrative expenses of NPERS are lower.

The following travel expenses of the Board were unreasonable. If more economical decisions were made regarding travel expenses, the State and counties would have more funds available to offset required employer contributions.

**Unreasonable Lodging Expenses**

Nebraska Department of Administrative Services (DAS) specifies in the Nebraska Accounting System (NAS) Manual, Section number CONC-005 – Travel Expense Policies “that a person must be more than 60 miles from his or her workplace in order to be eligible for lodging.”

Good internal control requires procedures to ensure lodging expenses are reasonable and economical.

The Board held a retreat in Nebraska City August 19 – 20, 2001. This location was less than 60 miles for 9 of the 11 Board members or NPERS employees who attended. Six participants were from Lincoln, two participants were from Omaha, and one participant was from Papillion. These nine individuals stayed overnight in Nebraska City at a total lodging cost of $585. One of these nine participants stayed overnight and did not attend the second day of the retreat. NPERS did not provide any cost-benefit analysis to document the economic factors considered when making the decision to hold the retreat in Nebraska City.
4. **Unreasonable Travel Expenses** (Continued)

Without adequate procedures to ensure travel expenses are reasonable and in accordance with DAS policies, the risk that plan assets are used to pay for unreasonable expenses increases. As a result, the amount available to the State and counties to offset employer contributions decreases.

We also noted the Board has scheduled its annual retreat for August 2002, in Nebraska City, after this finding was brought to their attention.

We recommend NPERS consider holding its annual retreat in a more economical location such as Lincoln or Omaha to reduce the cost of lodging. With the reduction in travel costs, the State and counties would have more funds available to offset employer contributions.

**Overpayment of Lodging Expense**

Good internal control requires adequate procedures to ensure payments for expenses are accurate. NPERS performed its own pre-audit function during the year. DAS specified in the NAS Manual, Section PREA-002, that an agency with pre-audit authorization is entrusted with the responsibility to ensure payments made are “for goods or services provided to a State agency . . . to ensure the disbursement of cash . . . had actually occurred within the guidelines of laws, regulations and standards, and to ensure the agency has correctly followed the procedure steps for payment to a vendor, NAS Manual, section PROC-035.”

NPERS overpaid the Lied Conference Center in Nebraska City for the same Board retreat noted above, in the amount of $1,188. The Board was given a contract rate for lodging per person. However, the Lied Conference Center also billed NPERS for each individual attending the retreat in addition to the contract amount. The disbursement document was stamped with “Agency Pre-Audit” to indicate it had been subjected to NPERS’ pre-audit procedures.

Without proper pre-audit procedures to review expenses for payment, the risk of an incorrect payment increases.

We recommend NPERS review their pre-audit procedures to ensure they are being performed in accordance with the guidelines in the NAS Manual and make any necessary improvements to ensure correct disbursements are made. We further recommend NPERS request reimbursement for the overpayment.
4. **Unreasonable Travel Expenses** (Continued)

Other Unreasonable Expenses

We also noted one Board member with unreasonable travel expense reimbursements:

- One Board member left for the August 19th retreat on August 17th and was reimbursed for August 17th and 18th meal expenses. It is reasonable that a member traveling from western Nebraska would be reimbursed one day of travel prior to the retreat. However, the member was reimbursed for two meals totaling $33 on August 17th and two meals totaling $44 on August 18th. In addition to the unreasonable reimbursement of meals for one of the days, the reimbursements on both days exceeded the IRS guideline for meals in Nebraska, $30.

- The Board member was also reimbursed for two alcoholic beverages as part of one meal on August 17th. The reimbursement of alcoholic beverages is strictly prohibited by DAS policy.

This document was also subject to NPERS’ pre-audit.

Without an adequate review of expense reimbursement requests by NPERS’ pre-audit, there is an increased risk that unreasonable payments will be made that are not in accordance with DAS policies.

We recommend NPERS review its procedures to ensure expenses claimed are reasonable and necessary and are allowable per DAS policy.

NPERS’ Response: This comment begins with the point that a retreat discussed and approved by our Board was unreasonable. Members of the Public Employees Retirement Board (PERB) are appointed by the Governor and volunteer their time in service to our agency. In order to assist them in making the crucial decisions that they encounter with their Board responsibilities, we make every attempt to provide training and information regarding our Plans and the NPERS organization. The retreat is our way of providing this training to the Board members as well as giving them the time for interaction that is so critical to efficient and effective functioning as a Board. Board members find the retreat to be an extremely valuable experience, and so much more is accomplished than in a one day meeting. Therefore, the retreat was again approved by the Board for the 2002 year.

The fact that the retreat begins on a weekend (Sunday) made it extremely difficult to “pool” members involved into one vehicle, as the auditors are recommending. Since it did interfere with personal schedules, attendees needed their own transportation to meet varying time
4. **Unreasonable Travel Expenses** (Concluded)

*NPERS’ Response, Concluded:*

commitments. We also feel the room cost, with the meal subsidy, was very reasonable, and in most cases lower than in Lincoln or Omaha. It is unfortunate that due to complications and misunderstandings in the billing method, the initial invoice for the 2001 retreat was overpaid.

The additional finding regarding reimbursements for meals amounting to $33 and alcoholic beverages are isolated instances as we feel agency reimbursements for expenses are thoroughly monitored and reviewed.

*Auditors’ Response:* We agree with the need to train and educate NPERS Board members. However, as noted in the comment, we recommend the NPERS find a more economical location for the retreat, such as Lincoln or Omaha. These locations would be more efficient since lodging, personal vehicle mileage, and meal costs would be significantly lower.

5. **Incorrect Dates**

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

The plan entry and alternate vesting dates recorded in OMNI are critical to determine whether a member is vested in a plan. When a member is vested, there is an entitlement to the employer share of contributions to the account. If a member is not vested, the employer share of contributions to the account is forfeited to the State or County Plan.

**State Plan**

We noted 2 of 40 members tested had incorrect plan entry dates in OMNI. The dates were different by one and two months. We also noted one member with an incorrect alternate vesting date. The difference was three months.

A similar comment was noted in the previous two audit reports. Inaccurate information in OMNI increases the risk that a benefit payment will be incorrectly processed.

**County Plan**

NPERS instructed the record keeper to have OMNI default the plan entry date to the first of the month in which OMNI records the member’s first contribution. NPERS indicated this was done to correct a previous audit finding relating to voluntary participants’ plan entry dates. However, it appears the default date has caused more plan entry dates to be inaccurate.

Nine of forty members tested had incorrect plan entry dates in OMNI, ranging from three days to over one year. We also noted one of nine members had an incorrect alternate vesting date. The difference was 5 years.
5. **Incorrect Dates** (Concluded)

A similar comment was noted in the prior audit report. Again, inaccurate information in OMNI increases the risk that a benefit payment will be incorrectly processed.

We continue to recommend NPERS implement procedures to ensure the accuracy of the retirement data entered into the OMNI system to ensure benefit payments are correctly processed.

*NPERS’ Response:*. As discussed in your comment, NPERS developed a process of automating the entry date function based on prior year audit comments which stated that entry dates were occasionally in advance of the date deductions were initiated and contributions were actually received by the recordkeeper. In a number of cases this process has resulted in deductions taken from one month’s payroll being received and processed by the system the following month with an entry date of the following month. This one month difference would only have a negative impact to a member if termination occurred within one month of their five-year anniversary of participation, and it was concluded that the member was non-vested.

The audit findings include seven discrepancies of one month or less, and two differences of two and three months. The remaining two county discrepancies noted of longer duration were not due to the above situation, but due to eligibility interpretations, and were already included and addressed under Comment 1.

As stated above, the risk that the one month difference would negatively impact a member would occur only at distribution time. At termination, vesting is initially reviewed before distribution paperwork is forwarded to the member. All distribution requests are again verified, and vesting checked, by NPERS prior to their release to Ameritas for processing of the payment. Vesting is also checked at Ameritas by comparing 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. 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 one month discrepancies in the entry dates has caused an adverse impact to plan administration, and we have not discovered errors in vesting calculations upon distributions. With the automation of the system under our Technology Project, we will continue to use system-generated dates and also monitor any distribution with termination dates that are within three month of vesting.

*Auditors’ Response:*. The process described by NPERS related to Ameritas’ procedures for verifying vesting dates was not included in Ameritas’ Report on Service Organizations. NPERS also did not perform any work at Ameritas to verify whether the procedure they described was in place and operating effectively. In order to rely on procedures in place at the record keeper, the procedures should be included in the Report on Service Organizations, or NPERS should perform procedures at the record keeper to determine whether the procedures are in place and operating effectively.
6. **Expense Allocation Method**

Neb. Rev. Stat. Section 84-1503(1)(c) R.S.Supp., 2001 required NPERS “to provide for an equitable allocation of expenses among the retirement systems administered by the board.”

Sound accounting practice requires an equitable method to allocate expenses of the NPERS to each retirement plan it administers. Good internal control also requires consistent application of the allocation method.

NPERS changed its allocation method effective July 1, 2001. The new allocation method was based on NPERS employees’ estimates of time spent on each retirement plan. These estimates were reviewed and approved by each NPERS employee’s manager. The percentages were reviewed quarterly and adjusted, if needed. There was no comparison of actual time worked on each plan to the estimate. Therefore, no verifiable evidence existed to indicate the estimates used were consistent with the actual amount of time worked on each plan.

We also noted 2 of 13 documents tested in which the allocation method was not consistently applied.

- The current monthly master lease payments were allocated using the old allocation percentages of 18% to the State Plan and 8% to the County Plan. The master lease payments are a significant portion of the plans’ expenses each month.
- The cost of an Internet program used by both the State and County plan members was allocated equally to each retirement plan. However, the State plan had a membership nearly two times the membership of the County plan.

Without verifiable evidence that the estimated time worked on each plan is consistent with the actual time worked on each plan, the risk that expenses are not allocated equitably between the plans increases.

In order to be in compliance with State Statutes, we recommend NPERS compare the estimated time spent on each plan to actual time worked. We also recommend the percentages used to allocate expenses are applied consistently.

**NPERS’ Response:** Based on audit results from prior years indicating that member fees were increasing disproportionately among plans, we felt a review of our current internal cost allocation process was required. We began by reviewing payroll since it represents almost 60% of NPERS’ costs. There appeared to be volatility in the cost allocations that were currently being allocated at the employee level, and some were difficult to justify. This was due to the fact that employees were asked to carefully track their work time per plan for one week in each quarter. If they worked exclusively on one project for only one plan, all of their time would be
6. **Expense Allocation Method** (Concluded)

NPERS’ Response, Concluded:
allocated to that plan, even though normally they may spend time working on all plans. For example, our education staff may be doing seminars for the School members during the week of their tracking, and their time allocation would appear as though they only support the school plan. In reality, they spend time doing seminars for all NPERS plans. Accounting staff simply averaged these time tracking reports each quarter with other weeks reported and prepared payroll allocations exclusively from these reports, isolated from any further analysis as to whether amounts reported were truly representative. The time tracking method required a significant amount of time for both the employee and the accounting staff, and yet was producing extremely volatile and undependable results.

In response to the above concerns, new time allocation sheets were prepared for each employee. They were asked to estimate the percentage of time spent on work for each plan during the quarter, or, if appropriate, the year if that time frame is more representative, as is the case with education staff. Most employees did not find it difficult arriving at this percentage breakdown as many of them work exclusively on one to three plans only. Managers were also asked to review and sign-off on all allocations prepared by their staff. Questionable areas were subjected to a more thorough review that included estimates of calls involved and paperwork processed. The overall result from the allocations was reviewed, justified by comparing it to membership numbers, and results appeared to be very reasonable. It was decided that most agency administrative expenses would be allocated based on these payroll percentages, as it seems logical that overhead costs should match the time being spent by the employees working on the plans. The study has been a significant improvement over the previous process, and the resulting costs per plan have been justifiable, dependable and less volatile. NPERS feels the method is definitely more equitable than the previous process, and that the cost allocations are reliable.

Cost allocations for the Master Lease payments are currently being re-reviewed, as the scope of the Technology Project continues to evolve. We may make adjustments in that cost allocation.

**Auditors’ Response:** When estimates are used to allocate expenses to the various Plans, we recommend a periodic comparison of the estimate to the actual time worked. This recommendation was made to NPERS in previous audit reports and resulted in the quarterly employee time tracking mentioned by NPERS. Without a periodic comparison, the risk that expenses are not allocated equitably between the Plans increases.

7. **Receipt of Non-Contributing Member Forms**

Neb. Rev. Stat. Section 23-2301(24) R.S.Supp., 2001 stated, “The county shall notify the board within two weeks after the date such a termination is deemed to have occurred.”

The Nebraska County Retirement System Manual for County Clerks states, “If the employee terminates or retires, you have **two weeks** from the date the employee ceases employment to submit this [Non-Contributing Member] form to our office.”
7. **Receipt of Non-Contributing Member Forms** (Continued)

Good internal control requires procedures to ensure the Non-Contributing Member form is received timely. The purpose of the Non-Contributing Member form was to verify the employee had terminated employment. The receipt of the Non-Contributing Member form also initiated the benefit payment process at NPERS. When NPERS received the form, they sent the member a disbursement packet, which included information about payment options and the request for disbursement form.

Five of thirty-nine County members’ Non-Contributing Member forms tested were not received timely. Two of thirty-nine County members’ Non-Contributing Member forms tested were not on file with NPERS.

NPERS indicated they reviewed the “Participants with no Contributions” report from the record keeper on a monthly basis. A member was listed on this report in any month in which they had a retirement contribution in the previous month, but not for the current month. NPERS indicated they contacted the county for any member on the report who did not have a Non-Contributing Member form on file. However, NPERS did not review this report consistently. NPERS began the review in July 2001 and then only reviewed September and October 2001.

NPERS is unaware that an employee has terminated employment when a Non-Contributing Member form is not received. As a result, the disbursement packet is not sent to the member timely, causing the entire benefit payment process to be delayed.

We recommend NPERS implement procedures to ensure Non-Contributing Member forms are received timely. We also recommend NPERS consider requesting a legislative change to the statute in order to implement a required time period consistent with their current practice.

**NPERS’ Response:** Our agency has required additional information from agencies and counties in order to properly process distributions from accounts upon member termination. No payout occurs until NPERS receives proper notification of the termination, retirement or death from the employer. Statute currently includes a requirement that this notification is provided to NPERS within two weeks, but the time frame was intended to be a guide and a reminder to the employers that they must not delay. The entire reason for this statute was to “require” the non-contributing notice and facilitate the payment process to the member. If the employer is late in filing the form, there is no enforceable penalty that we could assess, and virtually no recourse.

If a report is not received from an employer and a request for distribution has been received from the member, we always contact the employer for confirmation prior to payout. We are very proactive about contacting employers when a member files their request for distribution; that is and should be our focus in this process, and not the date the form is received.
7. **Receipt of Non-Contributing Member Forms (Concluded)**

NPERS’ Response, Concluded:
Additionally, the new system we are designing as part of the Technology Project has the capability of receiving termination dates directly from employer payrolls through the automated employer reporting process. Therefore, this statute may not be relevant in the future. This change in functionality was also discussed with the auditors.

Auditors’ Response: As noted in the comment, two of thirty-nine County members’ Non-contributing Member forms were not on file at NPERS. There was no additional documentation to support another notification of the termination or retirement.

8. **Enrollment Forms Not on File**

Good internal control requires procedures to ensure members were eligible for participation in the Plan. NPERS’ written county disbursement procedures indicate an enrollment form is required before benefits are distributed.

NPERS indicated they did not require enrollment forms for calendar year 2001. They used the record keeper’s OMNI System to verify if a member was eligible for Plan participation. The plan entry date was automatically loaded into the OMNI System from the date of the member’s first contribution. NPERS compared the plan entry date to the date of hire before benefits were processed; however, they did not document the verification process. We discussed documentation of the verification of eligibility in the prior audit report.

Three of thirty-eight members tested in the County Plan did not have an enrollment form on file. There was no documentation to indicate NPERS had verified the members were eligible for Plan participation. This comment was also noted in the previous two audits.

Additionally, there is an increased risk that a benefit payment will be made to an ineligible member, without proper documentation of the verification.

We recommend NPERS document the verification of the member’s eligibility for Plan participation. We also recommend NPERS consider revising their written procedures to be consistent with their current practice.

NPERS’ Response: As stated in Comment 1, agencies and counties are responsible for eligibility determinations, and enrollment forms are no longer required at NPERS. Before any benefit payment is made to a terminated member, proper notification (as stated in Comment 7) is received from the employer. The fact that enrollment forms were not on file is not an exception to our current procedures as they are not longer required, and will not be required under our Technology Project system. This was clearly communicated to the audit staff, and they were
8. **Enrollment Forms Not on File** (Concluded)

NPERS’ Response, Concluded:

informed that it would be more efficient to revise written procedures after our Technology Project is completed. The only risk to the system in this defined situation would be payment of a benefit to an “ineligible” member that included an employer contribution. The member would have to be falsely classified as eligible for five years for this to occur. Also, when NPERS reviewed the member at time of termination and discovered the ineligibility, no payment of employer contributions would be made.

Auditors’ Response: The exceptions noted in this comment were for employees who terminated prior to the time NPERS changed their procedures regarding enrollment forms.

9. **State Plan Policy Manual**

Neb. Rev. Stat. Section 84-1305.01(2) R.S.Supp., 2000 states, “The director shall develop and implement an 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.” The Nebraska State Retirement System Manual for State Agencies is an essential part of the compliance with this statute. The Manual is designed to provide State agencies with guidance on completing forms, new member eligibility requirements, starting retirement contributions, laws, and administrative requirements.

NPERS had not updated the Nebraska State Retirement System Manual for State Agencies since January 1997.

The risk that agencies are unaware of new procedures and laws increases if the Manual is not updated in a timely manner.

We recommend NPERS implement procedures to ensure the Manual is updated timely in order to comply with the employer education requirements of section 84-1305.01(2).

NPERS’ Response: Limited changes have occurred in administrative procedures related to the State Plan, and we feel the manual has been reliable for most functions. Any changes to current procedures were clearly communicated to agency contact staff through memos and e-mails. Auditors were also informed that manuals would not be updated until completion of our current Technology Project as the system changes will greatly affect the procedures required of the agencies.
10. **Policy for Starting Contributions When the Plan Entry Date is in the Middle of the Pay Period**

The Nebraska State and County Retirement Systems Manuals each state, “It is your responsibility as the [employer] to ensure that contributions to the retirement plan commence within the first pay period following the effective date of enrollment.” The effective date of enrollment is the first of the month following the employee’s election to join the plan under voluntary membership, but must be no later than the first of the month following the date the employee satisfies the mandatory participation requirements.

NPERS’ policy did not state whether contributions should begin in the pay period that included the effective date of enrollment, or the first full pay period following the effective date of enrollment. We noted State agencies and counties handled the first contribution inconsistently.

We recommend NPERS develop a clear policy for beginning contributions when the participation date falls in the middle of a pay period to ensure agencies and counties handle the situation consistently.

**NPERS’ Response:** As guidance to employers on contribution start dates, our current Manual states that “contributions to the retirement plan commence within the first pay period following the effective date of enrollment.” We have encountered many differing interpretations of the above phrase, such as questions regarding the meaning of “within” and “period following.” Our goal is to make a reasonable interpretation of the statute that can easily be followed by all employers involved. Since employer reporting from state agencies and counties represents many different and often very unique payroll periods, we have also attempted to maintain a flexible policy regarding the initial period of contributions in order to accommodate the various payroll periods. We are also considering a “tolerance period”, as we do not want employers faced with insignificant make-up contributions.

Defining this start date as “the pay period that included the effective date” may result in contributions before the member is actually eligible, and yet stating that it should be “the first full pay period following the effective date” opens questions as to whether a monthly pay period beginning on the first would meet the definition of following. Rather than attempt to define to all agencies and counties exactly which bi-weekly or semi-monthly pay period contributions must begin, we have instructed them to begin contributions in the month that the member becomes eligible.

**NPERS’ Overall Response:** In conclusion, we are very pleased that no “material instances of noncompliance” or “material weaknesses in internal control” were disclosed during this very thorough audit of the State and County Plans. Considering the time commitment our staff has made to the Technology Project during the 2001 plan year, we are reassured that proper procedures are in place to protect the system, even in times of excessive workloads.
NPERS’ Overall Response, Concluded:
We also must express our concern for the amount of time that was expended by your staff, and required by our staff, to complete this audit. There does not appear to be consideration or recognition of the time and cost constraints our agency is faced with in maintaining the vast amount of data for which we are responsible. We would appreciate open communication in attempting to resolve some of these fairly inconsequential findings.

Auditors’ Response: Although no material weaknesses were reported, several reportable conditions were noted. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting. During the course of our audit, other matters may also come to our attention involving internal control or compliance. When findings are noted, additional audit hours are often needed to investigate the problems and determine any additional procedures needed. Our audits are conducted in accordance with generally accepted auditing standards and Government Auditing Standards. Audits include determining whether financial information is fairly presented in accordance with generally accepted accounting principles, whether the entity has adhered to compliance requirements, and whether the internal controls are suitably designed and implemented. State Statute requires an annual audit of the State and County Retirement Plans. We feel the time expended by our staff to complete this required audit was very reasonable considering the problems encountered, the amount of dollars involved, and the fiduciary nature of the Plans. We are aware of the time and effort expended by your staff in the completion of the audit, and appreciate your cooperation and assistance.
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statements of Plan Net Assets of the Nebraska Public Employees Retirement Systems (NPERS) - State and County Employees Retirement Plans as of December 31, 2001, and the related Statements of Changes in Plan Net Assets for the year then ended, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2001, and the results of each Plan’s operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.
In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2002 on our consideration of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans’ internal control over financial reporting and on our tests of each plans compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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.

July 18, 2002
Assistant Deputy Auditor

Pat Reding, CPA
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<tr>
<th>ASSETS</th>
<th>STATE</th>
<th>COUNTY</th>
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<td>Deposits with State Treasurer</td>
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<td>Receivables:</td>
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<td>Contributions</td>
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<td>Total assets</td>
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<th>LIABILITIES</th>
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<tr>
<td>Administration expense payable</td>
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<td>19,291</td>
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<td>Accrued compensated absences (Note 6)</td>
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<td>14,308</td>
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<td>Investment fees payable</td>
<td>98,598</td>
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<td>Obligations under securities lending (Note 3)</td>
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<td>Total liabilities</td>
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<td>1,165,653</td>
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<td>Net assets held in trust for pension benefits</td>
<td>$742,838,781</td>
<td>$177,923,820</td>
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See accompanying notes to the financial statements.
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<th>Additions to net assets attributed to:</th>
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<tr>
<td>Investment income:</td>
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<td>Net income (loss) from investing activities</td>
<td>$(11,399,591)</td>
<td>$(2,526,806)</td>
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<td>Securities lending income</td>
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<td>Securities lending expense</td>
<td>$(75,942)</td>
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<td>Total net investment income</td>
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<td>$(2,523,918)</td>
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<td>Contributions:</td>
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<td>Employee</td>
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<td>Employer (Note 4)</td>
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<td>Total contributions</td>
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<td>Total additions</td>
<td>$38,432,121</td>
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<th>Deductions from net assets attributed to:</th>
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<tr>
<td>Benefits paid to participants</td>
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<td>$7,924,949</td>
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<td>Administrative expenses</td>
<td>$826,910</td>
<td>$403,034</td>
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<tr>
<td>Total deductions</td>
<td>$41,945,047</td>
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Net increase (decrease)  
(3,512,926)  
2,991,830

Net assets held in trust for pension benefits:  
Beginning of year  
$746,351,707  
$174,931,990  
End of year  
$742,838,781  
$177,923,820

See accompanying notes to the financial statements.
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:

<table>
<thead>
<tr>
<th>Name</th>
<th>Type</th>
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<tbody>
<tr>
<td>School Employees Retirement</td>
<td>Defined Benefit</td>
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<tr>
<td>State Patrol Retirement</td>
<td>Defined Benefit</td>
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<tr>
<td>Judges Retirement</td>
<td>Defined Benefit</td>
</tr>
<tr>
<td>State Employees Retirement</td>
<td>Defined Contribution</td>
</tr>
<tr>
<td>County Employees Retirement</td>
<td>Defined Contribution</td>
</tr>
</tbody>
</table>

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 expendable trust 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 activity of the Nebraska Public Employees Retirement Systems.

1. Plan Descriptions


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.
1. **Plan Descriptions** (Continued)

Prior to April 18, 2002, participation in the State Employees Retirement Plan was 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. Voluntary participation was 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.

2002 Neb. Laws LB 687, Section 13, effective April 18, 2002, requires all permanent full-time employees who have 12 continuous months of service to begin participation in the retirement system. All permanent full-time or permanent part-time employees who have 12 months of service within a five-year period, and who have attained the age of 20, may exercise the option to begin participation in the retirement system.

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 employee’s and employer’s contributions are kept in separate accounts.

The employee’s account is fully vested. Prior to April 18, 2002, the employer’s account was fully vested after five years plan participation plus eligibility and vesting credit, or at retirement. Legislative Bill 687 changed the vesting requirement to a total of three years of participation in the system, including the twelve month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

The amount contributed by the State for terminated employees who are not fully vested is forfeited and used to reduce NPERS expenses and then reduce employer contributions. As of December 31, 2001, there were 12,750 active members and 2,070 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., 2001.
1. Plan Descriptions (Concluded)

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.

Prior to January 1, 2003, county employees and elected officials contribute 4 percent and commissioned law enforcement personnel (for participating counties with an excess of eighty-five thousand inhabitants) contribute 6 percent of their total compensation, respectively. In addition, the County contributes 150 percent. The employee’s and employer’s contributions are kept in separate accounts. Neb. Rev. Stat. Section 23-2307 R.S.Supp., 2001, operative January 1, 2003, will change the amount the county employees and elected officials contribute to 4.5 percent of their total compensation.

The employee’s account is fully vested. Prior to April 18, 2002, the employer’s account was fully vested after five years of plan participation plus eligibility and vesting credit, or at retirement. Legislative Bill 687 changed the vesting requirement to a total of three years of participation in the system, including the twelve month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

The amount contributed by the County for terminated employees who are not fully vested is forfeited and used to reduce NPERS expenses and then reduce employer contributions. As of December 31, 2001, there were 5,983 active members and 1,083 inactive members.

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.
2. **Summary of Accounting Policies (Concluded)**

**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**

2002 Neb. Laws LB 407, Section 19, authorizes the State Investment Officer to invest the State’s funds in accordance with the prudent man rule. LB 407, Sections 4 and 56 detail 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., 2001, 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, 2001. 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.

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 are 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 an insurance company, who agrees to repay the principal plus interest at maturity with a guarantee against capital loss due to the changing market conditions.
3. Investments and Securities Lending (Continued)

**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 consisted 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 consisted 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 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.

**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.
3. **Investments and Securities Lending (Continued)**

**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.

**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 72-1243 R.R.S. 1996, authorizes the State Investment Officer to direct the investment and reinvestment of money in all State funds not currently needed
3. **Investments and Securities Lending** (Continued)

and order the purchase, sale, or exchange of securities for such funds. The State Investment Officer participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The 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 68 and 75 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.

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, 2001 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, 2001, balance was $173,557,599 for the State Employees Retirement Plan and $41,730,963 for the County Employees Retirement Plan. Activity is recorded in the Stable Fund and the Employer Funds. GICs 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
3. **Investments and Securities Lending** (Concluded)

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, 2001:

Not Categorized

- Investments held in external pools $704,332,881
- Guaranteed Investment Contracts 144,503,268
- Synthetic Investment Contracts 65,154,531
- Investments held by broker-dealers Under Securities
  - Loan with Cash Collateral Synthetic Investment Contracts 5,630,763
  - Securities Lending Short-Term Collateral Investment Pool 5,730,646
- TOTAL $925,352,089

<table>
<thead>
<tr>
<th></th>
<th>State</th>
<th>County</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments, at fair value</td>
<td>$568,706,035</td>
<td>$135,626,846</td>
<td>$704,332,881</td>
</tr>
<tr>
<td>Guaranteed Investment Contracts</td>
<td>173,557,599</td>
<td>41,730,963</td>
<td>215,288,562</td>
</tr>
<tr>
<td>Invested Securities Lending Collateral</td>
<td>4,622,192</td>
<td>1,108,454</td>
<td>5,730,646</td>
</tr>
<tr>
<td>Total Investments</td>
<td>$746,885,826</td>
<td>$178,466,263</td>
<td>$925,352,089</td>
</tr>
</tbody>
</table>

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 shall then be used to reduce State and County employer contributions respectively. The balance of the forfeiture accounts at December 31, 2001 was $974,954 for the State Plan and $300,039 for the County Plan.

5. **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 first used this financing arrangement to finance the acquisition and installation of certain information technology equipment.
5. **Contingencies and Commitments** (Concluded)

The first Master Lease Agreement was for $1,597,620 including interest costs of $262,620. A summary of the future minimum contractual obligations for the first agreement, including interest at a rate of 5.239% as of December 31, 2001, is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>171,591</td>
<td>56,640</td>
<td>228,231</td>
</tr>
<tr>
<td>2003</td>
<td>180,800</td>
<td>47,431</td>
<td>228,231</td>
</tr>
<tr>
<td>2004</td>
<td>190,504</td>
<td>37,727</td>
<td>228,231</td>
</tr>
<tr>
<td>2005</td>
<td>200,728</td>
<td>27,503</td>
<td>228,231</td>
</tr>
<tr>
<td>2006</td>
<td>211,501</td>
<td>16,730</td>
<td>228,231</td>
</tr>
<tr>
<td>Thereafter</td>
<td>203,833</td>
<td>5,379</td>
<td>209,212</td>
</tr>
</tbody>
</table>

The second Master Lease Agreement, in November 2001, was for $2,166,847 including interest costs of $241,847. A summary of future minimum contractual obligations for the second agreement, including interest at a rate of 3.245% as of December 31, 2001, is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>250,596</td>
<td>60,454</td>
<td>311,050</td>
</tr>
<tr>
<td>2003</td>
<td>259,239</td>
<td>51,811</td>
<td>311,050</td>
</tr>
<tr>
<td>2004</td>
<td>268,180</td>
<td>42,870</td>
<td>311,050</td>
</tr>
<tr>
<td>2005</td>
<td>277,429</td>
<td>33,621</td>
<td>311,050</td>
</tr>
<tr>
<td>2006</td>
<td>286,997</td>
<td>24,053</td>
<td>311,050</td>
</tr>
<tr>
<td>Thereafter</td>
<td>552,114</td>
<td>18,143</td>
<td>570,257</td>
</tr>
</tbody>
</table>

**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.

6. **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.
6. **Compensated Absences** (Concluded)

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, 2001, is as follows:

<table>
<thead>
<tr>
<th></th>
<th>State Employees</th>
<th>County Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Leave</td>
<td>$16,095</td>
<td>$9,429</td>
</tr>
<tr>
<td>Sick Leave</td>
<td>$8,122</td>
<td>$4,758</td>
</tr>
<tr>
<td>Compensatory Leave</td>
<td>$207</td>
<td>$121</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$24,424</strong></td>
<td><strong>$14,308</strong></td>
</tr>
</tbody>
</table>

7. **Subsequent Events**

**Cash Balance Plan**

2002 Neb. Laws LB 687, Sections 1, 3, and 6 discuss changes to the State and County Plans. In January 2000, the Public Employees Retirement Board and the Nebraska Retirement Systems Committee of the Legislature recommended a coordinated strategy be developed for long-term management of the Nebraska Public Employees Retirement Systems. The strategy included a review of benefits, funding, and investment management. Among other things, the study found that state and county retirement systems do not meet adequacy needs and that such systems rank below median in the amount of initial normal retirement benefit and that, as defined contribution plans, such plans are dependent upon significant investment performance and substantial contributions, even though such plans are also subject to significant volatility in the delivery of such benefits.

Legislative Bill 687 made the following changes (in addition to changes mentioned previously), effective January 1, 2003:
7. **Subsequent Events (Concluded)**

State and county employees are provided with a choice between a traditional defined benefit plan or cash balance plan, and the current defined contribution plan. The cash balance benefit means a member’s retirement benefit that is equal to an amount based on annual employee contribution credits plus interest credits and, if vested, employer contribution credits plus interest credits.

Members of the State and County Employees Retirement Plan must make an election whether to enter the new cash balance plan or remain in the defined contribution prior to January 1, 2003.

**Master Lease Agreement**

A third Master Lease Agreement was entered into by NPERS in July 2002. The contracted amount of $6,029,861 includes interest payments of $644,861. The interest rate is 3.129%.
### State and County Employees Retirement Plans

#### Schedule of Service Efforts and Accomplishments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td>13,165</td>
<td>13,025</td>
<td>12,840</td>
<td>12,861</td>
<td>12,750</td>
</tr>
<tr>
<td>Inactive</td>
<td>1,570</td>
<td>1,438</td>
<td>1,656</td>
<td>1,828</td>
<td>2,070</td>
</tr>
<tr>
<td>Total Members</td>
<td>14,735</td>
<td>14,463</td>
<td>14,496</td>
<td>14,689</td>
<td>14,820</td>
</tr>
<tr>
<td>Administrative Expenses: (1)</td>
<td>$287,779</td>
<td>$249,879</td>
<td>$263,287</td>
<td>$523,675</td>
<td>$342,389</td>
</tr>
<tr>
<td>PERS</td>
<td>$448,702</td>
<td>$435,124</td>
<td>$440,278</td>
<td>$804,471</td>
<td>$727,002</td>
</tr>
<tr>
<td>Total Expenses (3)</td>
<td>$736,581</td>
<td>$684,993</td>
<td>$703,565</td>
<td>$1,328,146</td>
<td>$1,069,491</td>
</tr>
<tr>
<td>Average Administrative Expense Per Member (2)</td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td>$55</td>
<td>$49</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>County</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td>6,038</td>
<td>6,071</td>
<td>5,840</td>
<td>5,921</td>
<td>5,983</td>
</tr>
<tr>
<td>Inactive</td>
<td>864</td>
<td>810</td>
<td>877</td>
<td>951</td>
<td>1,083</td>
</tr>
<tr>
<td>Total Members</td>
<td>6,902</td>
<td>6,881</td>
<td>6,717</td>
<td>6,872</td>
<td>7,066</td>
</tr>
<tr>
<td>Administrative Expenses: (1)</td>
<td>$160,842</td>
<td>$137,693</td>
<td>$158,164</td>
<td>$292,074</td>
<td>$167,475</td>
</tr>
<tr>
<td>PERS</td>
<td>$290,474</td>
<td>$224,447</td>
<td>$241,613</td>
<td>$425,022</td>
<td>$351,980</td>
</tr>
<tr>
<td>Total Expenses (3)</td>
<td>$451,316</td>
<td>$362,140</td>
<td>$399,777</td>
<td>$717,096</td>
<td>$519,455</td>
</tr>
<tr>
<td>Average Administrative Expense Per Member (2)</td>
<td>$42</td>
<td>$33</td>
<td>$36</td>
<td>$62</td>
<td>$50</td>
</tr>
</tbody>
</table>

(1) Administrative Expenses are on a Cash Basis.
(2) Calculated: Total Administrative Expenses/Total Members=Avg. Admin. Expense
(3) Total administrative expenses included NPERS expenses paid from forfeitures and record keeper fees charged to Plan members.

#### Average Administrative Expense Per Member

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>County</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$30</td>
<td>$42</td>
</tr>
<tr>
<td>1998</td>
<td>$30</td>
<td>$33</td>
</tr>
<tr>
<td>1999</td>
<td>$30</td>
<td>$36</td>
</tr>
<tr>
<td>2000</td>
<td>$55</td>
<td>$62</td>
</tr>
<tr>
<td>2001</td>
<td>$49</td>
<td>$50</td>
</tr>
</tbody>
</table>

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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, 2001, and have issued our report thereon dated July 18, 2002. The report was modified to emphasize that the financial statements present only 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 Plans’ 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), Comment Number 3 (Monitoring of Retirement Contributions), Comment Number 4 (Unreasonable Travel Expenses), and Comment Number 7 (Receipt of Non-Contributing Member Forms).
Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Nebraska Public Employees Retirement Systems - State and County Employees 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 - State and County Employees 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 (County Plan Membership Eligibility), Comment Number 2 (Inadequate Resolution of Prior Audit Findings), Comment Number 3 (Monitoring of Retirement Contributions), and Comment Number 5 (Incorrect Dates).

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 consider none of the reportable conditions described above to be 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 - State and County Employees Retirement Plans in the Comments Section of the report as Comment Number 4 (Unreasonable Travel Expenses), Comment Number 6 (Expense Allocation Method), Comment Number 7 (Receipt of Non-Contributing Member Forms), and Comment Number 8 (Enrollment Forms Not on File).

This report is intended for the information of management and State regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

July 18, 2002

Assistant Deputy Auditor