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

JANUARY 1, 2004 THROUGH DECEMBER 31, 2004

Issued on September 21, 2005

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

TABLE OF CONTENTS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

BACKGROUND

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

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

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

All appointed members must be Nebraska citizens.

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

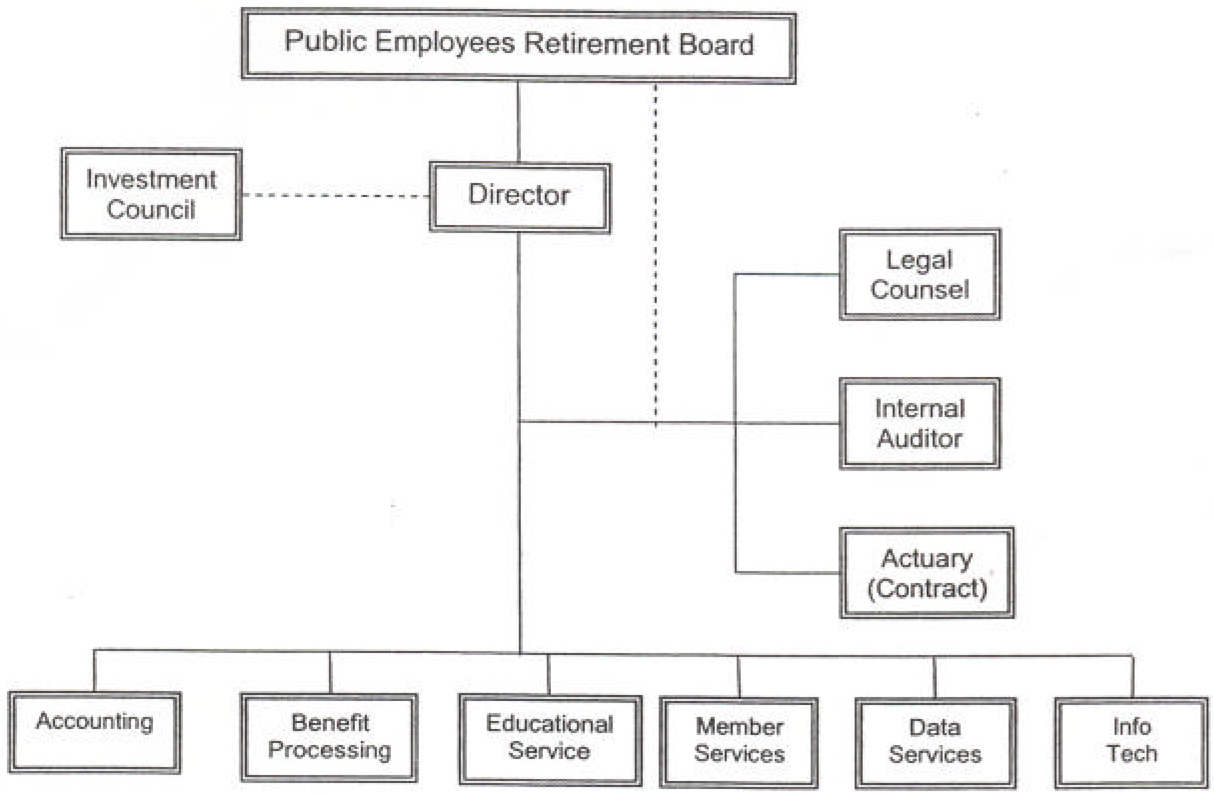
The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed among the retirement systems. All expenses must be provided from investment income earned by various retirement funds, unless other fund sources to pay expenses are specified by law.

MISSION STATEMENT

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held August 11, 2005 with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our examination. Those in attendance for NPERS were:

NAME	TITLE
Anna Sullivan	Director
Jane Hansen	Member Services Manager
Joe Schaefer	Legal Counsel
Ron Niewohner	IT Manager
Tammy Petersen	Business System Analyst
Teresa Zulauf	Internal Auditor
Mary Klug	Ameritas Strategic Alliances Specialist

SUMMARY OF COMMENTS

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

1. ***County Plan Payroll Testing:*** We sampled payroll records in 23 counties and noted 3 counties did not adequately monitor non-participating, part-time employees' hours worked and/or employees who will soon be required to join the Plan to ensure the mandatory contributions begin on time. There were also 9 of 96 employees tested that were not properly contributing to the Plans.

2. ***Inadequate Resolution of Prior Audit Findings:*** NPERS inadequately resolved findings noted in prior audits from 2003 back to 2000 for both the State and County Plans.

3. ***Incorrect Annuity Payments:*** NPERS incorrectly calculated the monthly annuity for one of six State members tested resulting in an underpayment to the member of $141 per month.

4. ***Required Contribution Procedures:*** NPERS did not implement adequate procedures to ensure all required contributions were remitted. A total of 18 of 54 State Plan members tested and 2 of 30 County Plan members tested were not enrolled timely, did not remit the proper amount of contributions, or did not remit missed contributions.

5. ***Plan Membership Eligibility:*** We noted 3 of 30 State Plan members tested and 5 of 30 County Plan members tested had not met the requirements for membership in the Plans. We also noted one additional State Plan member and one additional County Plan member had not met the requirements for membership in Plans.

6. ***PIONEER Information System:*** We have identified areas of concerns or areas where improvement to PIONEER is needed to ensure the integrity of member data.

7. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' bank reconciliation process is still not done in a timely manner and continues to reflect unknown variances between the bank records and accounting records.

8. ***Initial Contributions:*** NPERS did not consistently enforce the policy related to initial contributions. We noted 12 of 30 new State Plan members tested and 4 of 30 new County Plan members tested had their initial retirement contribution deducted during the pay period that included the effective date of enrollment. We also noted 5 of the 12 new State Plan members tested had initial contributions pro-rated.

SUMMARY OF COMMENTS
(Continued)

9. ***Alternate Vesting Dates:*** During our review of alternate vesting date procedures, we noted the procedures for ensuring alternate vesting dates are properly adjusted were inadequate. We noted 2 of 29 State Plan members tested had inaccurate alternate vesting dates.

10. ***Required Rules and Regulations:*** We noted six State Statutes that reference a corresponding rule and regulation, but NPERS does not have official rules and regulations for those statutes. We also noted one State Statute that required the Board to set a date on which such information or money should be received from counties. The Board has not set a date.

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 Payroll Testing

Neb. Rev. Stat. Section 84-1503(2)(b) R.S.Supp., 2004 states it shall be the duty of the board, "To determine the eligibility of an individual to be a member of the retirement system and other questions of fact in the event of a dispute between an individual and the individual's employer."

Neb. Rev. Stat. Section 23-2306 R.S.Supp., 2004 states, "(1) The membership of the retirement system shall be composed of all persons who are or were employed by member counties and who maintain an account balance with the retirement system. (2) The following employees of member counties are authorized to participate in the retirement system: (a) All full-time employees who have been employees for a period of twelve continuous months shall begin participation in the retirement system, except that full-time elected officials shall begin participation in the retirement system on taking office, (b) all full-time or part-time employees who have attained the age of twenty and have been employed for a total of twelve months within a five-year period may exercise the option to begin participation in the retirement system, and (c) all part-time elected officials may exercise the option to begin participation in the retirement system. An employee who exercises the option to begin participation in the retirement system shall remain in the system until termination or retirement, regardless of any change of status as a permanent or temporary employee."

Neb. Rev. Stat. Section 23-2301(16) R.S.Supp., 2004 states, a "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(24) R.S.Supp., 2004 states, a "Part-time employee means an employee who is employed to work less than one-half of the regularly scheduled hours during each pay period."

Good internal control requires NPERS to review county payroll information to ensure all eligible employees are enrolled in the Plan and to ensure the contributions are correctly withheld and census information is accurate.

We sampled payroll records in 23 counties to determine compliance with Plan eligibility requirements, including determining whether all eligible employees were contributing to the Plan and whether the salary reported to NPERS agreed to the payroll records. We noted the following:

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>County Plan Payroll Testing</u> (Continued)

a. 2 of 23 counties tested did not adequately monitor non-participating, part-time employees' hours worked. Therefore, the counties could not identify when employees switched to full-time status in order to correctly enroll employees in the Plan. The two counties were Hayes and Thurston. As noted below, both counties had employees who should be participating in the Plan and were not. A similar finding was also noted in the prior audit.

b. 2 of 23 counties tested did not adequately monitor employees who were required to join the plan to ensure the mandatory contributions began on time. The two counties were Hayes and Hooker.

c. 9 of 96 employees tested were not properly contributing to the Plan as required by statute. There were two employees each from Thurston, Hooker, and Cheyenne counties and one employee each from Brown, Hayes, and Pierce counties. The employees missed from 10 bi-weekly pay periods to in excess of 4 years. All nine employees are required to remit these missed contributions. A similar finding was noted in the prior audit.

d. NPERS did not verify whether counties correctly input the retirement percentage in the field that is used to extract retirement information or whether the counties correctly input census information for each employee.

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 all eligible employees are not participating in the Plan increases significantly. Additionally, there is an increased risk incorrect contribution rates and census data are used without procedures to sample payroll data at the counties.

> We continue to recommend NPERS implement procedures to ensure county employees participate in the County Employees Retirement Plan as required by statute. We also recommend NPERS implement procedures to review information entered by counties to ensure the accuracy of the information and ensure contributions are withheld correctly. Finally, we recommend NPERS resolve the issues noted in this finding with the counties.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>County Plan Payroll Testing</u> (Concluded)

NPERS' Response: As of FY 05-06 we have a full-time employee available who will dedicate time to testing the payroll of employers. We are implementing testing and sampling of the documentation that is submitted to our office by the Counties. This includes reviewing the information entered by the counties to ensure the accuracy of the information and ensure retirement contributions are withheld at the correct rate.

Our staff has begun work with the counties in the identified instances to correct any errors.

APA's Response: We do not feel testing and sampling of the current documentation submitted to NPERS by the Counties is adequate. NPERS only receives information provided by the counties for participating members. These procedures would not allow NPERS to review individuals who are not participating in the Plan and possibly should be.

2. <u>Inadequate Resolution of Prior Audit Findings</u>

Good internal control requires the timely and thorough resolution of prior audit findings. *Government Auditing Standards* and *AICPA Professional Standards* regard the failure to follow up and correct previously identified internal control deficiencies to be a reportable condition.

a. Four findings from the calendar year 2003 audit of the State Plan were not adequately resolved. All of the findings were presented at the prior exit conference on September 23, 2004.

- One employee had an incorrectly calculated annuity payment. The employee had not received a payment for the additional benefit owed.

- One member missed required contributions. NPERS provided documentation of correspondence with the agency; however, the employee still has not remitted all of the missed contributions.

- One member over-contributed to the Plan. NPERS provided documentation of correspondence with the agency; however, the individual still has not been refunded the over-contribution.

- One member's missed employer contributions have not been completely made up.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Inadequate Resolution of Prior Audit Findings (Continued)

b. Seven findings from the calendar year 2003 audit of the County Plan were not adequately resolved during the current audit. NPERS did not provide documentation to support whether the counties in question were contacted:

- 6 of 22 counties tested did not adequately monitor part-time employees to ensure enrollment requirements were met. The six counties were Buffalo, Butler, Furnas, Red Willow, Sheridan, and Thayer. NPERS did not contact these counties until after the current audit began.

- There was no documentation to determine whether missed contributions were remitted for four of six employees who missed required contributions. The four were employed by Buffalo, Grant, Sheridan, and Thayer counties.

- One Antelope County employee began contributing to the Plan prior to meeting the eligibility requirements for Plan participation. NPERS provided documentation of correspondence with the County; however, NPERS did not adjust the contributions in accordance with Rules and Regulations.

- One Sarpy County employee's annuity benefit was calculated incorrectly. NPERS used the incorrect annuity factor when calculating the member's benefit. The county member tested is receiving $9 more per month than the member should be receiving.

c. Two findings from the calendar year 2002 audit of the State Plan and three findings from the calendar year 2002 audit of the County Plan were not adequately resolved. NPERS provided documentation of correspondence with the agency for one of the two State findings; however, the issue was not resolved.

d. Six findings from the calendar year 2001 audit of the County Plan were not adequately resolved.

e. One finding from the calendar year 2000 audit of the State Plan was not adequately resolved.

Without adequate procedures for the timely follow up of previously identified problems, errors detected in testing remain unresolved. Additionally, State agencies and counties are not made aware of errors timely in order to resolve the issues.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Inadequate Resolution of Prior Audit Findings (Concluded)

> We continue to recommend NPERS implement procedures to ensure all audit exceptions are adequately resolved.

NPERS' Response: We have addressed and corrected many of the prior audit findings, however due to the short time between audit reports some have carried over into the new calendar year. Work continues with the County Clerks and State Agencies to resolve prior audit findings and research the individuals identified by the auditors and to ensure the necessary changes are made.

We continue to make every attempt to ensure all audit exceptions are adequately resolved in a timely manner.

3. Incorrect Annuity Payments

Good internal control and sound business practice requires procedures to ensure annuity benefits are calculated accurately.

NPERS began to calculate retirement annuities during 2003. One of six State members tested had their annuity amount calculated incorrectly. NPERS used the incorrect age and factor in the calculation. The calculation resulted in the member receiving $141 less per month. We noted a similar finding in the prior audit.

Without adequate procedures to ensure annuity benefits are calculated correctly, the risk increases for incorrect calculations of member benefits.

> We recommend NPERS ensure all annuity benefits are calculated correctly by NPERS staff and any variances are appropriately resolved.

NPERS' Response: We were very disappointed that our processors did not catch this mistake during the required review step of a benefit calculation. NPERS has implemented additional procedures, including an audit of the factors used when calculating a benefit.

We have had a meeting within the department to provide training to resolve the problem regarding the rounding of age error. The member's benefit has been corrected and previous payments adjusted to reflect the proper calculation.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Required Contribution Procedures</u>

Good internal control requires procedures to ensure all eligible employees are enrolled in the Plans. Good internal control also requires procedures to ensure missed contributions are properly remitted and are remitted in accordance with NPERS Rules and Regulations.

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 employer to remit additional contributions."

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 statutorily mandated deduction from compensation, (b) less than the statutorily mandated matching contribution required of 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 (v) states, "Any additional employer contribution which is dependent upon an additional employee contribution shall be made in conjunction with the employee contribution."

<u>State Plan</u>

As noted in the prior year, NPERS did not have adequate procedures to ensure State employees enrolled in the Plan timely or that missed contributions were correctly calculated and remitted.

a. NPERS obtained a list from the State accounting system of State employees who were not contributing to the Plan as part of their procedures to ensure all members were properly contributing to the Plan. NPERS' process was to follow up with the agency to ensure the member began contributions on time or properly remitted missed contributions. We tested 25 employees from NPERS' listing and determined 10 employees were not enrolled timely, did not remit the proper amount of contributions, or did not make-up any missed contributions. We also noted 4 of the 10 employees had the State share of missed contributions remitted in a different timeframe than the employee share. NPERS did not provide documentation to indicate follow up procedures with agencies whose employees missed contributions. Therefore, it does not appear NPERS had adequate procedures to ensure contributions were remitted in accordance with statutes and rules and regulations.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Required Contribution Procedures (Concluded)

State Plan (Concluded)

b. We also tested 29 of 1,364 State Plan members who began contributions during 2004 and noted 6 new members had an inaccurate amount contributed for their initial contribution and 2 new members missed required contributions and did not remit the missed contributions.

County Plan

We tested 30 of 616 new County Plan members and noted 2 members missed required contributions and the missed contributions were not properly remitted.

Without adequate procedures to ensure required contributions are properly and timely remitted, there is an increased risk members vested in the Plan will not receive all possible benefits, and the plans will not receive all possible forfeiture amounts for members who are not vested at termination. In addition, the risk of loss of State funds increases if an employer remits their share of missed contributions all at once. If the employee terminates prior to remitting all employee missed contributions, they would get the benefit of an employer contribution without a corresponding employee contribution. A similar comment was noted in prior audit reports.

> We recommend NPERS implement adequate procedures to ensure all required contributions are remitted for the correct amounts and are remitted timely. We also recommend NPERS implement procedures to ensure missed employee and employer contributions are remitted in conjunction with each other, in accordance with Rules and Regulations, and implement procedures to adequately monitor missed contributions. Finally, we recommend NPERS take appropriate action, in accordance with their Rules and Regulations, to resolve the situations identified in this finding.

NPERS' Response: Our current procedures are being reviewed and procedures will be added to ensure all required contributions are remitted correctly and all follow-up documentation has been imaged into the proper file. We will continue to work with State Agencies and County Clerks to ensure Make-up Agreements are properly completed. In addition, we will strengthen our Make-up Contribution procedures to ensure all missed employee and employer contributions are remitted in conjunction with each other.

The individuals from the testing completed by the office of the Auditor of Public Accounts will be examined and necessary corrections will be made.

5. Plan Membership Eligibility

Neb. Rev. Stat. Section 23-2306 R.S.Supp., 2004 states, "(1) The membership of the retirement system shall be composed of all persons who are or were employed by member counties and who maintain an account balance with the retirement system. (2) The following employees of member counties are authorized to participate in the retirement system: (a) All full-time employees who have been employees for a period of twelve continuous months shall begin participation in the retirement system, except that full-time elected officials shall begin participation in the retirement system on taking office, (b) all full-time or part-time employees who have attained the age of twenty and have been employed for a total of twelve months within a five-year period may exercise the option to begin participation in the retirement system, and (c) all part-time elected officials may exercise the option to begin participation in the retirement system. An employee who exercises the option to begin participation in the retirement system shall remain in the system until termination or retirement, regardless of any change of status as a permanent or temporary employee."

Neb. Rev. Stat. Section 84-1307(2) R.S.Supp., 2004 states, "The following employees of the State of Nebraska are authorized to participate in the retirement system: (a) All permanent full-time employees who have twelve continuous months of service shall begin participation in the retirement system; and (b) all permanent full-time or permanent part-time employees, who have twelve months of service within a five-year period and who have attained the age of twenty, may exercise the option to begin participation in the retirement system."

Good internal control requires procedures to ensure only eligible employees participate in the State and County Employees Retirement Plans as required by statute.

The State and County Employees Retirement System Handbooks state an employee that does not meet mandatory participation but wishes to enroll may do so by first completing a Cash Balance voluntary enrollment form.

NPERS did not have adequate procedures to ensure only eligible employees joined the State and County Plans as required by statute. In addition, NPERS did not have complete and accurate records for several individuals. We noted the following:

State Plan

a. Three of 30 State Plan members tested had not met the requirements for membership in the Plan. The members entered the Plan from one pay period to nine months early and should have the ineligible contributions refunded. A similar finding was noted in the prior audit.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Plan Membership Eligibility (Continued)

State Plan (Concluded)

b. In our test of 25 employees from NPERS listing (as described in comment 4 above), we noted one member entered the Plan one month early and should have contributions refunded.

c. One of one voluntary State Plan members tested did not have an enrollment form on file prior to Plan participation. A similar finding was noted in the prior audit.

County Plan

a. Five of 30 County Plan members tested had not met the requirements for membership in the Plan. The members entered the Plan one pay period early and should have the ineligible contributions refunded. A similar finding was noted in the prior audit.

b. One of 96 County Plan members tested in our sample of county payroll data had not met the requirements for membership in the Plan. The employee entered the Plan one month early and should have contributions refunded.

c. Two voluntary members tested in the County Plan did not have an enrollment form on file. A similar finding was noted in the prior audit.

Without adequate procedures to ensure only eligible employees participate in the State and County Employees Retirement Plans as required by statute, the risk that ineligible employees are participating in the Plans increases significantly, as noted in the finding.

> We continue to recommend NPERS implement procedures to ensure only eligible employees enter the Plans. In addition, we recommend NPERS implement procedures to ensure enrollment forms are received prior to the first contribution for members who voluntarily become members of the Plan. We also recommend any ineligible contributions be refunded.

NPERS' Response: We are seeking ways to compliment our current procedures to ensure only eligible employees enter the plan.

We have created e-mail groups to the state/county employers in order to remind them of our procedures and the statutes they must follow.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Plan Membership Eligibility (Concluded)

NPERS' Response, Concluded:
Employers will continue to be reminded that they must monitor the hours and employment time for both part-time and temporary employees to make certain they do not at some point fall under mandatory membership and be required to join the plan. A number of County Clerks are implementing procedures to improve the monitoring of part-time employees. We will work with the State Agencies and County Clerks on the importance of submitting all paperwork to the Retirement Office prior to any voluntary members making contributions.

We will examine the individuals from the testing completed by the office of Auditor of Public Accounts and make any corrections necessary.

6. PIONEER Information System

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records.

NPERS utilized an information system known as PIONEER that holds all information on members in each of the Plans administered by NPERS. We have identified concerns or areas where improvement to PIONEER is needed to ensure the integrity of member data:

- A comprehensive, written PIONEER policy and procedures manual was not prepared. NPERS had training manuals for the system that were considered "navigational" in nature and did not describe specific policies or procedures related to processing transactions in the system.

- There were no specific written security procedures. The system did not automatically time-out for users who had been inactive for a period of time and users were not required to change their password after a set period of time.

- A records retention policy was not implemented and approved during calendar year 2004 to ensure an adequate audit trail was maintained for system information.

In addition, as part of the State of Nebraska's overall information security process, a consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of PIONEER and noted the following:

COMMENTS AND RECOMMENDATIONS
(Continued)

6. <u>PIONEER Information System</u> (Continued)

- Prior to January 1, 2005, approvals for application changes were not tracked or recorded prior to changes being migrated to production. Several changes that occurred prior to the implementation of the updated change process on January 1, 2005 did not have approval e-mails by the Business Analyst.

- The ability to move code into production was limited to employees' assigned administrative (ADMIN) rights. However, two employees who did not perform code migration as part of their roles or responsibilities had the ability to migrate code into the production environment.

- The default file and object access settings within Active Directory should be set to "Failure". Modifications to account management and system settings should be logged and monitored for success and failure.

- User access privileges (authentication and authorization) were not reviewed on a periodic basis.

Without written procedures and adequate controls over the system there is a risk employees may unintentionally or intentionally corrupt data and errors could occur and go undetected.

> We recommend NPERS ensure policies and procedures are established in regards to the PIONEER system. Furthermore, information security issues noted should be addressed appropriately and timely and a records retention policy should be implemented.

NPERS' Response: We will address each bullet separately.

- *Policy and procedures were defined during GAP and GAP documents were produced. The GAP documents contain specific steps for completing processes based on the policies and procedures that were defined. In addition, training manuals for each process in PIONEER have been written and provided to users. Users have their individual notes on processes. NPERS will make an effort to combine these items into one working document that will be a "work in process" as procedures and policies change and are constantly being refined.*

COMMENTS AND RECOMMENDATIONS
(Continued)

6. PIONEER Information System (Concluded)

NPERS' Response, Concluded:

- *The individual PCs will lock after they have been inactive for a designated period of time. This policy is passed from the network administrator and cannot be overwritten by users. While PIONEER does not have a 'time out' the user cannot get logged into any other application without first signing on to their PC using their password. While PIONEER does not require a password change after a set period of time, the system does require that the user change their password thus eliminating the need for PIONEER to require a password change since you cannot access PIONEER until you have logged in to the system using your password. This would also be a major costly change in PIONEER involving much programming time by the vendor.*

- *The records retention policy has been updated in 2005 and has been sent to DAS for final approval. NPERS is using the policy as is until that approval is received from DAS with any changes that they may make.*

- *The approval process that we now use was not implemented until January 2005. Prior to that, the Project Manager approved all deployments to UAT and Production either verbally or by some other means. Starting with January 2005 to the current time, e-mail approvals are used to communicate when a deployment to UAT and Production can be taken. E-mail approvals were provided to Deloitte & Touche for every deployment taken from January 2005 to the present.*

- *We have removed the admin rights for the two mentioned employees.*

- *This setting was modified after the initial audit findings were presented to NPERS and the logs are now monitored.*

- *PIONEER user privileges (authentication and authorization) are reviewed on a monthly basis by the IT Business Analyst. Whenever a request for a role update/change is requested by a manager the Business Analyst will update the Role Spreadsheet accordingly, print out the listing and place it in the designated notebook. A confirmation e-mail will then be sent to the manager who requested the change/update indicating the request has been completed. At the end of each month two jobs are run from PIONEER and corresponding reports are generated from PIONEER. These reports are entitled: User List Report and List of Roles. These reports are compared to the Role Spreadsheet which is updated by the Business Analyst on a periodic basis.*

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Reconciliation of Bank Records to the Nebraska Information System

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

> DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of $2,944,126 and $2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

7. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

> The APA recommends DAS Accounting Division continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

NPERS' Response: The responsibility for resolving this issue lies with the Department of Administrative Services (DAS) and the NIS implementation team. NPERS does not have the authority to address this issue.

8. Initial Contributions

The Nebraska State Retirement System Manual states, "You [the employer] are required to start retirement deductions for a new plan member within the first full pay period after his/her eligibility date and in all cases before 60 days has elapsed." The effective date of enrollment is the first 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. The Nebraska County Retirement System Manual states a similar requirement for retirement deductions.

NPERS did not consistently enforce the policy on initial contributions. State agencies and counties handled the first contribution inconsistently. Some agencies and counties allowed employees to begin contributing in the pay period that included the effective date of enrollment, while other agencies and counties had employees wait to begin contributing until the first full pay period following the effective date, while some State agencies pro-rated the initial contribution. We noted 12 of 30 new State Plan members and 4 of 30 new County Plan members had initial retirement contributions deducted during the pay period that included the effective date of enrollment. This was also a comment in the prior three audit reports. We also noted that 5 of the 12 new State Plan members had initial contributions pro-rated.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Initial Contributions (Concluded)

Without consistent enforcement of the policy defining when the initial retirement contributions should begin, certain employees gain the benefit of up to one additional pay period in which to contribute.

> We recommend NPERS develop procedures to ensure the enforcement of the policy for initial contributions to ensure the pay period of the initial contribution includes only wages that are eligible for the deduction.

NPERS' Response: Enforcement of our policy for initial contributions to make sure the pay period of the initial contribution includes only wages eligible for the deduction has been difficult for us.

As noted in Point #5, we have created e-mail groups to the state/county employers in order to contact them about issues and concerns we have. Included are reminders to the County Clerks and State Agencies to refer to the policies in their manuals. If a State Agency or County Clerk has a question, they can call or email our office for an answer.

We have been in contact and plan to follow-up with those employers who have handled the first contribution inconsistently.

9. Alternate Vesting Dates

Good internal control requires procedures to ensure vesting dates are accurate for the proper payment of the employer account at termination.

During our review of alternate vesting date procedures, we noted the following:

- The procedures for ensuring alternate vesting dates are properly adjusted were inadequate. There was no verification to ensure all vesting dates were appropriately adjusted for all vesting credit applications. The vesting credit calculation did not get reviewed by a second individual for those members without a vesting credit application. (Employees with prior Plan participation were not required to submit applications.) Finally, employees who remitted missed contributions or were refunded ineligible contributions did not appropriately have their vesting dates adjusted.

- Of the 29 State Plan members tested, 2 had an incorrect vesting date since the employees remitted missed contributions or were refunded ineligible contributions. The employees vesting dates required adjustment of 2 months and 6 months.

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Alternate Vesting Dates (Concluded)

Incorrect information regarding alternate vesting dates may lead to employees incorrectly receiving or not receiving employer contributions at termination.

> We recommend all calculations of alternate vesting dates be reviewed by a second individual. We also recommend NPERS implement procedures to ensure vesting dates are adjusted when missed contributions are remitted or ineligible contributions are refunded.

NPERS' Response: We are in the process of updating our procedures to request that all new hires complete a vesting credit application, including rehires and implementing additional review procedures for every application that is submitted to our office. Our procedures will include a second review by another benefits staff member and adjusting vesting dates when missed contributions are remitted or ineligible contributions are refunded.

We will examine the individuals identified by the office of Auditor of Public Accounts and make any corrections necessary.

10. Required Rules and Regulations

Good internal control requires procedures to ensure any rules and regulations required by statute are created. The Board had not developed a rule and regulation as required by statute for the following:

- Neb. Rev. Stat. Sections 23-2306(7) and 84-1307(6) R.S.Supp., 2004 state ". . . that employees authorized to participate in the retirement system . . . shall enroll and make required contributions to the retirement system within sixty days under rules and regulations adopted and promulgated by the board."

- Neb. Rev. Stat. Section 23-2306.02 R.R.S. 1997 states, "Under such rules and regulations as the retirement board adopts and promulgates, a full-time or part-time employee of a city, village, or township who becomes a county employee pursuant to a merger of services may pay to the retirement system an amount equal to the sum of all deductions which were made from the employee's compensation."

COMMENTS AND RECOMMENDATIONS
(Continued)

10. Required Rules and Regulations (Concluded)

- Neb. Rev. Stat. Section 23-2306.03 R.S.Supp., 2004 states, "Under such rules and regulations as the retirement board adopts and promulgates, a full-time or part-time employee of a city, village, fire protection district, or township who becomes a municipal county employee shall transfer all of his or her funds in the retirement system of the city, village, fire protection district, or township by paying to the Retirement System."

- Neb. Rev. Stat. Sections 23-2320(2)(a) and 84-1322(2)(a) R.S.Supp., 2004 state, "A member who ceases to be an employee before becoming eligible for retirement . . . and again becomes a permanent full-time or permanent part-time county (state) employee prior to having a five-year break in service shall be reenrolled in the retirement system and resume making contributions within sixty days under rules and regulations adopted (established) by the board."

We also noted the Board had not set a date for late fees as required in the following statute:

Neb. Rev. Stat. Section 23-2308 R.S.Supp., 2004 states, "The Board may charge the county an administrative processing fee or twenty-five dollars if the reports of necessary information or payments made pursuant to this section are received later than the date on which the board requires that such information or money should be received."

Lack of rules and regulations where required by statutes can cause inconsistency in handling of issues.

> We recommend the Board develop official rules and regulations as required by the statutes mentioned above.

NPERS' Response: All changes or updates to Rules and Regulations have been prioritized by importance. NPERS currently has changes pending which address enrollment of members, remittance of required contributions, and assessment of late charges. These are being reviewed by the Public Employees Retirement Board after which hearing dates will be set and the process completed.

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INDEPENDENT AUDITORS' REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited the accompanying Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets of the Nebraska Public Employees Retirement Systems (NPERS) - State and County Employees Retirement Plans as of and for the calendar year ended December 31, 2004, 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, 2004, 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 August 11, 2005, 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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The "Schedules of Funding Progress" and "Schedules of Contributions From Employers" 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.

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 of "Average Administrative Expense per Member," "Calendar Year 2004 Expenses and Fees," "Average Administrative Expense per Member for Calendar Year 2004," and "Total Benefits Paid" are presented for purposes of additional analysis and are not a required part of the financial statements of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

August 11, 2005 Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2004

ASSETS	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
Cash in State Treasury	$ 37,243	$ 1,004,243
Receivables:		
Contributions	3,650	3,286
Interest	1,298,733	91,134
Other Receivables (Note 12)	12,639,957	-
Total Receivables	13,942,340	94,420
Pooled Investments, at fair value (Note 3):		
U.S. Government Securities	53,662,343	-
Corporate Bonds	29,653,090	-
Asset Backed Securities	13,682,580	-
Real Estate Investment Trust	1,118,148	-
Equity Securities	24,833,766	-
Collateralized Mortgage Obligations (CMOs)	3,252,944	-
Taxable Municipal Bonds	466,443	-
Mutual Funds and Cash Equivalents	190,760,292	571,872,111
Total Pooled Investments	317,429,606	571,872,111
Guaranteed Investment Contracts, at contract value (Note 3)	9,435,239	87,674,522
Invested Securities Lending Collateral (Note 3)	26,240,310	2,011,968
Capital Assets (Note 9):		
Equipment	2,104,130	1,099,992
Less: Accumulated Depreciation	(379,909)	(468,468)
Total Capital Assets	1,724,221	631,524
Total Assets	368,808,959	663,288,788
LIABILITIES		
Compensated Absences (Note 6)	30,267	45,184
Other Payables (Note 12)	19,245,678	346,827
Benefits Payable	29,416	-
Obligations Under Securities Lending (Note 3)	26,240,310	2,011,968
Capital Lease Obligations (Note 5)	1,658,768	760,788
Total Liabilities	47,204,439	3,164,767
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 46.)	$ 321,604,520	$ 660,124,021

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2004

ASSETS	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
Cash in State Treasury	$ 21,561	$ 35,061
Receivables:		
Contributions	234,433	272,457
Interest	366,283	23,164
Other Receivables (Note 12)	3,523,646	-
Due From Other Fund (Note 11)	1,000	-
Total Receivables	4,125,362	295,621
Pooled Investments, at fair value (Note 3):		
U.S. Government Securities	14,959,203	-
Corporate Bonds	8,266,254	-
Asset Backed Securities	3,814,229	-
Real Estate Investment Trust	356,582	-
Equity Securities	6,925,694	-
Collateralized Mortgage Obligations (CMOs)	906,808	-
Taxable Municipal Bonds	130,028	-
Mutual Funds and Cash Equivalents	53,610,171	134,118,457
Total Pooled Investments	88,968,969	134,118,457
Guaranteed Investment Contracts, at contract value (Note 3)	2,938,946	20,724,761
Invested Securities Lending Collateral (Note 3)	7,312,640	474,230
Capital Assets (Note 9):		
Equipment	1,107,437	502,373
Less: Accumulated Depreciation	(199,953)	(304,409)
Total Capital Assets	907,484	197,964
Total Assets	104,274,962	155,846,094
LIABILITIES		
Due to Other Funds (Note 11)	-	1,000
Compensated Absences (Note 6)	17,990	22,075
Other Payables (Note 12)	5,383,048	65,423
Benefits Payable	53,330	-
Obligations Under Securities Lending (Note 3)	7,312,640	474,230
Capital Lease Obligations (Note 5)	873,036	311,798
Total Liabilities	13,640,044	874,526
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 46.)	$ 90,634,918	$ 154,971,568

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Employee	$ 8,415,462	$ 15,293,184
Employer (Note 4)	13,170,792	23,912,043
Total Contributions	21,586,254	39,205,227
Investment income:		
Net income (loss) from investing activities	30,749,727	50,587,589
Securities lending income	496,917	36,871
Securities lending expense	(432,373)	(32,433)
Net investment income (loss)	30,814,271	50,592,027
Total Additions	52,400,525	89,797,254
DEDUCTIONS:		
Benefits	9,523,423	24,493,621
Administrative expenses	781,256	815,170
Total Deductions	10,304,679	25,308,791
TRANSFERS (Note 10)	2,118,721	(2,118,721)
Net Increase (Decrease)	44,214,567	62,369,742
Net assets held in trust for pension benefits:		
Beginning of year	277,389,953	597,754,279
End of year	$ 321,604,520	$ 660,124,021

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
COUNTY EMPLOYEES RETIREMENT PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Employee	$ 3,290,671	$ 4,667,839
Employer (Note 4)	4,869,010	6,994,296
Total Contributions	8,159,681	11,662,135
Investment income:		
Net income (loss) from investing activities	8,831,511	11,884,921
Securities lending income	138,482	8,691
Securities lending expense	(120,498)	(7,645)
Net investment income (loss)	8,849,495	11,885,967
Total Additions	17,009,176	23,548,102
DEDUCTIONS:		
Benefits	2,741,771	5,338,455
Administrative expenses	443,326	583,002
Total Deductions	3,185,097	5,921,457
TRANSFERS (Note 10)	561,375	(561,375)
Net Increase (Decrease)	14,385,454	17,065,270
Net assets held in trust for pension benefits:		
Beginning of year	76,249,464	137,906,298
End of year	$ 90,634,918	$ 154,971,568

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

1. Summary of Significant Accounting Policies

Reporting Entity. 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: the School Employees, State Patrol, Judges, State Employees, and County Employees Retirement Plans.

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

Separate reports have been issued for the School Employees, Judges, and State Patrol Retirement Plans for the fiscal year ended June 30, 2004 and the Deferred Compensation Plan for the fiscal year ended December 31, 2001.

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

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.

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 liabilities associated with the operation of these funds are included on the Statements of Plan Net Assets.

The State and County Employees Retirement Plans' financial statements were prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Cash in State Treasury. Cash in State Treasury represents the cash balance of a fund as reflected on the Nebraska Information System (NIS). Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. The cash funds of the State and County Plans were designated for investment during 2004.

Investments. 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, 2004. 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.

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

Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Purchased software that is financed with long-term debt or capitalized lease financing is also capitalized. The amount capitalized includes the cost of the software and related expenses necessary to put the software into place. The useful life is determined based on the system and will be depreciated over 7 years, the same period as the lease financing arrangement used to purchase the software. Equipment is depreciated using the straight-line method.

2. Plan Descriptions

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

2. Plan Descriptions (Continued)

A. Nebraska State Employees Retirement Plan

The single employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered State employees. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit.

All permanent full-time employees who have 12 continuous months of service are required 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.

Contributions. 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. The employer's account is fully vested after 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.

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. **Plan Descriptions** (Continued)

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is a single life annuity with five-year certain, payable monthly. Members will have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. Also available are additional forms of payment allowed under the Plan which are actuarially equivalent to the normal form, including the option of a lump-sum or partial lump-sum.

Membership of the Plan consisted of the following at December 31, 2004:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	75
Terminated Plan Members Entitled to but not yet Receiving Benefits	1,969	197
Active Plan Members	8,974	6,051
Total	10,943	6,323

The 75 retirees and beneficiaries receiving benefits includes defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

The NPERS employees are employees of the State of Nebraska and contributed $67,819. NPERS, as part of the State of Nebraska, contributed $105,798.

B. **Nebraska County Employees Retirement Plan**

In 1973, the State Legislature brought the County Employees Retirement Plan under the administration of the Board. This multiple-employer plan covers employees of 91 of the State's 93 counties and several county health districts. Douglas and Lancaster counties have separate retirement plans for their employees as listed in Neb. Rev. Stat. Section 23-2301(11) R.S.Supp., 2004. Prior to January 1, 2003, the Plan consisted of a

2. Plan Descriptions (Continued)

defined contribution plan. Effective January 1, 2003, a cash balance benefit was added to the County Employees Retirement Act. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003 elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on and after January 1, 2003 become members of the cash balance benefit.

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 20 and completing a total of 12 months service within a five-year period. Part-time elected officials may exercise the option to join.

Contributions. County employees and elected officials contribute 4½ percent of their total compensation. Present and future commissioned law enforcement personnel employed by such counties shall contribute additional contributions to a supplemental retirement plan. Commissioned law enforcement personnel in participating counties with less than eighty-five thousand inhabitants shall contribute an extra one percent, or a total of 5½ percent of their total compensation. Commissioned law enforcement personnel in participating counties with a population in excess of eighty-five thousand inhabitants shall contribute an extra two percent, or a total of 6½ percent of their total compensation. In addition, the county contributes 150 percent. The employee's and employer's contributions are kept in separate accounts.

The employee's account is fully vested. The employer's account is vested after 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions (Concluded)

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is a single life annuity with five-year certain, payable monthly. Members will have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. Also available are additional forms of payment allowed under the Plan which are actuarially equivalent to the normal form, including the option of a lump-sum or partial lump-sum.

Membership of the Plan consisted of the following at December 31, 2004:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	40
Terminated Plan Members Entitled to but not yet Receiving Benefits	956	58
Active Plan Members	3,588	2,995
Total	4,544	3,093

The 40 retirees and beneficiaries receiving benefits includes defined contribution members who elected an annuity. Defined contribution members may also choose from other forms of payment such as withdrawal or lump-sum payment. Generally, these are one-time payouts. Therefore, these retired members are not shown above.

3. Investments

Investments. Neb. Rev. Stat. Section 72-1239.01(1)(a) R.R.S. 2003 states, "The appointed members of the Nebraska Investment Council shall have the responsibility for the investment management of the assets of the retirement systems administered by the Public Employees Retirement Board as provided in section 84-1503 . . . The appointed members shall be deemed

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

fiduciaries with respect to the investment of the assets of the retirement systems . . . and shall be held to the standard of conduct of a fiduciary specified in subsection (3) of this section." Neb. Rev. Stat. Section 72-1239.01(3) R.R.S. 2003 states, "The appointed members of the council shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the retirement systems . . . so as to minimize risk of large losses, unless in light of such circumstances it is clearly prudent not to do so."

Neb. Rev. Stat. Section 72-1246 R.R.S. 2003 authorized the State Investment Officer to invest in investments of the nature which individuals of prudence, discretion, and intelligence acquire or retain in dealing with the property of another, and if the State Investment Officer has special skills or is named on the basis of representations of special skills or expertise, he or she is under a duty to use such skills, subject to the direction of the Nebraska Investment Council.

State statutes detail investment options for the defined contribution option of the County Employees Retirement Plan and the State Employees Retirement Plan, respectively. Upon enrollment in the plans, a defined contribution participant may direct employee contributions in any of several investment options. Employer contributions were required by statute to be invested in the Employer Fund. There were three pre-mixed funds in which the members could allocate their employer account. However, effective July 16, 2004 Neb. Rev. Stat. Sections 23-2310.05 and 84-1311.03 changed the investment options for the employer account of the defined contribution option to include all of the same investment options as the employee account.

The Nebraska Investment Council has contracted with outside managers to manage the funds of the cash balance benefit, except for funds in the State Treasury and one of the funds that comprise the cash balance benefit that includes the guaranteed investment contract clones.

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

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

3. Investments (Continued)

held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty trust department or agent in the name of the State. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the State's name.

Securities Lending. 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 State's 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 uncategorized in the following schedule of custodial risk. Securities lent for securities collateral are classified according to the category for the collateral. At year end the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceeds the amounts the borrowers owe the State. The collateral securities can not be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower defaults during the year.

Generally, either the State 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 51 and 55 days (at the June 30, 2004 year end). 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.

Derivatives. Derivative instruments are financial contracts in which underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and reduce volatility of the portfolio, in accordance with the Investment Council-approved Derivatives Policy. The State invests in collateral mortgage obligations and futures contracts. Collateral mortgage obligations, with a par value of $28,442,818, are traded on exchanges and carried at fair value. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. The State invests in futures contracts related to securities of the U.S. Government, government agency obligations, and equity indices which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the futures contract

3. **Investments** (Continued)

value is settled daily in cash with the exchanges. At December 31, 2004, the Plans held futures contracts with a par value of $(43,300,000) and a market value of $0. This activity was part of the cash balance benefit.

Defined Contribution Option
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.

The defined contribution option of the State and County Employees Retirement Plans has 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, 2004 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, 2004 balance was $87,674,522 for the State Employees Retirement Plan and $20,724,761 for the County Employees Retirement Plan. Activity is recorded in the Stable Fund. Guaranteed investment contracts are not required to be categorized per GASB Statement Number 3.

The S & P 500 Stock Index Fund, International Stock Fund, Money Market Fund, Bond Market Index Fund, Large Growth Stock Index Fund, Large Value Stock Index Fund, and Small Company Stock Fund are investments held in external pools. These 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 International Stock Fund and Small Company Stock Fund are mutual funds registered with the Securities and Exchange Commission (SEC).

The carrying amount of these pooled investments at December 31, 2004, is at market value as set forth below:

Not Categorized	
Mutual Funds and Bank Registered Funds	$ 705,990,568
Guaranteed Investment Contracts	27,567,154
Synthetic Investment Contracts	78,394,245
Investments held by broker-dealers Under Securities	
Loan with Cash Collateral:	
Synthetic Investment Contracts	2,437,884
Securities Lending Short-Term Collateral Investment Pool	2,486,198
TOTAL	$ 816,876,049

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

	State	County	Total
Investments, at fair value	$571,872,111	$134,118,457	$705,990,568
Guaranteed and Synthetic Investment Contracts	87,674,522	20,724,761	108,399,283
Invested Securities Lending Collateral	2,011,968	474,230	2,486,198
Total Investments Defined Contribution	$661,558,601	$155,317,448	$816,876,049

Cash Balance Benefit

The Nebraska Public Employees Retirement Systems – State and County Retirement Plans cash balance benefit each own a portion of pooled investments which are managed externally and overseen 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 December 31, 2004, is at market value as set forth below:

Investments – Category 1	
U.S. Government Securities	$ 42,026,288
Corporate Bonds	37,022,046
Asset Backed Securities	17,496,809
Real Estate Investment Trust	1,474,730
Equity Securities	26,220,369
Collateralized Mortgage Obligations (CMOs)	4,159,752
Municipal Bonds	596,472
Subtotal	128,996,466
Not Categorized	
Investments held by broker-dealers	
Under Securities Loan with Cash Collateral	
U. S. Government Securities	26,595,228
Corporate Bonds	897,298
Equity Securities	5,539,090
Securities Lending Short-Term Collateral Investment Pool	33,552,980
Mutual Funds	229,107,562
Guaranteed Investment Contracts	12,374,185
Cash Equivalents	15,262,901
Total	$ 452,325,710

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Concluded)

	State	County	Total
Investments, at fair value	$ 317,429,606	$ 88,968,969	$406,398,575
Guaranteed Investment Contracts	9,435,239	2,938,946	12,374,185
Invested Securities Lending Collateral	26,240,310	7,312,640	33,552,950
Total Investments Cash Balance Benefit	$ 353,105,155	$ 99,220,555	$452,325,710

4. Employer Contributions

Historically, employer contributions have been 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., 2004, and 84-1321.01(1) R.S.Supp., 2004, forfeitures are first used to pay administrative expenses of the Board. The remaining balance, if any, shall then be used to reduce State and County employer contributions respectively. During 2004, there were no forfeitures used to offset the State and County employer contributions. The balance of the forfeiture accounts at December 31, 2004 was $953,387 for the State Plan and $22,735 for the County Plan.

5. Contingencies and Capital Lease Commitments

Risk Management. NPERS is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. NPERS, as part of the primary government for the State, participates in the State's risk management program. The 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Contingencies and Capital Lease Commitments (Continued)

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.

Capital Lease Commitment. 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.

The second Master Lease Agreement, dated November 1, 2001, was for $2,166,847 including interest costs of $241,847, a rate of 3.245%. The third Master Lease Agreement, in July 2002, was for $6,029,861 including interest costs of $644,861, a rate of 3.129%. The first Master Lease Agreement was integrated into the third Master Lease Agreement. As a result, the first Master Lease Agreement no longer exists. The fourth Master Lease Agreement, dated February 28, 2003, was for $5,915,227 including interest costs of $525,227, a rate of 2.757%. The fifth Master Lease Agreement, dated February 12, 2004, was for $4,062,231 including interest costs of $326,708, a rate of 2.530%. The lease agreements are made with NPERS, not any of the individual plans. The payments are allocated according to the expense allocation policy of NPERS. The minimum annual lease payments and the present value of future minimum payments for all capital leases as of December 31, 2004 are as follows:

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Contingencies and Capital Lease Commitments (Concluded)

Year	State and County Plans
2005	$ 752,036
2006	752,036
2007	746,763
2008	673,776
2009	583,358
2010-2011	202,533
Total Minimum Payments	3,710,502
Less: Interest and Executory costs	265,733
Present value of net minimum payments	$ 3,444,769

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

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.

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Compensated Absences (Concluded)

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, 2004, is as follows:

	State Defined Contribution Employees	State Cash Balance Benefit Employees	County Defined Contribution Employees	County Cash Balance Benefit Employees
Annual Leave	$ 7,995	$ 5,355	$ 3,906	$ 3,183
Sick Leave	37,189	24,912	18,169	14,807
Compensatory Leave	-	-	-	-
	$ 45,184	$ 30,267	$ 22,075	$ 17,990

7. Historical Trend Information

Historical trend information designed to provide information about NPERS' progress made in accumulating sufficient assets to pay benefits when due for the cash balance benefit is presented as required supplementary information following these Notes to Financial Statements.

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2004 are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
State Defined Contribution					
Compensated Absences	$ 18,917	$ 26,267	$ -	$ 45,184	$ 6,520
Capital Lease Obligations	654,835	227,867	121,914	760,788	158,734
Totals	$ 673,752	$ 254,134	$ 121,914	$ 805,972	$ 165,254
State Cash Balance Benefit					
Compensated Absences	$ 8,162	$ 22,105	$ -	$ 30,267	$ 4,368
Capital Lease Obligations	1,427,755	496,825	265,812	1,658,768	346,093
Totals	$ 1,435,917	$ 518,930	$ 265,812	$ 1,689,035	$ 350,461

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. Changes in Long-Term Liabilities (Concluded)

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
County Defined Contribution					
Compensated Absences	$ 9,238	$ 12,837	$ -	$ 22,075	$ 3,185
Capital Lease Obligations	268,375	93,388	49,965	311,798	65,055
Totals	$ 277,613	$ 106,225	$ 49,965	$ 333,873	$ 68,240
County Cash Balance Benefit					
Compensated Absences	$ 4,590	$ 13,400	$ -	$ 17,990	$ 2,596
Capital Lease Obligations	751,450	261,487	139,901	873,036	182,154
Totals	$ 756,040	$ 274,887	$ 139,901	$ 891,026	$ 184,750

9. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contribution				
Equipment	$ 872,125	$ 227,867	$ -	$ 1,099,992
Less: Accumulated Depreciation	327,602	140,866	-	468,468
Capital Assets, Net	$ 544,523	$ 87,001	$ -	$ 631,524
State Cash Balance Benefit				
Equipment	$ 1,607,305	$ 496,825	$ -	$ 2,104,130
Less: Accumulated Depreciation	114,807	265,102	-	379,909
Capital Assets, Net	$ 1,492,498	$ 231,723	$ -	$ 1,724,221
County Defined Contribution				
Equipment	$ 408,985	$ 93,388	$ -	$ 502,373
Less: Accumulated Depreciation	239,312	65,097	-	304,409
Capital Assets, Net	$ 169,673	$ 28,291	$ -	$ 197,964
County Cash Balance Benefit				
Equipment	$ 845,950	$ 261,487	$ -	$ 1,107,437
Less: Accumulated Depreciation	60,425	139,528	-	199,953
Capital Assets, Net	$ 785,525	$ 121,959	$ -	$ 907,484

NOTES TO FINANCIAL STATEMENTS
(Continued)

10. Transfers

Transfer activity for the year ended December 31, 2004, was as follows:

	State Cash Balance Benefit	State Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 1,641,692	$ (1,641,692)
Miscellaneous Transfers	477,029	(477,029)
Total Transfers	$ 2,118,721	$ (2,118,721)

	County Cash Balance Benefit	County Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 426,356	$ (426,356)
Miscellaneous Transfers	135,019	(135,019)
Total Transfers	$ 561,375	$ (561,375)

The annuity balances represent the transfer of member balances who elected an annuity in the defined contribution plan. Since NPERS pays the annuities, the balances are transferred to the cash balance fund in order for the annuity to be processed. Miscellaneous transfers consist mainly of members who had previous balances in the defined contribution fund, but were rehired after January 1, 2003. They are required to be in the cash balance benefit; therefore, their defined contribution balance was transferred to the cash balance fund.

11. Due To/From Other Funds

Due To/From Other Funds represent transfers between cash funds of other Plans. At December 31, 2004, the County Defined Contribution Cash Fund owed $1,000 to the County Cash Balance Fund.

12. Other Receivables/Other Payables

Other receivables consisted of receivables for investment sales and other investment receivables recorded by the custodial bank.

Other payables consisted of payables for investment purchases, other investments payable recorded by the custodial bank, and investment fees payable.

NOTES TO FINANCIAL STATEMENTS
(Continued)

12. Other Receivables/Other Payables (Concluded)

Securities are recorded on a trade date basis. On the trade date, the Plans own the asset. However, if the security has not settled, payment has not been received or made. Receivables and payables for investment sales and purchases represent securities in which the asset has been recorded as of December 31, 2004, but the security has not settled.

13. Subsequent Events

Board Membership
Effective January 1, 2005, Neb. Rev. Stat. Section 84-1501(3)(a) R.S.Supp., 2004 was revised to include an additional appointed board member. In addition, the make up of the members was also revised. Six members must be participants in the retirement system consisting of two participants in the School plan, one participant in the Judges plan, one participant in the State Patrol plan, one active County plan member and one active State plan member. Furthermore, two of the board members shall not be employees of the State of Nebraska or any of its political subdivisions.

Dividends
On April 18, 2005, the Board granted a dividend for the calendar year 2004 State and County Cash Balance Plan. The dividends were paid on June 24, 2005. All eligible State and County Cash Balance Plan members received the dividend. The State share was $6,845,702 and the County share was $1,955,989, totaling $8,801,691.

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES
RETIREMENT PLANS - CASH BALANCE BENEFIT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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
STATE EMPLOYEES						
12/31/2004	$297,573,422	$272,300,201	($25,273,221)	109.3%	$192,618,880	(13.1%)
12/31/2003	$254,175,882	$241,192,355	($12,983,527)	105.4%	$171,324,288	(7.6%)
COUNTY EMPLOYEES						
12/31/2004	$ 83,869,272	$ 73,913,434	$ (9,955,838)	113.5%	$ 67,810,140	(14.7%)
12/31/2003	$ 69,761,178	$ 63,270,991	$ (6,490,187)	110.3%	$ 60,626,584	(10.7%)

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES
RETIREMENT PLANS - CASH BALANCE BENEFIT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED

SCHEDULE 2

STATE EMPLOYEES		
Year Ended December 31	Annual Required Contribution State	Percentage Contributed
2004	$13,170,792	100%
2003	$11,225,906	100%

COUNTY EMPLOYEES		
Year Ended December 31	Annual Required Contribution Counties	Percentage Contributed
2004	$4,869,010	100%
2003	$4,093,395	100%

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

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.

	State Cash Balance Benefit	County Cash Balance Benefit
Valuation Date	December 31, 2004	December 31, 2004
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Dollar Closed	Level Dollar Closed
Remaining Amortization Period	25 Years	25 Years
Mortality	1994 Group Annuity Table One year set back, sex distinct	1994 Group Annuity Table One year set back, sex distinct
Asset Valuation Method	5 year smoothing	5 year smoothing
Actuarial Assumptions:		
Investment Rate of Return (1)	7.6%	7.6%
Projected Salary Increases (1)	4.5% - 9.1%	4.5% - 9.1%
Cost-Of-Living Adjustments (COLA)	None	None

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

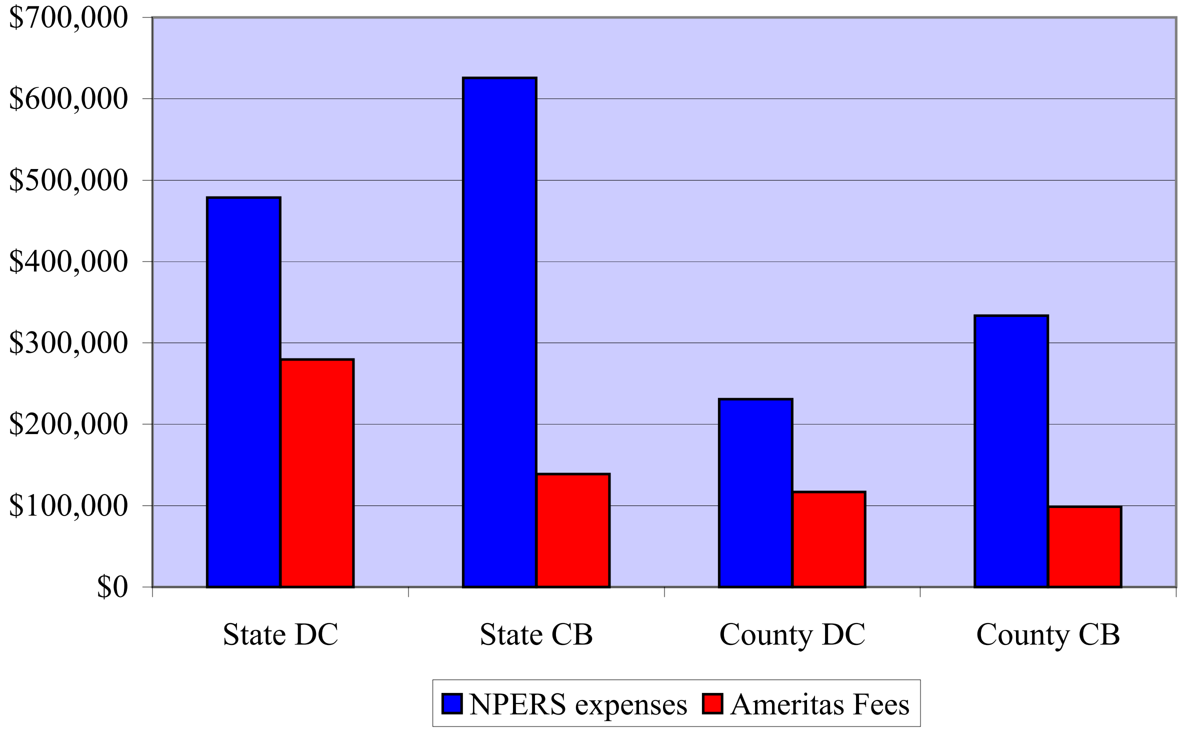
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
AVERAGE ADMINISTRATIVE EXPENSE PER MEMBER

	2000	2001	2002	2003	2004
STATE DEFINED CONTRIBUTION					
Members:					
Active	12,861	12,750	14,349	9,713	8,974
Inactive	1,828	2,070	2,002	1,887	1,969
Total Members	14,689	14,820	16,351	11,600	10,943
Cash Basis Administrative Expenses:					
NPERS Expenses Paid in NIS (2)	$ 523,675	$ 342,389	$ 688,714	$ 597,478	$ 478,583
Ameritas Recordkeeper Fees (3)	$ 280,796	$ 384,613	$ 404,662	$ 302,851	$ 279,458
Asset Charge (4) (6)				$ 354,141	$ 593,321
Total Cash Basis Fees and Expenses	$ 804,471	$ 727,002	$ 1,093,376	$ 1,254,470	$ 1,351,362
Administrative Expenses per Audited Financial Statements	$ 735,793	$ 826,910	$ 1,112,260	$ 943,619	$ 815,170
Average Financial Statement Administrative Expense (1)	$ 50	$ 56	$ 68	$ 81	$ 74
STATE CASH BALANCE					
Members:					
Active				5,206	6,051
Inactive				56	197
Total Members (7)				5,262	6,248
Cash Basis Administrative Expenses:					
NPERS Expenses Paid in NIS (2)				$ 421,509	$ 625,623
Ameritas Recordkeeper Fees (3)				$ 112,189	$ 138,685
State Street Bank Transfers (5)				$ 461,000	$ 568,000
Total Cash Basis Fees and Expenses				$ 994,698	$ 1,332,308
Administrative Expenses per Audited Financial Statements				$ 483,812	$ 781,256
Average Financial Statement Administrative Expense (1)				$ 92	$ 125
COUNTY DEFINED CONTRIBUTION					
Members:					
Active	5,921	5,983	6,162	3,738	3,588
Inactive	951	1,083	1,032	1,056	956
Total Members	6,872	7,066	7,194	4,794	4,544
Cash Basis Administrative Expenses:					
NPERS Expenses Paid in NIS (2)	$ 292,074	$ 167,475	$ 482,349	$ 320,531	$ 231,034
Ameritas Recordkeeper Fees (3)	$ 132,948	$ 184,505	$ 194,220	$ 127,993	$ 116,941
Asset Charge (4)	$ -	$ -	$ -	$ 82,392	$ 212,594
Total Cash Basis Fees and Expenses	$ 425,022	$ 351,980	$ 676,569	$ 530,916	$ 560,569
Administrative Expenses per Audited Financial Statements	$ 387,804	$ 403,034	$ 636,041	$ 663,502	$ 583,002
Average Financial Statement Administrative Expense (1)	$ 56	$ 57	$ 88	$ 138	$ 128
COUNTY CASH BALANCE					
Members:					
Active				2,516	2,995
Inactive				72	58
Total Members (7)				2,588	3,053
Cash Basis Administrative Expenses:					
NPERS Expenses Paid in NIS (2)				$ 247,856	$ 333,433
Ameritas Recordkeeper Fees (3)				$ 56,988	$ 98,863
State Street Bank Transfers (5)				$ 283,200	$ 303,000
Total Cash Basis Fees and Expenses				$ 588,044	$ 735,296
Administrative Expenses per Audited Financial Statements				$ 290,139	$ 443,326
Average Financial Statement Administrative Expense (1)				$ 112	$ 145

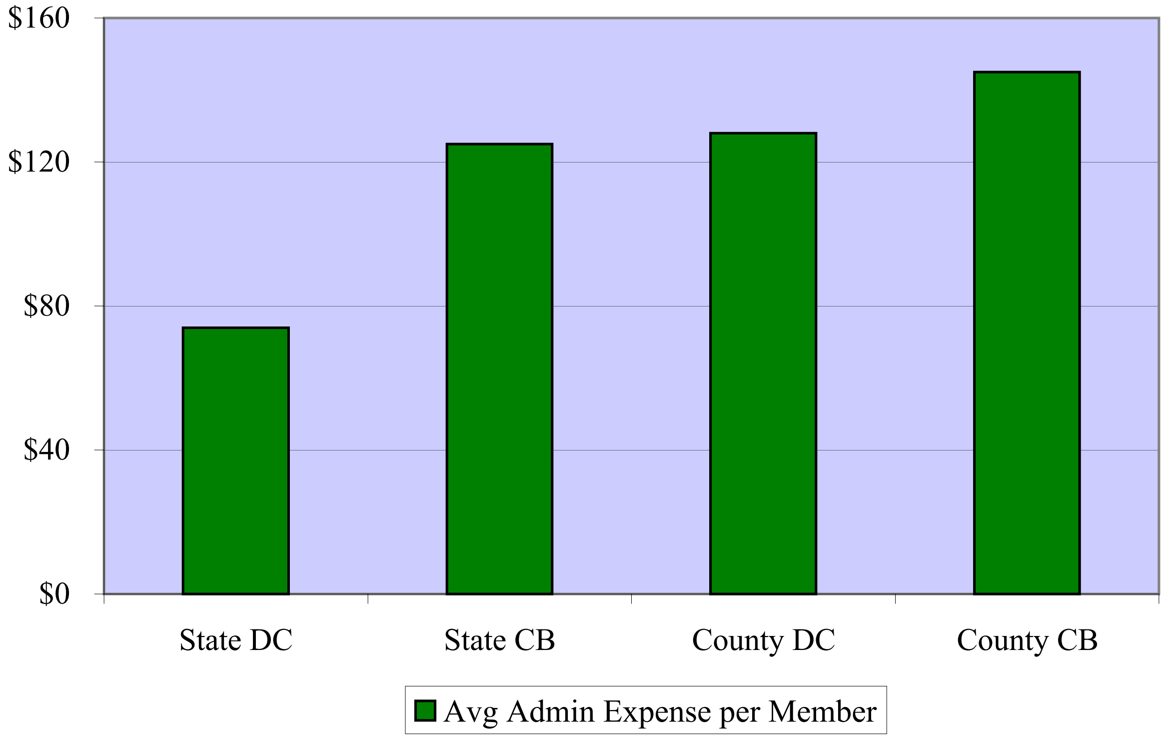
(1) Calculated: Total Administrative Expenses per Audited Financial Statements/Total Members=Avg. Administrative Expense
(2) NPERS expenses paid in NIS are expenses incurred by NPERS and allocated to these plans.
(3) Ameritas recordkeeper fees are amounts charged by Ameritas to members for recordkeeping services. This is the amount members see as fees on their quarterly statements.
(4) Asset charge is a 10 basis point charge against the assets of the Defined Contribution funds used to pay expenses. In 2003 the asset charge was based on monthly amounts, but in 2004 the asset charges were based on daily amounts.
(5) State Street Bank Transfers are reimbursements received from the assets held at the bank based on requests from NPERS.
(6) State DC Asset charges were not actually expended by NPERS during the year. The charge was assessed on the asset, but remains in NPERS cash funds.
(7) Total members for the State and County Cash Balance Plans does not include retirees.

NOTE: Prior to 2003 the NPERS expenses included reimbursements from Ameritas for expenses. The total expenses consisted of these reimbursements and the Ameritas recordkeeping fee, which is not shown separately.

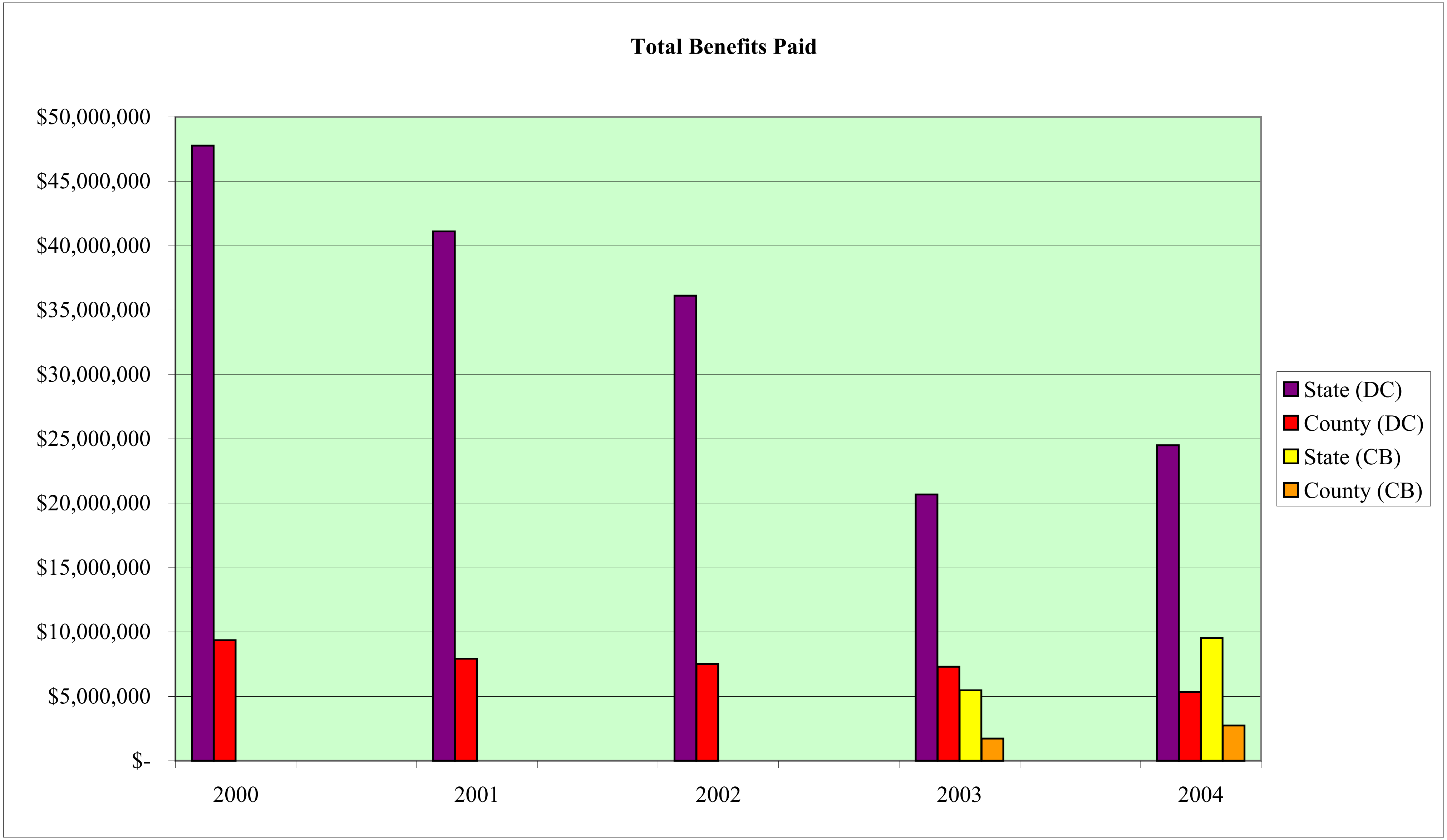
Calendar Year 2004 Expenses and Fees



Average Administrative Expense per Member for Calendar Year 2004



NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS



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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

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

Nebraska Public Employees Retirement Systems
Lincoln, Nebraska

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, 2004, and have issued our report thereon dated August 11, 2005. 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.

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 procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion 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 Payroll Testing), Comment

Number 2 (Inadequate Resolution of Prior Audit Findings), Comment Number 4 (Required Contribution Procedures), Comment Number 5 (Plan Membership Eligibility), and Comment Number 7 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we reported to management of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans in the Comments Section of this report as Comment Number 3 (Incorrect Annuity Payments), Comment Number 6 (PIONEER Information System), Comment Number 8 (Initial Contributions), Comment Number 9 (Alternate Vesting Dates), and Comment Number 10 (Required Rules and Regulations).

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

Pat Reding, CPA

August 11, 2005 Assistant Deputy Auditor