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

JULY 1, 2001 THROUGH JUNE 30, 2002

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

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BACKGROUND

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

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

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

All appointed members must be Nebraska citizens.

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

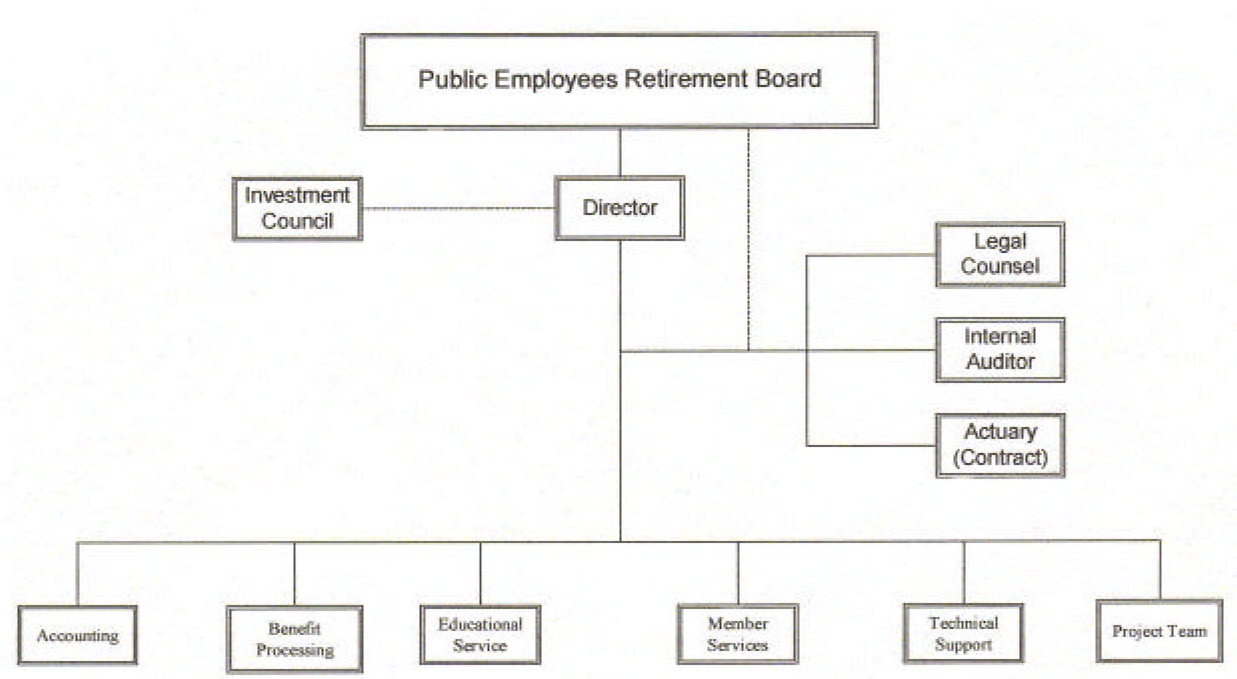
The Board hires a director to equitably distribute expenses among the retirement systems it administers. All expenses must be provided from investment income earned by various retirement funds, unless other fund sources to pay expenses are specified by law.

MISSION STATEMENT

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

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

ORGANIZATIONAL CHART



SUMMARY OF COMMENTS

During our audit of the Nebraska Public Employees Retirement Systems (NPERS) - School Employees, Judges, and State Patrol Retirement Plans, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***School District Payroll Records:*** NPERS did not have sampling and monitoring procedures to ensure information reported by school districts was accurate. A total of 18 of 45 school districts tested reported an incorrect amount of compensation to NPERS. This included 45 of 196 members tested. There were also 15 of 45 school districts tested that had employees who should have been contributing to the Plan and were not. This included 17 of 196 employees tested.

2. ***COLA Calculations:*** COLA increases were not calculated in accordance with the language in the statutes for 6 of 19 School retirees tested, 3 of 11 Judges retirees tested, and 2 of 8 State Patrol retirees tested.

3. ***Expense Allocation Method:*** The method used to allocate expenses incurred by NPERS to all of the Plans was based on NPERS' employees estimates of time spent on each retirement plan and was not compared to actual time worked. We also noted the allocation percentages were not consistently applied or lacked adequate documentation to support the percentages.

4. ***Overpayment on Contract:*** NPERS did not adequately monitor a contract payment, as a $5,000 overpayment to a vendor was noted.

5. ***Unallowable/Unreasonable Travel Expenses:*** We noted several issues related to internal control over travel expenses or compliance with appropriate travel expense guidelines, such as inadequate documentation of expenses and the reimbursement of an alcoholic beverage.

6. ***Internal Auditor Position:*** The internal auditor position was not performing the duties set by the Legislature.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of NPERS.

SUMMARY OF COMMENTS
(Concluded)

Draft copies of this report were furnished to NPERS to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

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

COMMENTS AND RECOMMENDATIONS

1. School District Payroll Records

Monitoring of School District Records

Neb. Rev. Stat. Section 84-1503(1)(f) R.S.Supp., 2002 requires the Board to adopt and implement procedures for reporting information by employers, as well as sampling and monitoring procedures.

NPERS did not have sampling and monitoring procedures in place to ensure school districts correctly calculated and reported contributions, salary information, and hours worked. NPERS also did not have sampling and monitoring procedures to ensure school districts reported all eligible employees. This has been noted in each audit report since 1995.

Without adequate sampling and monitoring procedures the risk for errors greatly increases, as identified in the comments below. It is critical to implement these procedures since the benefit calculations are based, in part, on the salary information submitted by school districts. NPERS does not verify whether the reported salary amounts are in compliance with statutes. For example, if the school districts report inaccurate salary information the benefit calculation will be affected, since the benefit calculation includes the average of the highest three years salary. Also, if the hours are reported incorrectly, this could directly affect the service years of the member. Service years are another component included in the benefit calculation.

> We recommend NPERS implement procedures to ensure information reported by employers is accurate through sampling and monitoring procedures, in accordance with the statute.

Inaccurate Amounts Included in Compensation

Neb. Rev. Stat. Section 79-902(37)(a) R.S.Supp., 2001 stated, "Compensation means gross wages or salaries payable to the member for personal services performed during the plan year. . . . and amounts contributed by the member to plans under sections 125, 403(b) and 457 of the Internal Revenue Code . . . or any other section of the code which defers or excludes such amounts from income."

Neb. Rev. Stat. Section 79-902(37)(a) R.S.Supp., 2001 also stated, "Compensation does not include . . . compensation for unused sick leave or unused vacation leave converted to cash payments, insurance premiums converted into cash payments . . . fringe benefits . . . ."

Good internal control requires procedures to ensure the contributions remitted by the school district are accurate.

COMMENTS AND RECOMMENDATIONS

1. School District Payroll Records (Continued)

Inaccurate Amounts Included in Compensation (Concluded)

During our testing of school contributions, we reviewed payroll records at 45 of 578 school districts and noted the following:

- There were 15 of 45 school districts tested that reported retirement wages not in compliance with the definition of compensation in Neb. Rev. Stat. Section 79-902(37)(a) R.S. Supp., 2001. This included 41 of 196 contributing members tested. Incorrect components included payments for cash in lieu of health insurance, unused leave cash payments, and what appeared to be fringe benefits. The fringe benefit amounts were not deferred from income tax and were not wages for services performed, such as long-term disability and stipends. These errors resulted in overstatements of the members' annual salaries ranging from $57 to $8,400, and over-contributions of annual retirement ranging from $8 to $1,200. This was also noted in the prior audit report, but all findings were not appropriately addressed by NPERS.

- There were also 3 of 45 schools tested that reported members' compensation that did not include all the required components. This included 4 of 196 contributing members tested. A portion of payment for services performed for two members was erroneously excluded from the retirement wages, and two members did not have Internal Revenue Code (IRC) Section 125 payments included in their retirement salary. These errors resulted in an understatement of the members' annual salary ranging from $189 to $6,000, and understated annual retirement contributions from $27 to $800.

As noted previously, without procedures to ensure amounts are accurately reported by school districts in accordance with the statutes, the risk that errors will remain undetected increases. When the retirement wages include incorrect salary components there is an increased risk the retirement benefit calculated by NPERS is not in accordance with statutory requirements.

> We recommend NPERS implement procedures to ensure the compensation reported by the school districts is accurate and in accordance with statutes. We also recommend NPERS follow up on the specific school districts identified during testing and communicate to them any corrective action necessary.

All Eligible Employees Were Not Contributing

Neb. Rev. Stat. Section 79-910 (1)(a) R.S.Supp., 2000, stated the membership of the retirement system shall be composed of all persons who become school employees on or after September 1, 1945.

COMMENTS AND RECOMMENDATIONS

1. School District Payroll Records (Continued)

All Eligible Employees Were Not Contributing (Concluded)

Neb. Rev. Stat. Section 79-902 (11) R.S.Supp., 2001, defined school employee as any member who acquires five hundred sixteen hours or more of service in a fiscal year.

Good internal control also requires procedures to ensure all eligible and only eligible employees join the School Employees Retirement Plan.

There were 15 of 45 school districts that had employees who should have been contributing to the retirement plan and were not. This included 17 of 196 employees tested. All 17 employees worked over 516 hours in the fiscal year. Ten of these employees were still not contributing to the plan, six were currently contributing but should be required to make up missed contributions, and one was no longer employed with the school district.

Effective July 1, 2002 (subsequent to the audit period), Neb. Rev. Stat. Section 79-902 (11) was revised and moved to 79-902 (10) R.S.Supp., 2002. This new statute currently defines school employee as a contributing member who earns service credit. Contributing members are defined as (a) regular employees; (b) regular employees having retired pursuant to the School Employees Retirement Act who subsequently provide compensated services on a regular basis in any capacity; and (c) regular employees hired by a public school on an ongoing basis to assume the duties of other regular employees who are temporarily absent.

Under either statute, NPERS has the responsibility to determine whether all eligible employees are contributing to the Plan. Without proper procedures to ensure all eligible employees and only eligible employees are contributing to the Plan, the risk for errors to remain undetected increases.

> We recommend NPERS implement procedures to ensure all eligible and only eligible employees are contributing to the Plan.

NPERS' Response: The initial comment in the audit assumes there is a lack of sampling and monitoring procedures at NPERS for the School District Payrolls. Our system and procedures include various edits and reviews in critical areas to ensure that contribution amounts are equivalent to the appropriate percentage of the salary reported, that hours are reported and accumulated up to a maximum amount each year and that salary during the final years prior to retirement is not inflated when compared to previous years. To expedite the reporting process for the schools, we also ask that only eligible contributing members be included on the reports, as it would also be difficult to review or automate eligibility tests for entire payrolls for each school.

COMMENTS AND RECOMMENDATIONS

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

NPERS' Response, Continued:
Your onsite audit of several of the School District payrolls included a review of the various components of compensation used for retirement plan purposes and you state that these are "not in compliance with the definition of compensation outlined in Neb. Rev. Stat. Section 79-902(37)(a)". After detailed discussions with the schools included in your audit, we can outline the following payroll/benefit arrangements found in the schools included in this sampling:

- *Some schools provide and subsidize health insurance, and this does not affect member income – if not elected, employees would obviously be saving the school the subsidy amount*
- *Some schools provide and subsidizes health insurance, but if not elected, employees receive "benefit dollars" in lieu of insurance, which may or may not be included in retirement income*
- *Insurance is provided, but not subsidized, in some schools – base salary is increased for all employees to offset the lack of insurance subsidy and this is included in retirement salary*
- *Some schools actually have contracts outlining the "benefit dollars" and state that these amounts would not be included in the retirement compensation as they are determined to be cash in lieu of insurance*
- *Schools are also including the cost of Long Term Disability insurance in employees' compensation to make it taxable income, and in some cases this amount is also included in retirement compensation*
- *Some schools pay a "stipend" which is not defined as cash in lieu benefits but rather a part of their pay package and is received by all teachers and administrators*

NPERS feels this is a complex issue, and it is difficult to make assumptions or judgments without receiving more details from a larger group of schools. We believe a study may be required, and intend to pursue such a project once our work with our new information system is completed. We will continue our discussions and education with the school districts and assist them in making determinations on whether it is appropriate to include various amounts in retirement compensation based on the definition in the statute. One guideline we have used in these determinations is whether the school has adopted a Section 125 plan and what type of benefits are included within such a plan. The law clearly allows salary deductions within a Section 125 plan to be counted as compensation. However, we would be concerned if there is a way for school employees to inflate their salaries in the final years prior to retirement. We have worked continuously with the schools on this subject.

We are concerned about the audit comment that eligible employees were not contributing to the plan. We have discussed a few of these situations with the various schools involved and in many cases the employees involved were retirement age individuals hired as part time or temporary employees working limited hours during the year, and therefore were not enrolled in the plan.

COMMENTS AND RECOMMENDATIONS

1. School District Payroll Records (Concluded)

NPERS' Response, Concluded:
Because unexpected situations warranted more hours by the end of the year, the employee ended the year with greater than 516 hours. Some schools have enrolled the employee in the plan the following year based on prior year experience, and we will discuss with the schools whether make-up contributions will be required for the previous year. In a few cases, it could be argued that the employee was a substitute assuming the duties of regular school employees during their temporary absence. In the cases reviewed, there was no instance of a long-term employee being denied access to the plan, but rather isolated situations of temporary and part time employees working over the hours limit.

Many of the above eligibility issues would not be exceptions under new legislation effective July 1, 2002, which eliminates the "look back" requirement. Membership will be determined at hire date based on the permanent status for the employee and expectations that they would work at least 15 hours per week – the law has eliminated the 516-hour per year requirement.

Since it has been determined that agency on-site reviews of all school districts is prohibitive because of the time, staff and cost involved, NPERS will continue with our efforts of ensuring proper reporting through comprehensive and continuous employer education and communication. Our agency developed an extensive employer education program during 2001, as outlined in State Statute Section 84-1512, and has held training sessions at various sites throughout each year. Attendance has been good, and schools are very appreciative of this effort. Our training team has also updated Employer Education and Reporting Procedures Manuals. We maintain regular communication with schools through newsletters and quarterly mailings in addition to the training sessions to assist the schools.

By law, (see Section 79-910.01 (2)) school districts have the responsibility for proper and accurate administration of eligibility and contribution procedures, and NPERS is available to assist them in interpreting the rules and accomplishing their duties.

We do appreciate the State Auditor's efforts in reviewing payroll records at the schools, and encourage them to continue in this endeavor since we cannot perform similar reviews. We will however, discuss this ongoing audit issue with Legislative Retirement Committee and seek guidance on additional options that might be available for us to resolve this recurring audit finding.

Auditors' Response: As stated in our response to NPERS in the prior audit, we believe that on-site monitoring of a sample of schools could be done with limited resources. Our sampling procedures included on-site testing of 45 school districts in approximately 300 hours testing and travel. There were errors in the amounts included in compensation at 40% of the school districts tested. We feel this indicates the employer education efforts with school districts are not sufficient and also indicates a strong need for on-site monitoring.

COMMENTS AND RECOMMENDATIONS

2. COLA Calculations

Neb. Rev. Stat. Sections 24-710.07, 79-947.01, and 81-2027.03 R.S.Supp., 2001 each state that each July 1 the current benefits paid to members are to be adjusted to equal a percentage (75% for the School Employees and Judges Plans; 60% for the State Patrol Plan) of the annuity which results when the initial benefit is adjusted by the change in the Consumer Price Index (CPI) between the retirement date and the year the adjustment is made. The initial benefit is the benefit before any cost-of-living adjustments or supplemental adjustments were made.

There were 6 of 19 School Plan retirees tested, 3 of 11 Judges retirees tested, and 2 of 8 State Patrol retirees tested who had COLA increases that did not agree to the language in the statutes. NPERS calculated the COLA based on a methodology provided by the actuary; however, the methodology and the statutes did not appear to be in agreement.

COLA increases calculated by NPERS were greater than the increases calculated based upon the statutes. Variances ranged from $1 to $53 a month for the July 2001 increase. This was also noted in our prior audit.

We feel it is important to ensure these calculations are in accordance with the statutory requirements at all times. However, it could be more critical now, since the Judges Plan currently needs additional funding from the State.

> We again recommend NPERS ensure the COLA calculation methodology and the statutes are in agreement.

NPERS' Response: NPERS respectfully disagrees with the auditor's reading of Neb. Rev. Stat. §§ 79-947.01, 24-710.07, and 81-2027.03. An audit comment regarding Cost of Living Adjustment (COLA) benefit calculations was also included in last year's audit, so we will again make a similar response. The methodology used by NPERS for COLA calculations is identical to the methodology provided by the actuary to the Legislature at the time these sections of law were added.

NPERS feels the actual wording of these statutory sections was designed to describe the calculation in simplified terms, and therefore may be capable of several reasonable interpretations. The Nebraska Supreme Court has held that a statute is open for construction when the language used requires interpretation or may reasonably be considered ambiguous. <u>State ex rel. Stenberg v. Moore, 258 Neb. 199, 602 N.W.2d 465 (1999)</u>. As an aid to statutory interpretation, we should look to the statute's purpose and give to the statute a reasonable construction which best achieves that purpose, rather than a construction which would defeat it. <u>Fay v. Dowding, Dowding, 261 Neb. 216, 623 N.W.2d 287 (2001)</u>. A sensible construction will be placed upon a statute to effectuate the objective of the legislation rather than a literal meaning that would have the effect of defeating the legislative intent. <u>Wortman v. Unger, 254 Neb. 544, 578 N.W.2d 413 (1998)</u>.

COMMENTS AND RECOMMENDATIONS

2. COLA Calculations (Concluded)

NPERS' Response, Concluded:
As the agency charged with the administration of the retirement statutes in question, NPERS has a duty to assure that the statutes under its jurisdiction are administered in a way that the rules of statutory construction noted above are followed. The way in which the COLA statutes are administered is exactly how the proposal was presented to the Legislature, and exactly what the Legislature was intending when the statutes were passed. Although construction of a statute by a department charged with enforcing it is not controlling, considerable weight will be given to such a construction, particularly when the Legislature has not taken any action to change such an interpretation." Cox Cable of Omaha v. Nebraska Dept. of Revenue, 254 Neb. 598, 603, 578 N.W.2d 423, 426 (1998). See, also, Vulcraft v. Karnes, 229 Neb. 676, 428 N.W.2d 505 (1988) (citing general rule of statutory construction that interpretation of statute given by administrative agency to which statute is directed is entitled to weight).

This agency has both interpreted and administered the statutes in question in a manner consistent with the intent of the Legislature. NPERS believes its construction of the statutes is both rational and within the Legislative intent. However, in an effort to avoid a continuing disagreement with the State Auditor's office over our compliance with the law, the PERB has directed staff to seek the opinion of the Attorney General on the interpretation of this statute.

3. 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 NPERS to each retirement plan it administers. Good internal control requires procedures and records to provide accurate financial statements. These procedures include the consistent application of the method used by NPERS to allocate administrative expenses to each plan it administers or documentation to support any other method used to allocate administrative expenses to the various plans.

The method used to allocate administrative expenses incurred by NPERS to all of the retirement plans became effective on July 1, 2001 and is based on NPERS employees' estimates of time spent on each retirement Plan. Each NPERS employee's manager reviewed these percentages. The percentages were also reviewed quarterly and adjusted, if needed. NPERS employees did not complete timesheets to document time worked on each Plan, nor was there any other method to substantiate the actual amount of time worked on each plan. Therefore, there was no comparison of actual time worked on each plan to the estimated time used to allocate expenses to the Plans. Consequently, there was no verifiable documentation to show the estimates used to allocate the administrative expenses incurred by NPERS to all Plans were consistent with the actual amount of time the employee worked on each retirement plan.

COMMENTS AND RECOMMENDATIONS

3. Expense Allocation Method (Continued)

Three of eighteen documents tested included an allocation of administrative expenses that was not consistent with NPERS procedures to allocate expenses or lacked documentation to support the allocation used.

- Approximately $8,000 for retirement guides used in the retirement seminars conducted by NPERS was allocated 75 percent to the School Employees Retirement Plan, 20 percent to the State Employees Retirement Plan, and 5 percent to the County Employees Retirement Plan. These percentages were not consistent with the number of members from each plan who attended the seminars during fiscal year 2001. Member percentages from the attendance listing of the seminars indicated 78 percent were School Plan members, 16 percent were State Plan members and 6 percent were County Plan members during fiscal year 2001. There was no documentation to support the percentages used to allocate the expenses to the three Plans.

- There was no documentation to support the percentages used to allocate travel expenses to the various retirement plans for two of seven travel documents tested. Travel expenses were normally allocated directly to the Plan benefiting from the travel, or by membership percentages of each plan.

  The first document was for travel to a conference of the National Association of Government Deferred Compensation Administrators. The total amount shown on the document was $1,469. The expense was allocated 50 percent to the Deferred Compensation Plan, 20 percent to each the State and County Employees Retirement Plans, and 10 percent to the School Employees Retirement Plan. There was no documentation to support the method used to allocate this expense.

  The second document, totaling $724, was for travel to a retirement seminar conducted in the State by NPERS and to attend the National Pre-retirement Education Association conference. The expense was allocated 60 percent to the School Employees Retirement Plan, 26 percent to the State Employees Retirement Plan, 12 percent to the County Employees Retirement Plan, and 1 percent each to the Judges and State Patrol Retirement Plans. There was not adequate documentation to support the method used to allocate this expense.

A similar comment was included in the audit of the State and County Employees Retirement Plans as of December 31, 2001.

Without verifiable evidence that the estimated time worked on each plan is consistent with the actual time spent on each Plan or without adequate documentation to support the allocation of expenses to each Plan, there is an increased risk that expenses are not allocated equitably between the plans in accordance with State statute.

COMMENTS AND RECOMMENDATIONS

3. <u>Expense Allocation Method</u> (Continued)

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 procedures be implemented to ensure the percentages used to allocate expenses to all Plans are applied consistently.

NPERS' Response: The initial comment in this point relating to the cost allocation method used at NPERS has appeared on two prior audits, and we will again define our method as well as our justification for our process.

Based on audit results from prior years indicating that member fees were increasing disproportionately among plans, a review of our internal cost allocation process was undertaken. We began by reviewing payroll since it represented almost 60% of NPERS' costs. There appeared to be volatility in the cost allocations that were being assigned 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 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 would average these time tracking reports each quarter with other weeks reported and prepare 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 based on number of hours 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 general 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

COMMENTS AND RECOMMENDATIONS

3. Expense Allocation Method (Concluded)

NPERS' Response, Concluded:
volatile. NPERS feels the method is definitely more equitable than the previous process. The auditor's recommendation of comparing estimated time to actual time tracked by employees was unreliable in the past, and also very time consuming, so it is difficult to rationalize returning to that method.

Other comments were related to cost allocations on individual billings. In determining proper allocation of costs among the plans, the Director of the agency has given managers the authority to make this decision. If a manager deems that a cost should only be charged to certain plans, the agency will adhere to their judgment in allocating those costs, as there are often no simple methods to quantify most distributions. When an employee attends a conference or seminar, costs are allocated based on the value received by each plan from our attendance at the conference. Managers make assessments as to the proper cost allocation among plans, and include these allocation percentages on the invoice or expense report. We do not expect documentation as it is based on manager judgment, and managers would have no reason not to make as competent a decision as possible.

The additional exception relates to the expense for retirement booklets that could have been allocated using more current attendance numbers, but since the adjustment would involve less than $400, no prior period correction will be made.

Auditors' Response: Without a periodic comparison of estimated time worked on each plan to actual time worked on each plan, there is no assurance that expenses are allocated equitably between all Plans the Board administers.

In addition, documentation should be maintained to support the allocation of any other expense that was not allocated based on the overall allocation method.

4. Overpayment on Contract

Good internal control requires procedures to ensure payments for expenses are accurate and in accordance with contractual agreements.

The Nebraska Accounting System (NAS) Manual, Section PREA-002, in summarizing the purpose of the pre-audit function, specifies 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 . . ."

COMMENTS AND RECOMMENDATIONS

4. Overpayment on Contract (Concluded)

NPERS did not adequately monitor contractual payments to ensure the terms of the contract were complied with. There were not adequate procedures to ensure the total contract amount was not exceeded.

NPERS overpaid a contract by $5,000. The contractual agreement between two parties and NPERS for audit services on Plan compliance was for a total of $105,000. After completion of the compliance work, a payment of $55,000 was made to each party, or $110,000. Both payments had been subjected to NPERS pre-audit procedures.

We noted a similar comment regarding an overpayment of an invoice in the audit report of the State and County Employees Retirement Plans as of December 31, 2001.

Without procedures to monitor contractual payments, there is an increased risk overpayments and other non-compliance with contractual provisions could occur.

> We recommend NPERS implement procedures to ensure payments on all contracts are monitored to avoid overpayment of contractual amounts. We further recommend NPERS review their procedures to ensure the effectiveness of the pre-audit function.

NPERS' Response: This audit point is referring to the compliance audit completed in 2002. The compliance audit involved the work of two companies and was bid at a combined cost of $105,000. We received separate invoices from each company, but at different times. Each company billed us the same amount of $55,000, and we paid the invoices as billed. The billing for one of the companies should have been in the amount of $50,000. Although there is no excuse for this error, three staff looked at the invoices when they were received and each missed the over-billing when the contract was reviewed. We appreciate that the auditors discovered this overpayment. We have since been reimbursed for the over billing of $5,000. We will take better care to compare all invoices to contracts before payment is authorized.

5. Unallowable/Unreasonable Travel Expenses

Good internal control requires that receipts for meal expenses include sufficient detail in order to determine if all of the expenses are allowable.

Good internal control also requires procedures to ensure daily lodging and meal costs reimbursed to employees are reasonable and are within the federal per diem guidelines for lodging and meal costs. The Nebraska Department of Administrative Services (DAS) uses the federal per diem rates as a reasonable guideline for meals and lodging. The United States General Service Administration's federal per diem rate for Nebraska for meals is $30.

COMMENTS AND RECOMMENDATIONS

5. <u>Unallowable/Unreasonable Travel Expenses</u> (Continued)

NAS Manual, CONC-005, Travel Expense Policies, Section 6(a) requires employees to leave for overnight travel at or before 11:00 a.m. or return from overnight travel at or after 2:00 p.m. for the noon meal to be reimbursable.

NAS Manual, CONC-005, Travel Expense Policies, Section 6(a) also states, "No reimbursement may be made for alcoholic beverages."

We tested seven travel reimbursement documents payable to four NPERS employees, one Board member, and two vendors. The following was noted:

- One NPERS employee was reimbursed for three meals on one expense reimbursement form that were not supported by either a meal log or itemized receipts. A copy of the credit card receipt was provided. However, it did not contain sufficient information to determine whether the expenses were allowable. The cost of meals reimbursed without adequate documentation was $62.

- One NPERS staff member was reimbursed for lodging costs that exceeded the federal lodging per diem guideline. The conference agenda listed three hotels with rates below the federal per diem guideline that were in the vicinity of the conference. The lodging cost reimbursed to the employee was $147 per night. The federal lodging per diem guideline for that state was $112 per night. Additionally, there were a total of seven hotels on the listing with rates lower than the hotel in which the employee stayed. There was no documentation to support the reason the employee did not lodge at one of the other hotels.

- An unreasonable amount for meals was reimbursed to one NPERS employee and one Board member tested. One meal reimbursed to an NPERS employee during out-of-state travel totaled $43. This is an unreasonable amount for one meal. The Board member was reimbursed $46 in meal expenses for one day. This amount was over the DAS per diem guideline for meals in Nebraska of $30. We noted a similar comment in the prior audit report, and a similar comment for the same Board member in our audit of the State and County Employees Retirement Plans as of December 31, 2001.

- One meal reimbursed to the Board member was not allowed per the start and stop times indicated on his travel expense reimbursement form. The form indicated the Board member left for overnight travel at 1:00 p.m. and was reimbursed for the noon meal that day. The reimbursement for lunch was $18 and did not indicate the city in which the restaurant was located. The NAS Manual indicates noon meals are not reimbursable unless the employee leaves for overnight travel at or before 11:00 a.m.

COMMENTS AND RECOMMENDATIONS

5. Unallowable/Unreasonable Travel Expenses (Continued)

- The Board member was reimbursed for one alcoholic beverage as part of one meal. The reimbursement of alcoholic beverages is strictly prohibited by DAS policy. We noted a similar finding for the same Board member in our audit of the State and County Employees Retirement Plans as of December 31, 2001.

Without adequate procedures to ensure lodging and meal costs reimbursed to employees and Board members are reasonable and within DAS policy and federal per diem guidelines, there is an increased risk for fraud, waste, or misuse of Plan net assets.

> We recommend NPERS ensure all employees and Board members are aware of applicable State policies and guidelines regarding the reimbursement of travel expenses. We also recommend NPERS review its procedures, particularly in the pre-audit function, to ensure expenses reimbursed to employees and Board members are reasonable and in accordance with DAS policies and federal per diem guidelines.

NPERS' Response: Our agency has a written policy for travel expenses that in general follows federal per diem guidelines for lodging and meal costs. Itemized receipts are only required for meals that exceed the daily per diem. We also have a pre-audit function that serves as a final review of our expense documents.

One comment related to a staff member's cost of lodging that was $35 over the per diem amount for that state. That staff member made an attempt to book lodging in a less expensive hotel, but space was not available. This was probably due to the fact that the arrangements were made at a late date, but the Director felt the conference would be valuable and made the decision that the staff member should attend. The auditors were informed of this situation. Therefore, since the Director approved the lodging, and she was aware of the circumstances involved, we do not feel any change in procedure is warranted.

The item involving a meal reimbursement for $62 for an employee related to three different days (not one day) and each day's costs were under the daily per diem. These costs were supported by charge card receipts, which provide a log (time and place), and were thus in line with our policy.

Another comment relates to an out of state meal charge of $43. This charge was under the per diem amount for that area, and was the only charge for the day, so an itemized receipt is also not required under our policy. In another instance a Board member daily charge of $46 for meals was over the per diem amount but was supported by an itemized receipt and approved by the Director, and therefore also is within our policy. The auditor's comment relates to these

COMMENTS AND RECOMMENDATIONS

5. Unallowable/Unreasonable Travel Expenses (Concluded)

NPERS' Response, Concluded:
amounts being unreasonable, but if per diem is adopted as our guidelines, we use that standard to control our costs. Also, amounts are reimbursed if over the per diem in individual situations if they are approved and supported by an itemized receipt.

The Board Member reimbursement for lunch was also approved, as it is known that his travel involves almost 8 hours of driving time. Therefore, a reimbursement for lunch is not unreasonable, even though he inadvertently entered the time for the lunch rather than the travel start time. As authorized in Statute Section 84-1501, members of the Board shall be "reimbursed for their actual and necessary expenses as provided in section 81-1174 and 81-1177."

We are concerned that we approved the reimbursement for an alcoholic beverage. Unfortunately, it has become very difficult for staff to recognize item names that are actually alcoholic. The Board Member has reimbursed the agency, and discussions have been held with the pre-audit staff to tighten their review.

Auditors' Response: We feel that any one meal in excess of $40 and one day's meals of $46 within the State is an unreasonable expense placed on the Plans administered by the Board, regardless of whether the Board policy allows it.

6. Internal Auditor Position

1997 Nebraska Laws LB 389, section 243, appropriated funds to the Nebraska Public Employees Retirement Board (NPERB) for an internal auditor position. It was the intent of the Legislature, per earmark language in the bill, that the duties and responsibilities of the internal auditor position be consistent with the suggested standards for the professional practice of internal auditing as adopted by the Institute of Internal Auditors, and include the following:

1) Prepare a formal, written three-year audit plan and work schedule each year;
2) Conduct ongoing reviews of the internal procedures of the retirement office and recommend improvements;
3) Insure that Nebraska Public Employee Retirement System internal accounting and operational controls are appropriate and operating correctly;
4) Examine and evaluate system records and operating procedures; verify compliance with established plans, policies, procedures, and control systems; and assure compliance with regulatory and statutory conditions and adherence to generally accepted accounting and auditing principles;

COMMENTS AND RECOMMENDATIONS

6. <u>Internal Auditor Position</u> (Continued)

5) Perform internal auditing functions, including review of contributions received and creditable service granted; review benefit payments for completeness of information, appropriateness, accuracy, and timeliness; verify accuracy of data and financial information reported to the System's actuary for all applicable plans; and verify accuracy of data and financial information reported to the System's recordkeeper for all applicable plans; and
6) Develop standards to be used by independent auditors in their review of the practices and procedures used by various employers to provide for employee participation in the respective State plans.

The internal auditor position was not functioning according to the duties and responsibilities set by the Legislature when the position was created. During the audit period, the internal auditor spent the majority of time working with NPERS' PIONEER project. We did not note any professional auditing standards used by the internal auditor and did not observe a three-year audit plan as required in the legislation.

Therefore, the functions of the internal auditor were not consistent with the legislative intent for the position.

> We recommend NPERS review the duties performed by the internal auditor position to ensure the duties being performed are consistent with the legislative intent for the position.

NPERS' Response: We are disappointed that you would add a comment to our audit regarding the work of our Internal Auditor. You have mischaracterized this situation and whether you intended to or not, you have offended a hard-working, dedicated person who knows precisely where this agency's priorities lie. Any person who understands the complexities, risks and work involved with designing a new information system would see the value of having the Internal Auditor dedicated to such a project.

The Director and the Internal Auditor agreed that her focus needed to be on the PIONEER project the past 18 months to insure that it was designed in a way to reduce our risk and improve our internal controls. Her advisory role has been focused on the internal audit functions as they relate to the technology project. Her input and oversight has been invaluable and it will assist the State Auditors when the next audit is performed under a new information system.

In this cost conscious environment we are facing, how could we justify having the internal auditor develop an audit plan around an old information system and on procedures that would soon be replaced with updated procedures? Her plan from the outset of the project has been to

COMMENTS AND RECOMMENDATIONS

6. <u>Internal Auditor Position</u> (Concluded)

NPERS' Response, Concluded:
assist the Project Team and the area Managers with this project until finished. Once the new system is implemented and procedures are outlined, an audit plan can be formally written based on the Internal Auditor's thorough understanding of the design of the system.

This decision, made jointly by the Director and the Internal Auditor, was the most efficient and effective use of the Internal Auditor's time and will provide our agency "insurance" that the system we have built will improve our service to members and minimize our risk.

The Internal Auditor has fulfilled the duties the State Auditor's outline in this comment, except for the "formal" written plan, which would have been impractical to write since her "plan" was to review the design of the new information system. In regard to "developing" standards, the original intent language of our budget in 1997 (cited in the auditor's comments) states the "standards" are to be "used by independent auditors in their review of the practices and procedures used by various employers…" This agency initiated a new rule and regulation (#19) following the creation of the Internal Auditor's position outlining "standards" for the payroll audits of reporting employers. However, the Attorney General would not approve the rule indicating that we did not have the authority to set audit standards.

NPERS' Overall Response: Although we do not agree with many of the comments written as part of this audit, we appreciate the cooperation of your staff during this effort. We also sincerely appreciate the deadline extension you granted us to allow time for the draft audit and the response to be reviewed by the full Retirement Board at its meeting on February 24th. As we indicated previously, we appreciate your efforts in taking the time to review payrolls at some of the schools. We hope you recognize the Board's concern about school districts reporting accurate data, but also the limitations placed on our agency with maintaining the vast amount of data for which we are responsible.

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets of the Nebraska Public Employees Retirement Systems (NPERS) – Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans as of and for the fiscal year ended June 30, 2002, as listed in the Table of Contents. These financial statements are the responsibility of NPERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans as of June 30, 2002, 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 January 9, 2003, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The "Schedules of Funding Progress" and "Schedules of Contributions from Employers and Other Contributing Entities" are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying supplementary schedule of Service Efforts and Accomplishments and related graphs are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairy stated in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

January 9, 2003 Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL
RETIREMENT PLANS
STATEMENTS OF PLAN NET ASSETS
June 30, 2002

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury (Note 3)	$ 2,098,556	$ 20,949	$ 38,919
Deposits with Vendors	9,389	94	94
Receivables:			
Contributions	26,691,004	183,714	693,770
Interest and Dividend Income	19,182,779	368,094	853,471
Total Receivables	45,873,783	551,808	1,547,241
Pooled Investments, at fair value (Note 3):			
U.S. Government Securities	771,056,509	14,774,915	34,244,700
Corporate Bonds	508,889,386	9,751,292	22,601,151
Equity Securities	1,180,829,963	22,626,957	52,443,845
Foreign Government Securities	22,394,372	429,119	994,595
Municipal Bonds	5,392,975	103,340	239,517
Mutual Funds and Cash Equivalents	1,507,659,329	28,889,631	66,959,219
Total Investments	3,996,222,534	76,575,254	177,483,027
Invested Securities Lending Collateral	494,680,399	9,479,021	21,970,091
TOTAL ASSETS	4,538,884,661	86,627,126	201,039,372
LIABILITIES			
Compensated Absences	142,155	2,114	2,289
Accounts Payable and Accrued Liabilities	2,275,772	42,913	99,188
Obligations under Securities Lending	494,680,399	9,479,021	21,970,091
Contributions for Omaha Public Schools (Note 5)	2,311,889	-	-
TOTAL LIABILITIES	499,410,215	9,524,048	22,071,568
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress for each plan is presented on page 35.)	$ 4,039,474,446	$ 77,103,078	$ 178,967,804

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

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	School Employees	Judges	State Patrol
ADDITIONS:			
Contributions:			
Employee	$ 81,395,502	$ 740,598	$ 2,082,925
Employer	80,288,662	-	2,082,925
Court Fees	-	492,613	-
State	14,971,170	72,244	345,100
Total Contributions	176,655,334	1,305,455	4,510,950
Investment Income:			
Net appreciation (depreciation) in fair value of investments	(378,596,593)	(7,366,842)	(17,005,184)
Interest & Dividends	124,179,273	2,420,271	5,588,083
Securities Lending Income	9,688,268	185,646	430,282
Total Investment Income	(244,729,052)	(4,760,925)	(10,986,819)
Investment Expenses	(9,787,201)	(189,816)	(438,760)
Securities Lending Expenses	(7,523,320)	(144,161)	(334,131)
Net Investment Income	(262,039,573)	(5,094,902)	(11,759,710)
Other Additions	32,945	18	18
Total Additions	(85,351,294)	(3,789,429)	(7,248,742)
DEDUCTIONS:			
Benefits	131,499,136	3,709,728	8,254,431
Refunds of contributions	10,740,586	-	381
Administrative expense	2,601,071	31,934	33,578
Total Deductions	144,840,793	3,741,662	8,288,390
Net increase	(230,192,087)	(7,531,091)	(15,537,132)
Net assets held in trust for pension benefits			
Beginning of year	4,269,666,533	84,634,169	194,504,936
End of year	$ 4,039,474,446	$ 77,103,078	$ 178,967,804

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

Background

The Nebraska Public Employees Retirement Systems (NPERS) was restructured by the Legislature in 1971 to administer the existing Nebraska retirement systems. Currently, NPERS is responsible for the administration of five retirement plans and the Deferred Compensation Plan. The five retirement plans administered are as follows:

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

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

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

1. Summary of Significant Accounting Policies

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

Pension funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

The accrual basis of accounting is utilized by the Plans. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2002, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	11,360	163	280
Terminated plan members entitled to but not yet receiving benefits	14,302	12	11
Active plan members	35,974	166	415
Total	61,636	341	706

The NPERB was created in 1971 to administer the Nebraska retirement plans. The School Employees, Judges, and State Patrol plans have been created in accordance with Internal Revenue Code, Sections 401(a) and 414(h). Participants should refer to Neb. Rev. Stat. Sections 79-901 through 79-977.03 for the School Employees Retirement Plan, Neb. Rev. Stat. Sections 24-701 through 24-714 for the Judges Retirement Plan and Neb. Rev. Stat. Sections 81-2014 through 81-2040 for the State Patrol Retirement Plan. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

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

School Employees Retirement

Plan Description. The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. The Legislature in 1945 enacted the law establishing a retirement plan for school employees of the State. As of June 30, 2002, there were 578 participating school districts. All regular public school

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information (Continued)

employees in Nebraska, other than those who have their own retirement plan (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan. The benefits are based on both service and salary.

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

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to 0.7 percent of the compensation of all members. The employees' contribution is equal to 7.25 percent of their compensation. The school district's (employer) contribution is 101 percent of the employees' contribution.

Judges Retirement

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

Retirement is age 65 with benefits calculated using the final average monthly salary, multiplied by the total years of service and the formula factor of 3.5%; subject to a maximum of 70 percent of final average salary. The calculation varies with early retirement. Benefits vest when the judge takes office.

Contributions. The plan is funded by members' contributions, a portion of the court fees and the State's contributions. A one dollar fee for each case is collected from District and County courts plus a ten percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Judges contribute six percent of their salary during the first 20 years of service.

2. Plan Descriptions and Contribution Information (Concluded)

State Patrol Retirement

Plan Description. The State Patrol Retirement Plan is a single-employer defined benefit pension plan which was created in 1947 for officers of the patrol. The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the final average salary. To receive maximum benefits officers are required to have 25 years of service and be at least 50 years old. Normal benefits are calculated using the average monthly salary for the three twelve month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of 3%. Calculation will vary with early retirement. Benefits vest after ten years of service.

Contributions. Members are required to contribute 11 percent of their annual pay plus, and for a State Patrol officer employed on or before January 4, 1979, 11 percent of pay received at termination for unused sick leave and vacation leave. The member contribution is matched by the State Patrol (employer). The State's contribution is based on an annual actuarial valuation.

3. Cash, Investments, and Securities Lending

Neb. Rev. Stat. Section 72-1247 R.S.Supp., 2000, authorized the State Investment Officer to invest the State's funds in accordance with the prudent person rule. The State Investment Officer was prohibited to buy on margin, buy call options, or buy put options. The two categories of investments on the Statements of Plan Net Assets are Cash in State Treasury and Pooled Investments. The Nebraska Investment Council has contracted with outside managers to manage all of the funds of the School Employees, Judges, and State Patrol Retirement Plans, except for the funds in the State Treasury.

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

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

3. <u>Cash, Investments, and Securities Lending</u> (Continued)

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

Generally, either NPERS or the borrowers can terminate securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 53 and 63 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to NPERS by the contract with the custodian.

Derivative instruments are financial contracts in which underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. The System invests in futures contracts related to securities of the U.S. Government or Government Agency obligations, which are traded on organized exchanges, thereby minimizing the System's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. At June 30, 2002, the System held $169,938,200 of futures contracts.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

The carrying amount of these pooled investments at June 30, 2002, is at market value as set forth below:

Investments - Category 1	
US Government Securities	$ 479,966,902
Corporate Bonds	523,413,898
Equity Securities	
Not on Securities Loan	1,098,613,981
On Securities Loan	361,004
Municipal Bonds	5,735,832
Foreign Government Securities	23,818,086
Subtotal	2,131,909,703
Not Categorized	
Investments held by broker-dealers	
Under Securities Loan With Cash Collateral	
US Government Securities	340,109,222
Corporate Bonds	17,827,931
Equity Securities	156,925,780
Securities Lending Short-Term Collateral	
Investment Pool	526,129,511
Mutual Funds	1,483,144,787
Cash Equivalents	120,363,392
Total	$ 4,776,410,326

Carrying Amount at Market Value		
School Employees	$ 3,996,222,534	
Judges	76,575,254	
State Patrol	177,483,027	$ 4,250,280,815
Invested Securities Lending Collateral		
School Employees	494,680,399	
Judges	9,479,021	
State Patrol	21,970,091	526,129,511
Total Investments		$ 4,776,410,326

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Compensated Absences

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

Employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year.

Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days for employees under the Nebraska Classified System Personnel Rules and Regulations. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, at which time, the State is liable for 25 percent of the employee's accumulated sick leave.

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

The liability for the vested portion of compensated absences for each plan at June 30, 2002, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	$ 94,065	$ 1,399	$ 1,515
Sick Leave	47,157	701	759
Compensatory Leave	933	14	15
	$ 142,155	$ 2,114	$ 2,289

5. Contribution for Omaha Public Schools

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

6. Six-Year Historical Trend Information

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Contingencies and Commitments

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

A. Motor vehicle liability, which is insured for the first $5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State Agencies have the option to purchase coverage for physical damage to vehicles.

B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $1 million for each loss, and a $10,000 retention per incident.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly-acquired properties are covered up to $1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to $10,000,000.

E. State Agencies have the option to purchase building contents and inland marine coverage.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Contingencies and Commitments (Concluded)

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

The first Master Lease Agreement was for $1,597,620, including interest costs of $262,620. A summary of the future minimum contractual obligations, including interest at a rate of 5.239% as of June 30, 2002, is as follows:

Fiscal Year	Principal	Interest	Total
2003	$ 176,135	$ 52,096	$ 228,231
2004	185,589	42,642	228,231
2005	195,549	32,682	228,231
2006	206,044	22,187	228,231
2007	217,103	11,128	228,231
Thereafter	93,863	1,233	95,096

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 June 30, 2002, is as follows:

Fiscal Year	Principal	Interest	Total
2003	$ 254,881	$ 56,169	$ 311,050
2004	263,672	47,378	311,050
2005	272,765	38,285	311,050
2006	282,172	28,878	311,050
2007	291,904	19,146	311,050
Thereafter	404,925	9,808	414,733

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. School Employee Contributions

Employee contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling $1,705,875. Members can purchase service credit for reinstatement of service, out-of-state service, or for a leave of absence in accordance with Neb. Rev. Stat. Sections 79-921 R.S.Supp., 2001, 79-933.05 R.S.Supp., 2001, and 79-933.06 R.S.Supp., 2001.

9. Subsequent Event

A third Master Lease Agreement was entered into by NPERS in July 2002. The total amount of $6,029,861 includes interest payments of $644,861 at an interest rate of 3.129%.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL
RETIREMENT PLANS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
UNAUDITED

SCHEDULE 1

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SCHOOL EMPLOYEES						
06/30/2002	$4,799,789,893	$5,055,867,993	$256,078,100	94.9%	$1,065,515,857	24.0%
06/30/2001	1,486,008,665	1,704,201,512	218,192,847	87.2%	995,348,331	21.9%
06/30/2000	1,348,542,467	1,526,061,507	177,519,040	88.4%	933,339,432	19.0%
06/30/1999	1,129,546,860	1,345,494,742	215,947,882	84.0%	893,801,152	24.2%
06/30/1998	892,780,966	865,412,669	(27,368,297)	103.2%	882,963,179	(3.1%)
06/30/1997	742,015,212	771,343,623	29,328,411	96.2%	853,842,959	3.4%

The Schedule of Funding Progress prior to June 30, 2002 excluded liabilities and assets for the Excess Formula Annuity benefit because funding for this benefit was based on the Aggregate Actuarial Cost Method. As of June 30, 2002, per LB 407, the cost method was changed to the Entry Age Actuarial Cost Method for the total Formula Annuity, and thus, from June 30, 2002 forward, the Schedule of Funding Progress under Governmental Accounting Standards Board Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, will include total liabilities and assets for the School Retirement System.

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
JUDGES						
06/30/2002	$ 92,596,279	$ 81,191,724	$ (11,404,555)	114%	$ 16,062,274	(71.0%)
06/30/2001	90,685,851	90,685,851	-	100%	15,188,085	0.0%
06/30/2000	84,483,073	84,483,073	-	100%	13,913,264	0.0%
06/30/1999	75,521,517	75,521,517	-	100%	13,462,643	0.0%
06/30/1998	67,541,962	67,541,962	-	100%	12,729,379	0.0%
06/30/1997	60,668,012	60,668,012	-	100%	12,175,863	0.0%
STATE PATROL						
06/30/2002	$ 214,527,994	$ 197,615,091	$ (16,912,903)	108.6%	$ 18,846,776	(89.7%)
06/30/2001	208,372,640	187,284,490	(21,088,150)	111.3%	16,727,477	(126.1%)
06/30/2000	193,019,673	169,545,801	(23,473,872)	113.8%	15,789,104	(148.7%)
06/30/1999	171,124,224	162,222,559	(8,901,665)	105.5%	14,986,973	(59.4%)
06/30/1998	150,958,315	108,660,934	(42,297,381)	138.9%	13,995,091	(302.2%)
06/30/1997	134,721,462	100,796,787	(33,924,675)	133.7%	13,768,486	(246.4%)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL
RETIREMENT PLANS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
UNAUDITED

SCHEDULE 2

SCHOOL EMPLOYEES

Year Ended	Annual Required Contribution (1)		Percentage
June 30	State (2)	School	Contributed
2002	$ 12,659,281	$ 80,288,662	100%
2001	12,225,219	77,062,544	100%
2000	11,948,451	69,990,565	100%
1999	11,853,757	65,672,654	100%
1998	11,687,572	65,331,264	100%
1997	11,451,315	63,914,256	100%

JUDGES

Year Ended	Annual Required Contribution		Percentage
June 30	State	Court Fees (3)	Contributed
2002	$ 72,244 (4)	$ 492,613	100%
2001	72,244	487,012	100%
2000	72,244	473,838	100%
1999	72,244	442,802	100%
1998	72,244	445,115	100%
1997	72,244	449,776	100%

STATE PATROL

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2002	$ 2,428,025	100%
2001	2,257,609	100%
2000	2,203,735	100%
1999	2,294,332	100%
1998	1,891,043	100%
1997	1,904,257	100%

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

(1) Includes funding for the Excess Formula Annuity, the Service Annuity, and the supplemental funds. Includes contributions for plan year ended June 30 paid after end of plan year.

(2) Does not include contribution to Omaha Public Schools.

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

(4) Additional State funding is required in the amount of $726,806 for the next fiscal year.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Unaudited

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

	School Employees	Judges	State Patrol
Valuation Date	June 30, 2002	June 30, 2002	June 30, 2002
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining Amortization Period	25 Years	25 Years	25 Years
Mortality	1994 Group Annuity Table Set Back 2 Years	1994 Group Annuity Table Set Back 2 Years	1994 Group Annuity Table
Asset Valuation Method	5 year smoothing	5 year smoothing	5 year smoothing
Actuarial Assumptions:			
Investment Rate of Return (1)	8.0%	8.0%	8.0%
Projected Salary Increases (1)	Graded 9.1% to 4.5%	5.0%	Graded 12% to 4.5%
Cost-Of-Living Adjustments (COLA)	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 60% purchasing power of original benefit

(1) Includes assumed inflation of 3.5% per year.

Charges in the methods and assumptions:

School Employees
- The actuarial cost method has been charged to the Entry Age Actuarial Cost Method.
- Salary increase assumptions have been increased at earlier ages grading down to 4.5% at age 65.
- Retirement rates have been decreased at ages 55 to 58 and 66 to 69 and increased at ages 59 to 65.
- Health mortality has been improved, using 1994 Group Annuity Mortality with a 2-year set back.
- Ultimate withdrawal rates and select loading have been increased.
- Disability rates have been reduced by 50% at each age.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Unaudited, **(Concluded)**

Judges
- The actuarial cost methods has been changed to the Entry Age Actuarial Cost Method.
- Retirement rates have been increased at ages 65 and 66 and decreased at ages 67 to 71.
- Healthy mortality has been improved using 1994 Group Annuity Mortality with a 2-year setback.

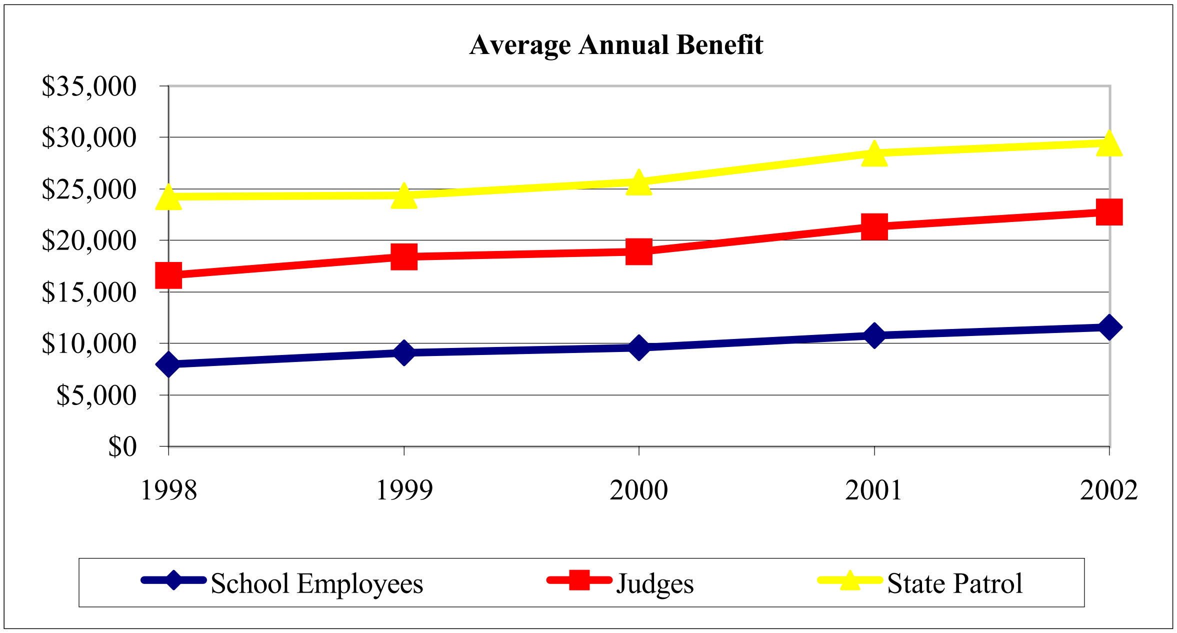
State Patrol
- The actuarial cost method has been charged to the Entry Age Actuarial Cost Method.
- Salary increase assumptions have been increased at earlier ages grading down to 4.5% at age 55.
- Retirement rates have been increased at ages 50 through 56 and decreased at ages 57 through 59.
- Health mortality has been improved, using 1994 Group Annuity Mortality.
- Withdrawal rates have been increased to 3% at all ages.
- Disability rates have been reduced by 50% at each age.

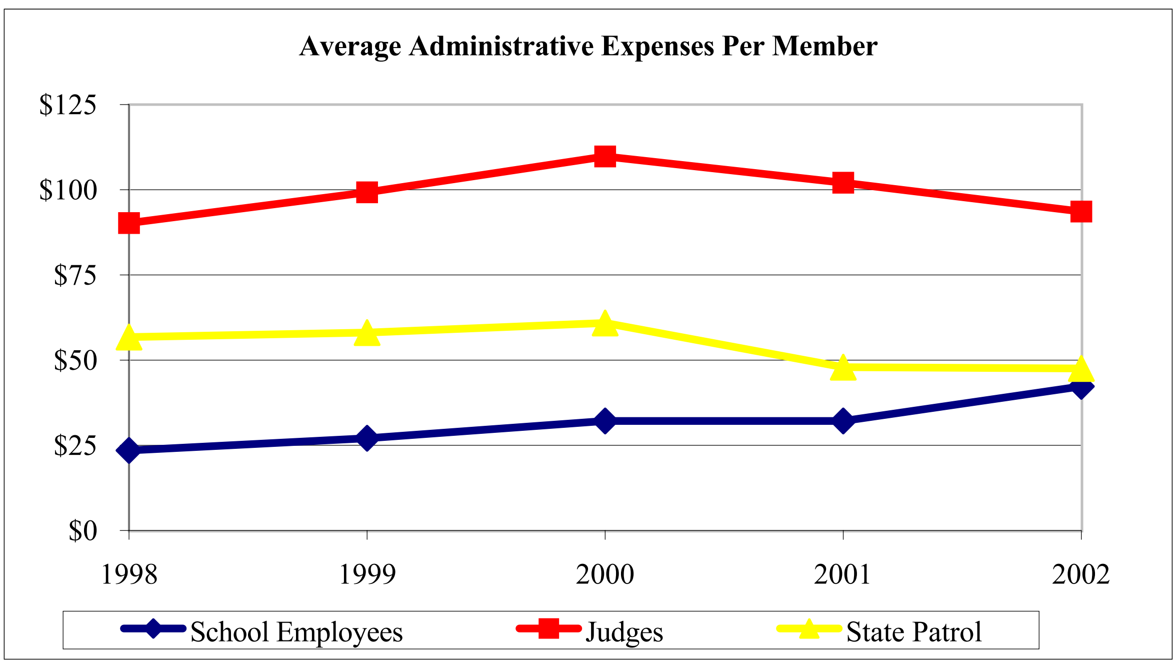
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS
Fiscal Years Ended June 30, 1998 through 2002

	1998	1999	2000	2001	2002
SCHOOL EMPLOYEES					
Active Members	33,546	34,047	34,718	35,589	35,974
Inactive Members	13,004	10,605	13,918	15,158	14,302
Retirees	9,229	9,911	10,371	10,925	11,360
Total Benefits Paid (3)	$ 73,693,161	$ 89,882,287	$ 99,501,638	$ 117,809,712	$ 131,499,136
Average Annual Benefit (1)	$ 7,985	$ 9,069	$ 9,594	$ 10,783	$ 11,576
Average Monthly Benefit (4)	$ 665	$ 756	$ 800	$ 899	$ 965
Administrative Expenses	$ 1,308,926	$ 1,478,766	$ 1,891,100	$ 1,983,883	$ 2,601,071
Average Admin. Expense Per Member (:	$ 23.47	$ 27.10	$ 32.05	$ 32.17	$ 42.20
JUDGES					
Active Members	164	166	159	164	166
Inactive Members	15	14	22	13	12
Retirees	158	160	163	165	163
Total Benefits Paid (3)	$ 2,619,494	$ 2,946,584	$ 3,080,021	$ 3,515,798	$ 3,709,728
Average Annual Benefit (1)	$ 16,579	$ 18,416	$ 18,896	$ 21,308	$ 22,759
Average Monthly Benefit (4)	$ 1,382	$ 1,535	$ 1,575	$ 1,776	$ 1,897
Administrative Expenses	$ 30,430	$ 33,753	$ 37,783	$ 34,935	$ 31,934
Average Admin. Expense Per Member (:	$ 90.30	$ 99.27	$ 109.83	$ 102.15	$ 93.65
STATE PATROL					
Active Members	390	382	386	403	415
Inactive Members	9	11	16	6	11
Retirees	232	252	269	274	280
Total Benefits Paid (3)	$ 5,620,425	$ 6,140,771	$ 6,908,835	$ 7,806,983	$ 8,254,431
Average Annual Benefit (1)	$ 24,226	$ 24,368	$ 25,683	$ 28,493	$ 29,480
Average Monthly Benefit (4)	$ 2,019	$ 2,031	$ 2,140	$ 2,374	$ 2,457
Administrative Expenses	$ 35,836	$ 37,480	$ 40,845	$ 32,763	$ 33,578
Average Admin. Expense Per Member (:	$ 56.79	$ 58.11	$ 60.87	$ 47.97	$ 47.56

Notes:
(1) Calculated: Total Benefits Paid/#Total Retirees=Avg Annual Benefit
(2) Calculated: Administrative Expenses/Total Members=Avg Admin Expense per Member
(3) Total benefits paid does not include refunds
(4) Calculated: Average Annual Benefit/12

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





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

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

We have audited the financial statements of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans as of and for the year ended June 30, 2002, and have issued our report thereon dated January 9, 2003. The Independent Auditors' Report was modified to disclose that the Required Supplementary Information was unaudited. 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.

Compliance

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

Section of this report as Comment Number 1 (School District Payroll Records), Comment Number 2 (COLA Calculations), Comment Number 3 (Expense Allocation Method), and Comment Number 5 (Unallowable/Unreasonable Travel Expenses).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Comments Section of the report as Comment Number 1 (School District Payroll Records).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans in the Comments Section of the report as Comment Number 3 (Expense Allocation Method), Comment Number 4 (Overpayment on Contract), and Comment Number 5 (Unallowable/Unreasonable Travel Expenses).

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

Pat Reding, CPA

January 9, 2003 Assistant Deputy Auditor