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

PENSION TRUST FUNDS
OF THE STATE OF NEBRASKA

JANUARY 1, 2006 THROUGH DECEMBER 31, 2006

Issued on November 28, 2007

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

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 eight members appointed by the Governor, with legislative approval, to five-year terms. Six of the appointed members shall be active or retired participants in the retirement system. The six members include:

- Two participants in the School Retirement System, consisting of one administrator and one teacher;
- One participant in the Nebraska Judges Retirement System;
- One participant in the Nebraska State Patrol Retirement System;
- One participant in the Retirement System for Nebraska Counties; and
- One participant in the State Employees Retirement System.

Two appointment members must meet the following requirements:

- One member shall not be an employee of the State of Nebraska or any of its political subdivisions; and
- One member shall have at least ten years of experience in the management of a public or private organization or have at least five years of experience in the field of actuarial analysis or the administration of an employee benefit plan.

Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

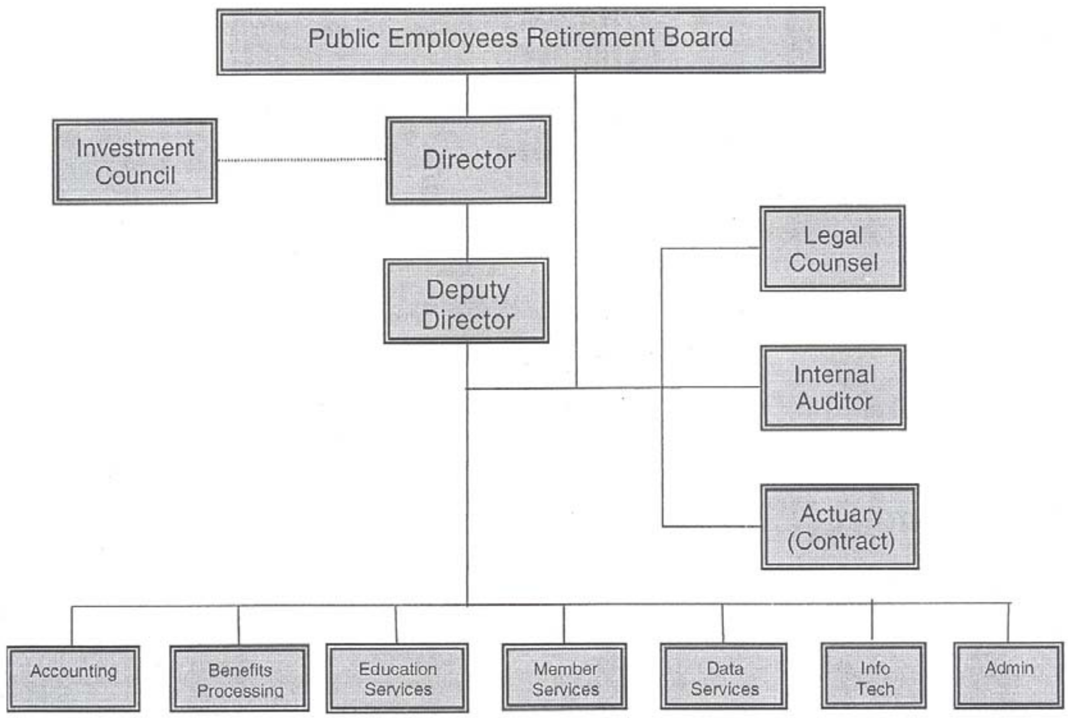
All appointed members must be Nebraska citizens. The Board meets monthly. Members of the Board shall be paid fifty dollars per diem, and all members shall be reimbursed for actual and necessary expenses. The Board hires a director to manage the day-to-day operations. Expenses are to be equitably distributed 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 System 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 October 23, 2007, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our examination. Those in attendance for NPERS were:

NAME	TITLE
Phyllis Chambers	Director
Jane Bond	Member Services Manager
Clint Holmes	Accountant
Randy Gerke	Accounting & Finance Manager
Roger Watton	Partner, BKD
Teresa Zulauf	Internal Auditor
Denis Blank	Board Member
Glenn Elwell	Board Member
Roger Rea	Board Member

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.

1. ***Internal Control Structure:*** NPERS did not have an adequate internal control structure to achieve reliability of financial reporting, effectiveness and efficiency in operations, and compliance with laws and regulations. The most significant weaknesses in the internal control structure related to the ability of NPERS to provide reliable financial information and monitoring of the record keeping services provided under contract.

2. ***Accounting Issues:*** There were several errors in the financial information prepared by NPERS accounting staff. The financial statement errors ranged from an overstatement of $3,465,519 to an understatement of $1,533,119.

3. ***Agreed-Upon Procedures Engagement Findings:*** Key findings noted during the agreed-upon procedures engagement included errors relating to transfers and allocation changes, distributions, contributions, reconciliation procedures, daily pricing procedures, information technology, Union Bank SAS 70 audit report, interim agreement, procedures for annuity option, forfeitures, review of independent accountant's report findings, record keeping fees, and proper accounting of aged-based account.

4. ***County Plan Payroll Testing:*** We tested payroll records for 29 entities and noted 12 entities did not adequately monitor non-participating, part-time employees' hours worked to ensure mandatory contributions began on time. Seven members had contributions remitted on ineligible compensation. Eight employees were not properly contributing to the Plan. Additionally, NPERS did not have adequate procedures for testing and monitoring of employees and employers to ensure accuracy of information in accordance with State statute.

5. ***Inadequate Resolution of Prior Year Findings:*** NPERS did not adequately resolve findings noted in prior audits from 2005 back to 2001 for the State and County Plans.

6. ***Required Minimum Distributions:*** NPERS did not have adequate procedures to ensure required minimum distributions were paid timely, in accordance with Federal regulations, State statutes, and NPERS policy.

7. ***Information Security Controls:*** NPERS did not have adequate general and application controls of computer systems supporting financial data. It was also noted system logs were not monitored to confirm the system was operating according to management's expectations, and there was no written policy and procedures manual for the PIONEER system related to processing transactions in the system.

SUMMARY OF COMMENTS
(Continued)

8. ***Outstanding Account Balances:*** NPERS did not review the report of terminated members with remaining account balances to ensure members were properly paid all monies due to them. It was also noted NPERS did not have procedures to notify members of additional postings to their account after the member had terminated employment.

9. ***Authorization for Distributions:*** NPERS staff contacted members electing benefit payments via telephone to change the member's distribution election. There was no documentation from the member regarding the authorization of the change. There were six State Plan members tested and one County Plan member tested who had their distribution election changed via telephone.

10. ***Alternate Vesting Dates and Employer Forfeitures:*** NPERS did not have adequate policies and procedures to ensure vesting dates were properly recorded in the record keeping system. There were two State Plan members and nine County Plan members tested with an incorrect vesting date recorded in the system.

11. ***State Required Contribution Procedures:*** NPERS did not adequately follow up on 4 of 10 employees tested from the January 2007 Mandatory Retirement Listing to ensure State employees enrolled in the Plan timely, missed contributions were correctly calculated and remitted, and vesting dates were properly adjusted for members who remitted missed contributions.

12. ***Plan Membership Eligibility:*** NPERS did not have adequate procedures to ensure all eligible employees entered the Plans or that contributions were properly remitted in accordance with State statute.

13. ***Incomplete Information in OMNI and PIONEER:*** NPERS did not have adequate procedures to ensure records were accurate and complete. During testing, we noted 30 State Plan members and 68 County Plan members had inaccurate or missing information recorded in the OMNI and/or PIONEER systems.

14. ***Required Rules and Regulations:*** We noted several State statutes that reference a corresponding rule and regulation; however, NPERS did not have official rules and regulations for the statutes.

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.

SUMMARY OF COMMENTS
(Continued)

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

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

COMMENTS AND RECOMMENDATIONS

1. Internal Control Structure

The AICPA Professional Standards Section 319.06 defines internal control as a process - affected by an entity's board of directors, management, and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. Internal control consists of five interrelated components:

- Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- Risk assessment is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- Control activities are the policies and procedures that help ensure that management directives are carried out.
- Information and communication systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- Monitoring is a process that assesses the quality of internal control performance over time.

NPERS does not have an adequate internal control structure to achieve reliability of financial reporting, effectiveness and efficiency in operations, and compliance with laws and regulations. Several of the following comments and recommendations illustrate the lack of an adequate internal control structure at NPERS. NPERS did not understand the calculation of the daily pricing procedures used by the record keepers, reconciliation procedures between the custodian and the record keeper were not adequately performed, there were errors in distributions, transfers and allocation changes, and contributions were not recorded timely. Additionally, NPERS financial accounting and report disclosures were not complete and accurate. For further detail see Comment Number 2 (Accounting Issues) and Comment Number 3 (Agreed-Upon Procedures Engagement Findings). The most significant weaknesses in the internal control structure at NPERS are related to the ability of NPERS to provide reliable financial information and the monitoring of the record keeping services provided to NPERS under contract.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>Internal Control Structure</u> (Concluded)

Without procedures to ensure an adequate internal control structure is in place, there is a significant risk financial reporting will not be reliable, effectiveness and efficiency in operations, and compliance with laws and regulations will not be achieved.

> We recommend NPERS management and staff obtain a thorough understanding of the record keeper and custodian procedures sufficient to provide adequate oversight and monitoring of member accounts. Additionally, we recommend NPERS implement procedures to ensure financial reporting is complete and accurate.

NPERS' Response: NPERS management and staff will work closely with the contracted record keeper to deepen our understanding of the record keeping procedures used. NPERS is also in the process of establishing a closer working relationship with the custodial bank. This strengthening has begun through regular meetings with the record keeper and with the custodial bank. NPERS will work with both the custodian and record keeper to obtain the information necessary to strengthen internal controls. NPERS will devote more resources to this area and increase staff training on internal controls.

2. <u>Accounting Issues</u>

As noted above, an entity's internal control structure should provide reasonable assurance of reliable financial reporting. Good internal control requires financial information and disclosures to be complete and accurate.

There were several errors in the financial information prepared by NPERS accounting staff. There were errors in allocation percentages used to allocate the defined contribution and cash balance options between the Plans. Additionally, we noted inaccurate calculations of several entries used in the preparation of the financial information. The financial statements prepared by NPERS for the four different plans contained significant errors in several financial statement accounts. Errors ranged from an overstatement of $3,465,519 to an understatement of $1,533,119. Net errors on the financial statements prepared by NPERS were $9,313,035 of which $9,622,908 were adjusted on the reported financial statements. These errors were due to the accumulation of amounts for the financial statements and not due to errors in the accounting system or member accounts. The APA has met with NPERS accounting staff and has provided examples of accurate financial statement presentation, but the errors in financial reporting continue.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Accounting Issues (Continued)

The APA recommended NPERS reconcile distributions and contributions during the Union Bank contract to the information rebuilt by Ameritas to ensure the financial statements were accurately presented. This recommendation was made during our agreed-upon procedures engagement, as described in Comment Number 3, below. The reconciliation of distributions performed by NPERS was not complete, as reconciling items were not properly identified and supported and totals did not agree to supporting documentation. We noted a total distribution variance between Union Bank and Ameritas of $880,828 at September 30, 2006. Furthermore, contributions were not reconciled during the period. We noted a variance of $547,460 for contributions reported by Union Bank compared to the rebuilt contributions by Ameritas.

NPERS provides financial statements to the actuary in order to assess the funded status of the Plans. Because of the errors noted above, the actuary did not use accurate financial figures in his actuarial valuation of the Plans. There was an understated variance of $1,185,883 in the State Plan net assets and $201,073 in the County Plan net assets. Furthermore, benefits were overstated in the information sent to the actuary by $3,613,517 for the State Plan and $1,090,584 for the County Plan.

A similar finding was noted in the previous audit report.

We also noted concerns related to the timely and accurate posting of accounting entries on NIS. NPERS entered the Plan activity into NIS based on reports from the record keeper and custodial bank. NPERS recorded the activity on NIS for the months of July through November 2006 ranging from two to six months late. Additionally, the entry performed to record the investment income on NIS was not accurate; therefore, the investment balances per NIS did not agree to the custodial bank. The error was not corrected until March 2007 when NPERS realized the problem. NPERS has since changed the entry to properly record investment income on NIS.

Without a strong internal control structure to ensure financial information is complete and accurate, there is a significant risk for materially misstated financial statements.

> We recommend NPERS strengthen their internal control structure to ensure financial information is complete and accurate. Additionally, we recommend NPERS ensure the activity on NIS is recorded timely and accurately so the balances on NIS agree to the custodial bank.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Accounting Issues (Concluded)

NPERS' Response: It is important to note that the variances identified represent fund accounting issues rather than errors in individual member account balances. The APA included the Equal Retirement Benefit Funds in the State and County financial statements whereas NPERS completes separate financial statements for these funds. NPERS is committed to working closely with the APA to eliminate adjustments to the financial statements. NPERS will also use DAS accounting as a review resource.

By returning the record keeping duties to Ameritas, the timeliness of the Nebraska Information System (NIS) postings have been resolved.

3. Agreed-Upon Procedures Engagement Findings

The Nebraska Public Employees Retirement Board (the Board) was created in 1971 to administer the Nebraska retirement plans. The agency for the administration of the retirement systems and under the direction of the Board is known as the Nebraska Public Employees Retirement Systems (NPERS). The Board utilizes a contract to provide record keeping and administrative services for the State and County Employees Retirement Plans.

A contract was established between the Board and Ameritas Life Insurance Corporation (Ameritas) in 1964 to provide the record keeping and administrative services. Effective July 1, 2006, the Board contracted with Union Bank and Trust Company (Union Bank). On September 7, 2006, Union Bank withdrew from the contractual agreement. A contract was signed between the Board and Ameritas to reconstruct plan participant records and resume the record keeping and administrative services on October 1, 2006.

We performed an agreed-upon procedures engagement in order to determine whether member accounts had been properly recorded from July 1, 2006, through September 30, 2006, and the subsequent reconstruction period through October 31, 2006. The procedures included a statistical random sample of member accounts, testing of high risk member accounts, and a review of reconciliation procedures between the record keepers and State Street Bank.

Our key findings included:

- **Transfers and Allocation Changes:** NPERS did not ensure transfers and allocation changes requested by members were processed accurately. Eighteen of twenty-five transfers tested had variances that ranged from understatements of $2,128 to

3. <u>Agreed-Upon Procedures Engagement Findings</u> (Continued)

overstatements of $4,407. Transfers were not properly or timely recorded by Union Bank, and transfers and allocation changes were not properly or timely recorded by Ameritas.

- **Distributions:** It did not appear NPERS was aware of the significance of the problems with the payment of distributions. Errors in members' accounts were caused by timing related to when distributions were recorded in the record keeping system and when the check was actually written by Union Bank. Errors were also caused by timing issues related to the rebuilding of distributions by Ameritas; and issues related to Union Bank posting contributions in the wrong accounts. These issues caused members to either be due additional monies or owe monies to the Plans, ranging from understatements of $4,111 to overstatements of $523.

- **Contributions:** Members had contributions withheld from their pay that did not post timely to their account with the record keeper, causing the members to lose potential earnings.

- **Reconciliation Procedures:** NPERS did not provide a reconciliation of the assets between the record keeper and the bank while Union Bank held the contract. We determined unknown variances exist between Union Bank and State Street Bank. At September 30, 2006, the defined contribution accounts at the record keeper were $9,433 less than the assets on hand at the bank. Additionally, NPERS has not reconciled the contribution and withdrawal activity in the cash balance option from the record keeper to State Street Bank since the inception of the cash balance option in 2003. The net contributions and withdrawals recorded by Union Bank for the cash balance option were $158,794 lower than the bank. Finally, there are also unknown variances between Ameritas and the custodial bank after the Plans were reconstructed.

- **Daily Pricing Procedures:** NPERS was unaware of daily share pricing issues at Union Bank affecting member accounts, and did not have an understanding of the procedures used to calculate the share prices. The pricing of shares is a significant part of the valuation of assets of the Plans and of the valuation of member accounts.

- **Information Technology:** NPERS did not have documentation from Union Bank to indicate their record keeping system had been adequately tested to ensure data could be accurately and completely converted from Ameritas. Additionally, no parallel testing was done to ensure Union Bank could handle the record keeping activity.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Agreed-Upon Procedures Engagement Findings (Continued)

- **Union Bank SAS 70 Audit Report:** Union Bank implemented a new record keeping system in May 2006 that had not been audited prior to the contract with NPERS. Union Bank only receives a SAS 70 audit for the period October 1 through March 31 annually. Therefore, the controls of Union Bank's record keeping system had not been reviewed during the contract period with the Board.

- **Interim Agreement:** NPERS did not have procedures to determine whether the reconstruction of member accounts by Ameritas was complete and accurate. There were 49 member accounts tested with errors, due in part to the rebuilding of the accounts at Ameritas.

- **Procedures for Annuity Option:** The process used for annuities purchased was not detailed in the contract between Union Bank and the Board. From July 1, 2006, through September 30, 2006, when a member elected an annuity option, Union Bank retained the balances of the members. We calculated Union Bank owed the Plans $56,554 for members' accounts which were retained by Union Bank after the member account was closed. Additionally, the Plan lost potential earnings of approximately $89,000 on the annuity monies held by Union Bank and not invested.

- **Forfeitures:** NPERS indicated no directive was given to Union Bank to forfeit any accounts when members terminated. During the contract period Union Bank forfeited 12 member accounts. Due to errors noted during testing, Union Bank owes the Plan $7,622. Additionally, one member is due $834.

- **Review of Independent Accountant's Report Findings:** Findings noted by Hayes and Associates, who was hired by the Board, were not addressed by NPERS. The findings noted in the report indicated specific areas of concern related to the processing of transactions by Union Bank.

- **Record Keeping Fees:** Due to errors in the recording of distributions and contributions, fees charged to member accounts and maintained by the record keepers were not always recorded properly.

- **Proper Accounting of Aged-Based Account:** A new investment option for defined contribution members required an added record keeping function to ensure members' investments are properly transferred through the pre-mix funds as a member nears retirement age. The Ameritas record keeping system has not been updated for the separate, automated tracking of the age-based account.

3. <u>Agreed-Upon Procedures Engagement Findings</u> (Continued)

The Agreed-upon Procedures report, issued July 12, 2007, can be found in its entirety at www.auditors.state.ne.us.

> We recommended NPERS obtain a thorough understanding of the record keeper procedures sufficient to provide adequate oversight and monitoring of member accounts. At a minimum NPERS should review all transfers, allocation changes, and distributions for the period; and work with Union Bank and Ameritas to reconcile existing variances and correct member accounts.

NPERS' Response: NPERS is in the process of reconciling the Union Bank and Ameritas record keeping conversion. Specifically, we are reviewing distributions, transfers and allocation changes that took place from July 1, 2006 to September 30, 2006 when Union Bank was the record keeper. NPERS is committed to reconciling variances that still exist and will work with the former record keeper and the current record keeper to resolve these variances. These accounts are being recalculated and NPERS will communicate with Ameritas any adjustments that need to be made to the member accounts.

The Counties and Health Districts have different payroll dates and submit their payrolls using a variety of methods. NPERS is working with these employers to educate them on payroll remittance procedures to follow statutes and improve the process.

NPERS will strive for a better understanding of share pricing. If any problems with member accounts exist as a result of using incorrect share pricing, adjustments will be made.

NPERS has received a SAS 70 Audit Report for Ameritas for 2006. NPERS has determined that the policies and procedures of the current record keeper are operating with adequate effectiveness.

NPERS signed an Interim Agreement with Ameritas as the successor record keeper. The PERB is confident that Ameritas and NPERS used appropriate efforts to reconstruct the member accounts given the knowledge available at the time.

NPERS will document the annuity process between Ameritas, State Street Bank and NPERS. We will request that Union Bank pay the balance of annuity funds and earnings owed to NPERS.

NPERS will review all distributions to determine that the employer portion of the member accounts was properly distributed to the members or to the forfeiture accounts. NPERS and Ameritas will work to make certain that the balance in the forfeiture account is correct.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Agreed-Upon Procedures Engagement Findings</u> (Concluded)

NPERS' Response, Concluded:
NPERS has reviewed all accounts that received a systematic withdrawal payment from Union Bank. Members who received an overpayment have been contacted to return the money to NPERS. Corrected 1099's will be issued.

The Age-Based Funds and Pre-Mix Funds use the same investment funds only in different proportions. The PERB adopted a policy on August 26, 2006 that prevents members from being in both Age-Based Funds and Pre-Mix Funds at the same time. Ameritas and NPERS are manually monitoring the Age-Based Funds until Ameritas has the ability to program their record keeping system to track the Age-Based Funds and Pre-Mix Funds separately.

4. <u>County Plan Payroll Testing</u>

Neb. Rev. Stat. Section 84-1503(2)(b) R.S.Supp., 2006 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, "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, "Part-time employee means an employee who is employed to work less than one-half of the regularly scheduled hours during each pay period."

4. County Plan Payroll Testing (Continued)

Neb. Rev. Stat. Section 23-2305.01(1) R.S.Supp., 2004 states, "If the board determines that the retirement system has previously received contributions or distributed benefits which for any reason are not in accordance with the statutory provisions of the County Employees Retirement Act, the board shall refund contributions, require additional contributions, adjust benefits, or require repayment of benefits paid."

Neb. Rev. Stat. Section 23-2301(5)(a) R.S.Supp., 2004 defines compensation as the gross wages or salaries payable to the member for personal services performed during the plan year. Compensation does not include reimbursement for expenses incurred.

Neb. Rev. Stat. Section 84-1503 (1)(g) R.S.Supp., 2005 states, "It shall be the duty of the Public Employees Retirement Board: To adopt and implement procedures for reporting information by employers, as well as testing and monitoring procedures in order to verify the accuracy of such information. The information necessary to determine membership shall be provided by the employer."

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.

NPERS has not implemented adequate testing and monitoring procedures in order to verify the accuracy of such information in accordance with State statute. NPERS performed procedures during 2006 to sample county payroll data, but the sampling and testing performed was not adequate and could not be relied on at the time of the audit. The current NPERS staff member performing the actual testing procedures did not appear to understand their responsibilities. NPERS also did not have written procedures for their sampling and there was no documented review of work performed by a supervisor. A similar finding was noted in the prior audit.

We sampled 23 counties, 5 health districts, and 1 county hospital 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:

- Of 29 entities tested, 12 did not adequately monitor non-participating, part-time employees' hours worked. Therefore, the counties could not identify whether employees switched to full-time status in order to correctly enroll employees in the Plan. The 12 entities were Boone County, Boyd County, Dawson County, Garfield County, Merrick County, Nemaha County, Otoe County, Perkins County, Platte County, Saline County, Sioux County, and the Nemaha County Hospital.

4. County Plan Payroll Testing (Continued)

There were several of these entities, as noted below, that had employees who should have been participating in the Plan and were not. A similar finding was also noted in the prior audit.

- Seven of 143 members tested had compensation which included fringe benefits or payment in lieu of insurance premiums. Fringe benefits and insurance premiums converted to cash payments should not be included in compensation used to calculate the retirement contribution per statute. Four of the employees were from Two Rivers Public Health District. The additional members were from Otoe County, Loup Basin Public Health Department, and Southeast District Health Department.

- Eight of 111 employees tested were not properly contributing to the Plan as required by State statute. The employees were from Furnas County (2), Dawson County (2), Garfield County, Sioux County (2), and Southeast District Health Department. The employees missed from 1 pay period to in excess of 2 years. A similar finding was noted in the prior audit.

- NPERS has not implemented adequate procedures to ensure the employers report all required information. Public Health Solutions did not report salary data to NPERS. We also noted not all of the data was on file at NPERS for each contribution. During the audit, information had to be requested from Public Health Solutions and Thomas County. During the agreed-upon procedures engagement additional information had to be requested from West Central Health District, East Central Health District, and North Central Health District, as NPERS did not have contribution reports on file for these entities.

Without adequate procedures to ensure all eligible and only eligible employees participate in the County Employees Retirement Plan as required by statute, there is an increased risk all eligible employees are not participating in the Plan. 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 employees are properly contributing to the retirement plan as require by statute. In addition, we recommend NPERS implement procedures to ensure information is received from all entities participating in the County Plan and to review the

COMMENTS AND RECOMMENDATIONS
(Continued)

4. County Plan Payroll Testing (Concluded)

information entered by entities to ensure the accuracy of the information and that contributions are being withheld correctly. Finally, we recommend NPERS resolve the issues noted in this finding with the counties.

NPERS' Response: NPERS will continue to work on our procedures and assist County employers to make sure all eligible employees are contributing to the plan. Procedures will be reviewed and documented to ensure all information is received from the County employers and the information is accurate.

5. Inadequate Resolution of Prior Year Findings

Good internal control requires the timely and thorough resolution of prior audit findings. AICPA Professional Standards regard the failure by management to assess the effect of a significant deficiency previously communicated to them and either correct it or conclude that it will not be corrected as at least a significant deficiency and a strong indicator of material weakness in internal control.

a. Fifteen findings from the 2005 audit of the State Plan were not adequately resolved. Findings included missing information in OMNI (the record keeper computer system), such as gender or hire dates; members with cash balance dividends or reinstated employer accounts who were not notified of the additional monies owed to them; make-up contribution agreements were not on file; contributions that should be refunded to members; incorrect alternate vesting dates in OMNI; and missed required contributions.

b. 14 findings from the 2005 audit of the County Plan were not adequately resolved. Findings included counties who did not have adequate procedures to monitor part-time employees to ensure enrollment requirements were met; incorrect contributions; lack of enrollment form for a voluntary member; employees who should have entered the Plan and still have not; members who remitted missed contributions, but did not have their alternate vesting date adjusted; contributions that should be refunded to members; cash balance dividend was not issued to a member who was due the dividend; payment of forfeited accounts that have not been collected; incorrect dates in OMNI; and members with reinstated employer accounts who were not notified of the additional monies owed to them.

c. Two findings from the calendar year 2004 audit of the State Plan and nine findings from the calendar year 2004 audit of the County Plan were not adequately resolved.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Inadequate Resolution of Prior Year Findings (Concluded)

d. Two findings from the calendar year 2003 audit of the State Plan and three findings from the calendar year 2003 audit of the County Plan were not adequately resolved.

e. One finding from the calendar year 2002 audit of the County Plan was not adequately resolved.

f. Two findings from the calendar year 2001 audit of the County Plan were not adequately resolved.

This finding has been reported to NPERS in the last several audit reports. 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.

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

NPERS' Response: NPERS has implemented procedures and will review those procedures to determine where improvements can be made in addressing prior findings. NPERS will continue to work with state agencies and county employers to resolve the issues in a timely manner.

6. Required Minimum Distributions

NPERS did not have adequate procedures to ensure required minimum distributions were paid timely, in accordance with Federal regulations, State statutes, and NPERS policy. We noted the following:

State Plan

- One of five members tested did not have Federal or State income tax withheld in accordance with Federal regulation and NPERS policy. The distribution was processed during the Union Bank contract and taxes were not withheld. When Ameritas rebuilt the member's payment in OMNI, they recorded withholdings of 20% for Federal taxes and 5% for State taxes. The Internal Revenue Code (IRC) 3405(b)(1) states "The payor of

6. Required Minimum Distributions (Continued)

State Plan (Concluded)

any nonperiodic distribution (as defined in subsection (e)(3)) shall withhold from such distribution an amount equal to 10 percent of such distribution." NPERS policy is to withhold the 10% Federal income tax and 5% State income tax unless the member explicitly states no withholdings on the payment.

- NPERS did not document their calculation of the required minimum distribution for two of seven State Plan members tested. Both members elected a partial withdrawal during the year in which they were to begin receiving required minimum distributions. NPERS did not calculate the required minimum distribution to ensure the partial withdrawal was greater than or equal to their required minimum distribution for the year. Good internal control requires calculations of the required minimum distribution to be documented to ensure compliance with 26 C.F.R. Section 1.401(a)(9).

County Plan

- Two of five members tested did not receive the 2006 required minimum distribution prior to rolling over their account to another institution, as required by Federal regulation. Per 26 C.F.R. Section 1.401(a)(9), the required minimum distribution (RMD) must be paid by April 1 of the calendar year following the later of the calendar year in which the employee attains age 70 ½, or the calendar year in which the employee retires. Neb. Rev. Stat. Sections 84-1317(3) and 23-2315(3) R.S.Supp., 2006 state, "Payment of any benefit provided under the retirement system may not be deferred later than April 1 of the year following the year in which the employee has both attained at least age seventy and one-half years and terminated his or her employment with the county/state." Per 26 C.F.R. Section 1.402(c)(2), required minimum distributions are not eligible for rollover.

- The only cash balance member tested received two distributions prior to rolling over their account. Cash balance members are only allowed one lump sum distribution and then are required to annuitize the remaining balance in their account, per State statute 84-1319. Neb. Rev. Stat. Section 84-1319(1) R.S.Supp., 2006 states "A retiring employee may receive a benefit not to exceed the amount in his or her employer and employee accounts as of the date of final account value payable in a lump sum and, if the employee chooses not to receive the entire amount in such accounts, an annuity equal to the actuarial equivalent of the remainder of the retirement value, and the employee may choose any form of such annuity as provided for by the board."

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Required Minimum Distributions (Concluded)

Federal regulation requires members to take a minimum distribution every year from when the member is 70 ½ and terminated. For Cash Balance members, State statute is stricter and only allows a member to take one lump sum distribution, including the required minimum distribution, before they are required to annuitize the remainder of their account balance. In order for a member to make a withdrawal or rollover their account, they must request a 100% withdrawal or rollover prior to their required minimum distribution begin date. NPERS has not clearly communicated the requirements of the Plan with the Plan members. Additionally, NPERS is not complying with State statute 84-1319.

Without adequate procedures to ensure compliance with Federal regulations and State statute there is an increased risk the Plans could lose their status as qualified retirement plans.

> We recommend NPERS implement procedures to ensure required minimum distributions are properly paid in accordance with Federal regulations, State statutes, and NPERS policies.

NPERS' Response: NPERS management has been working with staff and updating our procedures to ensure required minimum distributions are properly paid in accordance with Federal regulations, State statutes, and NPERS policies.

7. Information Security Controls

Good internal control requires general and application controls of computer systems supporting financial data to be in place and working effectively to reduce the risk of financial data being misstated due to error or fraudulent acts.

We noted the following related to the information security controls at NPERS:

- 2 of 15 changes to the Pension Information of Nebraska for Efficient and Effective Retirement (PIONEER) application sampled were not tested in a test environment and were moved directly into production. Without sufficient evaluation, planning, and testing of modifications, there is an increased risk unexpected disruptions could negatively impact the completeness and accuracy of data or could result in implementation of systems that are unable to meet NPERS information processing needs. Additionally, changes could be implemented that do not function according to management's intentions.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Information Security Controls (Continued)

- 1 of 9 accounts tested with domain administrator access did not require administrator privileges. Inappropriate administrator access may lead to financial loss and operational damage through unintentional or deliberate unauthorized access, alteration, and use of information resources. After the calendar year end, NPERS removed the account with inappropriate domain administrator privileges, upon our recommendation.

- 3 accounts with domain administrator access on the database server had a password that was shared among the Information Technology (IT) staff. The sharing of passwords for administrator accounts decreases user accountability for unintentional or deliberate unauthorized changes to system security.

- NPERS did not monitor system logs to confirm they were operating according to management’s expectations. Several of the logs were turned on, but no review was being performed, including: network performance, database performance reports, system events, and security logs. Without adequate monitoring of system logs, unauthorized users could access sensitive financial or member data on the network and financial applications without being detected. Performance of the operating system and network could impact operations and affect financial applications. Failing to review data logs could result in unauthorized, incomplete, or inaccurate processing to go undetected. After the calendar year end, NPERS began reviewing the system logs to ensure they were operating properly, upon our recommendation.

- A comprehensive, written PIONEER policy and procedures manual has not been prepared to describe specific policies or procedures related to processing transactions in the system. Without a written manual for processing transactions, NPERS staff may not be handling transactions consistently. Additionally, written manuals can aid in the training of new employees.

A similar finding was noted in the prior audit.

> We recommend a standardized change management process be developed and implemented for application and system changes. The process should include documented change requests, approvals, testing procedures, and approval to implement the change to production. We also recommend NPERS create policies outlining specific roles and responsibilities of users who need administrator privileges. Any inappropriate access should be revoked. Periodic reviews of user access should occur on a

7. Information Security Controls (Continued)

continuous basis to ensure controls and rules are consistently applied, and to provide a secure environment on a day-to-day basis. We also recommend NPERS eliminate the practice of shared passwords. A periodic review of performance reports, security logs, and completed processing should be implemented. We recommend NPERS ensure policies and procedures relating to processing of transactions in PIONEER are established.

NPERS' Response:

- *All changes that are not categorized as a very minor change, e.g. report heading change, are tested in UAT before going into production. In addition, e-mail approvals from the business staff are used to communicate when a deployment to UAT and Production can be made. Deployment folders containing supporting documentation for each deployment to production are kept in a file cabinet in the IT department.*
- *NPERS removed the account with inappropriate domain administrator privileges.*
- *One of the 3 shared administrator accounts has been removed. The other 2 shared administrator accounts are required for proper administration of the production environment. NPERS has implemented a quarterly review of access accounts on all of the production servers as well as quarterly password changes for the shared accounts.*
- *System events as well as security logs are reviewed on a daily basis by the IT staff. NPERS IT Manager is now reviewing these logs on a quarterly basis, including network, database, and servers.*
- *There are two sets of documentation that describe PIONEER. The first is entitled "GAP" documentation, which provides a higher level business and technical perspective of the system. This includes:*
    - *High level diagrams of each function*
    - *Brief description of the function*
    - *Screen/report example*
    - *Tab uses*
    - *User instructions*
    - *Security requirements*
    - *Display rules*

  The second is entitled "User Training", which provides a more detailed business perspective on how to use the PIONEER system. This includes:
    - *Description of the function*
    - *Detailed step-by-step instructions for the user to follow, including prints of the actual screens/reports.*

COMMENTS AND RECOMMENDATIONS
(Continued)

7. <u>Information Security Controls</u> (Concluded)

NPERS' Response, Concluded:
These two sets of documentation provide the specifics related to processing transactions in the system, as well as a training tool. NPERS is converting to a new system; therefore, developing further PIONEER documentation would not be the best use of agency resources.

8. <u>Outstanding Account Balances</u>

Good internal control requires an adequate review of member accounts categorized as terminated, but who still have an account balance, to ensure the member is properly paid all funds due to the member.

NPERS received a report from the record keeper listing individuals who were terminated, but who still maintained an account balance. NPERS did not review this report to ensure members with account balances were properly paid all monies due to them.

There were 225 County members and 541 State members on the report with balances ranging from $0.05 to $270,584. The total balance outstanding at May 2007 for County members was $403,605 and State members totaled $1,541,691.

- Two of five State members tested and four of five County members tested were properly paid their account balance at termination. However, these members subsequently received cash balance dividends in their account. There was no documentation that NPERS had contacted the members regarding the account balances. Therefore, in most cases the members are still owed additional monies.

- Two members from our agreed-upon procedures testing were also properly paid their account balance at termination and subsequently received cash balance dividends in their accounts. Again, there was no documentation that NPERS had contacted these members regarding the account balances.

- Of the errors noted above, the account balances of one State member and two County members were consumed by fees assessed against their balances. Therefore, there is no money left in the member account. If the members would have been notified by NPERS of the available balances, the members could have chosen to have the balances paid to them.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Outstanding Account Balances (Concluded)

- Additionally, one member, noted above, was not vested and had the employer portion of the member account forfeited upon termination. The member subsequently received both the employee and employer portion of the cash balance dividend. The employer portion of the dividend should have also been appropriately forfeited.

Without adequate procedures to review terminated members with account balances and to notify members of the dividends, there is an increased risk members will not receive the full amount due to them and that their balances will be consumed by fees. Finally, if members are not informed of their balances timely the member will continue to receive cash balance dividends annually, until their balances are fully paid to them.

> We recommend NPERS develop procedures to review terminated members with account balances to ensure members are properly paid all funds due to them. Additionally, we recommend NPERS implement procedures to inform terminated members of any dividends posted to their accounts so the members can claim additional monies owed to them.

NPERS' Response: Members receive quarterly statements generated by the recordkeeper informing them of their account status and balances.

NPERS will review the "Terminated Members Report" and develop procedures to ensure members are properly paid all funds due to them.

NPERS has initiated a process to identify terminated members who have dividend or other amounts which posted to their account after final payout, to notify the members, and to distribute those amounts to them.

9. Authorization for Distributions

Neb. Rev. Stat. Sections 84-1317(2) and 23-2315(2) R.S.Supp., 2006, state, "The member shall specify in the application for benefits the manner in which he or she wishes to receive the retirement benefit under the options provided by the State/County Employees Retirement Act."

Good internal control requires documented correspondence from members when making changes to their distribution election.

9. <u>Authorization for Distributions</u> (Concluded)

NPERS staff contacted members electing benefit payments via telephone to change the member's distribution election. There was no documentation from the member regarding the authorization of the change. There were six State Plan members tested and one County Plan member tested who had their distribution election changed via telephone.

Without adequate policies and procedures to ensure member's distribution elections are not changed without written documentation from the member, there is an increased risk NPERS may process an inaccurate or unauthorized change to the members benefit. Additionally, contacting the member via telephone does not ensure the proper individual is authorizing the change.

> We recommend NPERS implement policies and procedures to ensure changes to member distribution elections are properly authorized and documented in writing by the member.

NPERS' Response: NPERS has reviewed their policies and procedures concerning member distribution elections. NPERS may still contact the member by phone to inform them that clarification is needed when the member has elected a dollar amount close to a 100% payout. The member is informed that the clarification must be received in writing prior to the account being processed.

10. <u>Alternate Vesting Dates and Employer Forfeitures</u>

Neb. Rev. Stat. Sections 23-2319(3) and 84-1321(3) R.S.Supp., 2006 state, "Members of the retirement system shall be vested after a total of three years of participation in the system as a member including vesting credit."

Good internal control requires procedures to ensure alternate vesting dates recorded in the system are accurate.

NPERS does not have adequate policies and procedures to ensure vesting dates are properly recorded in the record keeping system.

- Two of thirty State Plan members tested had an incorrect vesting date in OMNI, the system used by the record keeper. One individual was rehired and the vesting date was not properly adjusted for prior service. The second individual remitted missed contributions; however, their vesting date was not changed to reflect the remitted contributions.

COMMENTS AND RECOMMENDATIONS
(Continued)

10. <u>Alternate Vesting Dates and Employer Forfeitures</u> (Concluded)

- Nine of thirty County Plan members tested and one member tested from the County payroll testing had an incorrect vesting date in OMNI. The members had either vesting credit from prior service, had remitted missed contributions, or were refunded contributions for ineligible participation in the Plans and the vesting date was not adjusted to reflect the proper date. Additionally, one of the nine entered the Plan prior to being eligible and NPERS did not refund the ineligible contributions to the member, but left the contribution in the Plan until the member was eligible. The ineligible contributions incurred earnings and fees for approximately three months.

- Additionally, NPERS does not have an approved policy regarding the rounding up or down of vesting credit.

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

Without adequate procedures to ensure vesting credit dates in OMNI are accurate, there is an increased risk the employer accounts are not properly paid out when members retire.

> We recommend NPERS implement procedures to ensure vesting dates are accurate in OMNI. We also recommend NPERS have a Board approved policy regarding the rounding of vesting credit.

NPERS' Response: NPERS will review the procedures for vesting credit and work with staff to make sure that vesting dates are correct in OMNI. NPERS management will request that the Board consider a policy for rounding vesting credit.

11. <u>State Required Contribution Procedures</u>

Good internal control requires procedures to ensure all eligible employees are enrolled in the Plan. In addition, good internal control requires procedures to monitor missed contributions to ensure missed contributions are properly remitted and 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."

COMMENTS AND RECOMMENDATIONS
(Continued)

11. State Required Contribution Procedures (Continued)

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 obtained two separate reports of State employees who were not contributing to the Plan. The Participants with No Contributions report was generated from the record keeper and the Mandatory Retirement listing was obtained from the Nebraska Information System (NIS). NPERS did not consistently review the Participants with No Contributions report for calendar year 2006. NPERS did run the Mandatory Retirement listing from NIS as part of their procedures to ensure all members properly contributed to the Plan, but NPERS did not adequately follow up on responses from State agencies.

As noted in prior audits, NPERS did not have adequate procedures to ensure State employees enrolled in the Plan timely, missed contributions were correctly calculated and remitted, and alternate vesting dates were properly adjusted for members who remitted missed contributions.

NPERS did not adequately follow up on 4 of 10 employees tested from the January 2007 Mandatory Retirement Listing. NPERS follow up consisted of contacting agencies via e-mail and documenting the agencies response. NPERS did not adequately investigate the agencies' responses to ensure they were accurate.

- One individual remitted missed contributions; however, the vesting date was not properly adjusted in the system to reflect the missed contributions that were remitted. Additionally, while the member was making up missed contributions their regular contributions were not remitted. The member missed $164 in regular employee contributions and $256 in employer contributions that need to be remitted.

- Two individuals did not begin contributing to the Plan timely and no make-up contribution agreement has been entered into. The individuals missed $683 in employee contributions and $1,065 in employer contributions that need to be remitted.

COMMENTS AND RECOMMENDATIONS
(Continued)

11. State Required Contribution Procedures (Concluded)

- One individual was noted by NPERS as working less than half of the regularly scheduled hours and therefore not required to join the Plan. The individual worked more than half of the regularly scheduled hours since December 2003, however, they did not join the Plan until August 2006. The individual missed $828 in employee contributions and $1,291 in employer contributions that need to be made up.

Additionally, during our other agency attestation engagements, we noted two members contributions stopped when their employee contributions reached $864. NPERS was not aware that the contributions ceased for the employees until we brought it to their attention. Both individuals have entered into make-up contribution agreements with NPERS. One individual needs to make-up $749 in employee contributions and $1,170 in employer contributions. The second individual stopped remitting make-up contributions prior to the end of the agreement. The member still needs to make up $79 in employee contributions and $122 in employer contributions.

Without adequate procedures to ensure required contributions are properly and timely remitted, the Plans are not in compliance with State statutes. Incorrect information regarding alternate vesting dates may lead to employees incorrectly receiving or not receiving employer contributions at termination.

> We recommend NPERS review their procedures to ensure required contributions are remitted and remitted timely. NPERS should review the Participants with No Contributions report on a quarterly basis and should document their review. NPERS should also substantiate the responses received from agencies regarding the Mandatory Retirement Listing from NIS. We also recommend NPERS implement procedures to ensure alternate vesting dates are properly adjusted when missed contributions are remitted. Finally, we recommend NPERS take appropriate action, in accordance with their Rules and Regulations, to resolve the situations identified in this finding.

NPERS' Response: NPERS will follow up on agency responses regarding missed contributions and review them for accuracy. Alternate vesting dates are being adjusted to reflect the remittance of missed contributions. The "Participants with No Contributions" report is now being reviewed at least quarterly. Individuals listed as having problems with missed contributions by the APA will be researched and corrected as soon as possible.

COMMENTS AND RECOMMENDATIONS
(Continued)

12. Plan Membership Eligibility

Neb. Rev. Stat. Sections 84-1307 R.S.Supp., 2004 and 23-2306 R.S.Supp., 2004 define the membership of the Plans. The membership of the retirement system is to be all persons who are or were employed by the State of Nebraska and member counties and who maintain an account balance with the retirement system. The following are authorized to participate in the retirement system: (a) All permanent 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 retirement system until termination or retirement, regardless of any change of status as a permanent or temporary employee.

Neb. Rev. Stat. Section 84-1322(2)(a) R.S.Supp., 2004 states, “A member who ceases to be an employee before becoming eligible for retirement under section 84-1317 and again becomes a permanent full-time or permanent part-time 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 the rules and regulations established by the board.”

Neb. Rev. Stat. Section 84-1301(27) R.S.Supp., 2006 states, “Retirement means qualifying for and accepting the retirement benefit granted under the State Employees Retirement Act after terminating employment.”

Neb. Rev. Stat. Section 23-2305.01(1) R.S.Supp., 2006 states, “If the board determines that the retirement system has previously received contributions or distributed benefits which for any reason are not in accordance with the statutory provisions of the County Employees Retirement Act, the board shall refund contributions, require additional contributions, adjust benefits, credit dividend amounts, or require repayment of benefits paid.”

Good internal control requires procedures to ensure eligible employees participate in the State and County Retirement Plans, as required by statute. NPERS should also ensure that contributions are being deducted properly from eligible participants and make up agreements are properly documented for missed contributions.

COMMENTS AND RECOMMENDATIONS
(Continued)

12. Plan Membership Eligibility (Continued)

NPERS did not have adequate procedures to ensure eligible employees entered the Plans or that contributions were properly remitted in accordance with State statute.

- One of thirty State Plan members tested and one member tested in the agreed-upon procedures engagement did not have retirement contributions withheld from their final paycheck. The missed contributions totaled $223.

- One State Plan member tested in the agreed-upon procedures engagement did not have employer contributions deducted from their paycheck; however, the member did have employee contributions withheld. The employer missed contributions totaled $28.

- One State Plan member tested in a State agency attestation engagement was rehired with the State and should have begun contributing to the Plan within 60 days in accordance with State statute. NPERS determined the member had retired since she was over age 55; and therefore determined the member was not eligible for participation until 12 months of service. However, the member had not applied for and accepted retirement benefits in accordance with State statute 84-1301 and therefore did not meet the definition of retirement. The member should have resumed contributions within 60 days of rehire. The member missed one year of participation and needs to make up $3,053 in employee and employer contributions.

- Three of thirty County Plan members tested did not meet the requirements for membership in the Plan. The individuals entered the Plan one to eight months early and need to be refunded ineligible contributions of $2,049.

- One of thirty County Plan members tested remitted missed contributions; however, a make-up contribution agreement was not on file at NPERS. Total missed contributions remitted were $123.

Without adequate procedures to ensure all eligible and only eligible employees participate in the State and County Employees Retirement Plans as required by statute, the risk ineligible employees are participating or eligible employees are not participating in the Plans increases. A similar finding was noted in the prior audit.

> We continue to recommend NPERS implement procedures to ensure eligible employees contribute to the Plan. We also recommend any ineligible contributions be refunded and missed contributions be properly made up.

12. Plan Membership Eligibility (Concluded)

NPERS' Response: NPERS will review the exceptions noted in the audit and make the appropriate corrections. NPERS will review the current procedures in place and make sure that only eligible employees are contributing to the retirement plan. NPERS will work with the employers to have ineligible contributions refunded to the member.

13. Incomplete Information in OMNI and PIONEER

Neb. Rev. Stat. Sections 84-1305.01(1) and 23-2312(1) R.S.Supp., 2006 state, "The director of the Nebraska Public Employees Retirement Systems shall keep a complete record of all members with respect to name(s), current address(es), age(s), contributions, and any other facts as may be necessary in the administration of the State/County Employees Retirement Act."

Good internal control requires accurate record keeping regarding hire dates, termination dates, dates of birth, and gender.

NPERS did not have adequate procedures to ensure records were accurate and complete. During testing, the following information was not available or was inaccurately recorded in the OMNI and/or PIONEER systems:

State Plan Members

- 22 members tested did not have hire dates recorded or the hire date was recorded incorrectly in OMNI.
- 2 members tested did not have a gender recorded in OMNI.
- 4 members tested had incorrect birth dates recorded in OMNI and/or PIONEER.
- 2 members tested had incorrect termination dates recorded in OMNI.

County Plan Members

- 42 members tested did not have hire dates recorded in OMNI.
- 18 members tested did not have a gender recorded in OMNI and/or PIONEER.
- 7 members tested had incorrect genders recorded in OMNI and/or PIONEER.
- 1 member tested had an incorrect birth date recorded in OMNI.

COMMENTS AND RECOMMENDATIONS
(Continued)

13. Incomplete Information in OMNI and PIONEER (Concluded)

Without accurate information in the systems there is an increased risk the actuary valuation will not be accurate. Additionally, there is an increased risk benefits will not be properly paid out and members will not start contributing to the Plan timely if NPERS does not have accurate dates of hire and termination recorded in the systems.

We recommend NPERS ensure complete and accurate information is recorded in the systems in compliance with State statute.

NPERS' Response: NPERS is working with the recordkeeper and the Counties concerning the information in OMNI. This project will take time to complete as there are multiple employers submitting data. NPERS' goal is to have accurate member information in OMNI and PIONEER.

14. Required Rules and Regulations

Good internal control requires procedures to ensure rules and regulations required by statute are created.

The Board had not developed a rule and regulation for several statutes as noted:

- Neb. Rev. Stat. Sections 23-2306(7) and 84-1307(6) R.S.Supp., 2006 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."

- Neb. Rev. Stat. Section 23-2306.03 R.S.Supp., 2006 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."

COMMENTS AND RECOMMENDATIONS
(Continued)

14. Required Rules and Regulations (Concluded)

- Neb. Rev. Stat. Sections 23-2320(2)(a) and 84-1322(2)(a) R.S.Supp., 2006 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 has not set a date for late fees. Neb. Rev. Stat. Section 23-2308 R.S.Supp., 2006 states, "The board may charge the county an administrative processing fee of 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. A similar finding was noted in prior audits.

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

NPERS' Response: State and County statutes referring to participation "within sixty days" either have been changed or are in process to be changed to reflect immediate participation requirements pursuant to LB 366 (2006).

Statutes permitting the imposition of late fees are permissive and do not require the Board to adopt rules or regulations for implementation.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2006, as listed in the Table of Contents. These financial statements are the responsibility of NPERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans, are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans. They do not purport to, and do not present fairly, the financial position of the governmental activities of the State of Nebraska as of December 31, 2006, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2006, 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 November, 19, 2007, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise NPERS' financial statements. The accompanying supplementary schedules of "Average Administrative Expense per Member," "Calendar Year 2006 Expenses and Fees," "Average Administrative Expense per Member for Calendar Year 2006," 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

November 19, 2007 Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2006

ASSETS	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
Cash in State Treasury	$ 32,170	$ 1,176,576
Receivables:		
Contributions	2,424	1,980
Interest	825,903	52,848
Other Receivables (Note 11)	14,763,507	-
Total Receivables	15,591,834	54,828
Investments, at fair value (Note 3):		
U.S. Treasury Bills	204,733	-
U.S. Treasury Notes and Bonds	9,474,147	-
U.S. Treasury Strips	327,612	-
Government Agency Securities	3,576,798	-
Corporate Bonds	19,166,829	-
International Bonds	5,970,394	-
Asset Backed Securities	9,073,133	-
Guaranteed Investment Contracts	1,396,504	102,555,948
Short Term Investments	7,913,997	11,967,395
Commingled Funds	271,958,698	666,586,002
Mortgages	45,573,079	-
Municipal Bonds	126,815	-
Private Equity Funds	357,808	-
Equity Securities	56,788,427	1,672,239
Options	(17,635)	-
Private Real Estate Funds	14,159,861	-
Total Investments	446,051,200	782,781,584
Invested Securities Lending Collateral (Note 3)	13,411,625	6,155,396
Capital Assets (Note 9):		
Equipment	2,104,130	1,099,992
Less: Accumulated Depreciation	(981,091)	(782,751)
Total Capital Assets	1,123,039	317,241
Total Assets	476,209,868	790,485,625
LIABILITIES		
Compensated Absences (Note 6)	14,187	26,991
Other Payables (Note 11)	38,339,063	324,819
Benefits Payable	971,869	-
Obligations Under Securities Lending (Note 3)	13,411,625	6,155,396
Capital Lease Obligations (Note 5)	1,045,092	479,328
Total Liabilities	53,781,836	6,986,534
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 59.)	$ 422,428,032	$ 783,499,091

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, 2006

ASSETS	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
Cash in State Treasury	$ 32,767	$ 31,757
Receivables:		
Contributions	377,702	319,191
Interest	243,497	9,517
Other Receivables (Note 11)	4,347,996	-
Total Receivables	4,969,195	328,708
Pooled Investments, at fair value (Note 3):		
U.S. Treasury Bills	60,296	-
U.S. Treasury Notes and Bonds	2,790,228	-
U.S. Treasury Strips	96,485	-
Government Agency Securities	1,053,402	-
Corporate Bonds	5,644,817	-
International Bonds	1,758,339	-
Asset Backed Securities	2,672,125	-
Guaranteed Investment Contracts	430,283	22,760,047
Short Term Investments	2,221,980	2,292,725
Commingled Funds	80,128,625	159,089,947
Mortgages	13,421,713	-
Municipal Bonds	37,348	-
Private Equity Funds	105,378	-
Equity Securities	16,724,741	137,121
Options	(5,194)	-
Private Real Estate Funds	4,170,216	-
Total Investments	131,310,782	184,279,840
Invested Securities Lending Collateral (Note 3)	3,951,618	1,366,053
Capital Assets (Note 9):		
Equipment	1,107,437	502,373
Less: Accumulated Depreciation	(516,363)	(447,945)
Total Capital Assets	591,074	54,428
Total Assets	140,855,436	186,060,786
LIABILITIES		
Compensated Absences (Note 6)	6,555	10,643
Other Payables (Note 11)	11,291,208	75,327
Benefits Payable	184,957	-
Obligations Under Securities Lending (Note 3)	3,951,618	1,366,053
Capital Lease Obligations (Note 5)	550,049	196,446
Total Liabilities	15,984,387	1,648,469
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 59.)	$ 124,871,049	$ 184,412,317

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, 2006

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Employee	$ 10,677,424	$ 14,351,813
Employer (Note 4)	16,672,478	22,410,365
Total Contributions	27,349,902	36,762,178
Investment income:		
Net income (loss) from investing activities	53,864,634	82,204,858
Securities lending income	729,814	190,183
Securities lending expense	(703,150)	(186,433)
Net investment income (loss)	53,891,298	82,208,608
Other Additions (Note 13)	3,646	617,988
Total Additions	81,244,846	119,588,774
DEDUCTIONS:		
Benefits	17,733,980	31,057,867
Administrative expenses	853,942	832,299
Total Deductions	18,587,922	31,890,166
TRANSFERS (Note 10)	3,310,548	(3,310,548)
Net Increase (Decrease)	65,967,472	84,388,060
Net assets held in trust for pension benefits:		
Beginning of year	356,460,560	699,111,031
End of year	$ 422,428,032	$ 783,499,091

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, 2006

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Employee	$ 4,219,701	$ 4,374,886
Employer (Note 4)	6,245,470	6,453,147
Total Contributions	10,465,171	10,828,033
Investment income:		
Net income (loss) from investing activities	15,740,066	19,013,216
Securities lending income	215,033	42,207
Securities lending expense	(207,177)	(41,375)
Net investment income (loss)	15,747,922	19,014,048
Other Additions	890	1,096
Total Additions	26,213,983	29,843,177
DEDUCTIONS:		
Benefits	5,269,706	8,787,116
Administrative expenses	430,015	336,664
Total Deductions	5,699,721	9,123,780
TRANSFERS (Note 10)	1,089,229	(1,089,229)
Net Increase (Decrease)	21,603,491	19,630,168
Net assets held in trust for pension benefits:		
Beginning of year	103,267,558	164,782,149
End of year	$ 124,871,049	$ 184,412,317

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

For the Year Ended December 31, 2006

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Public Employees Retirement Systems (NPERS) - State and County Employees Retirement Plans have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

B. Reporting Entity

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, 2006, and the Deferred Compensation Plan for the fiscal year ended December 31, 2005.

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.

C. Measurement Focus, Basis of Accounting

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

1. Summary of Significant Accounting Policies (Continued)

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.

D. 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 2006.

E. Investments

Investments as reported in the financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments of the State are stated at fair value based on quoted market prices. The State Treasurer is the custodian of all funds for the State; however, investments are under the responsibility of the Nebraska Investment Council.

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.

F. 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

1. **Summary of Significant Accounting Policies** (Concluded)

the software into place. The useful life is determined based on the system and will be depreciated over seven years, the same period as the lease financing arrangement used to purchase the software. Equipment is depreciated using the straight-line method.

G. 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. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

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. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or of a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee’s accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 50 or 60 days.

Both Plans statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Per statute, 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, 2006:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	263
Terminated Plan Members Entitled to but not yet Receiving Benefits	1,788	1,189
Active Plan Members	7,896	7,599
Total	9,684	9,051

The 263 retirees and beneficiaries receiving benefits include 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 $70,797. NPERS, as part of the State of Nebraska, contributed $110,443.

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 23-1118 R.S.Supp., 2006.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions (Continued)

Prior to January 1, 2003, the Plan consisted of a 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 or 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. Per statutes, 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. Since forfeitures are not sufficient to pay administrative expenses, NPERS has implemented an asset charge on the defined contribution option assets. NPERS also uses plan assets when forfeitures are not sufficient in the cash balance benefit.

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, 2006:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	122
Terminated Plan Members Entitled to but not yet Receiving Benefits	873	488
Active Plan Members	3,112	3,622
Total	3,985	4,232

The 122 retirees and beneficiaries receiving benefits include 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. Listed below is a summary of the investment portfolio that comprises the Investments on the Statement of Net Assets. All securities purchased or held must be in the custody of the State or deposited with an agent in the State's name. Neb. Rev. Stat. Section 72-1239.01 authorizes the appointed members of the Nebraska Investment

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

Council to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a 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 assets of the retirement systems.

NPERS' investments for the State and County Employees Retirement Plans at December 31, 2006, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

State and County Employees Retirement Plan Investments
at December 31, 2006

	State and County Cash Balance Benefit		**State and County Defined Contribution**	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Debt Securities				
U.S. Treasury Notes and Bonds	$ 12,264,375	8.36	$ -	-
U.S. Treasury Bills	265,029	0.20	-	-
U.S. Treasury Strips	424,097	17.55	-	-
Government Agency Securities	4,630,200	5.06	-	-
Corporate Bonds	24,811,646	5.37	-	-
International Bonds	7,728,733	7.43	-	-
Asset Backed Securities	11,745,258	1.95	-	-
Guaranteed Investment Contracts	1,826,787	0.43	125,315,995	2.52
Short Term Investments	10,135,977	4.80	14,260,120	0.08
Commingled Funds	48,082,898	4.54	274,858,336	4.51
Mortgages	58,994,792	3.08	-	-
Municipal Bonds	164,163	10.05	-	-
	181,073,955		414,434,451	
Other Investments				
Private Equity Funds	463,186		-	
Equity Securities	73,513,168		1,809,360	
Commingled Funds	304,004,425		550,817,613	
Options	(22,829)		-	
Private Real Estate Funds Trust	18,330,077		-	
Total Investments	577,361,982		967,061,424	
Invested Securities Lending Collateral	17,363,243		7,521,449	
Total	$ 594,725,225		$974,582,873	

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price. The State has contracts with investment managers that limit the effective duration to within one year of the effective duration of the benchmark.

Credit Risk of Debt Securities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State has contracts with investment managers that set minimum average quality ratings for its core fixed income accounts at an A and BB- for its high yield fixed income account. NPERS' rated debt investments as of December 31, 2006, were rated by Standards and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Cash Balance Benefit/Defined Contribution Investments at December 31, 2006
Quality Ratings

	Cash Balance Benefit										Defined Contribution	
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**C**	**Unrated**	**Fair Value**	**Unrated**
Asset Back Securities	$ 11,745,258	$ 11,186,266	$ -	$ 10,311	$ -	$ -	$ -	$ -	$ -	$ 548,681	$ -	$ -
Mortgages	$ 58,994,792	$ 32,898,840	$ 105,169	$ 887,788	$ -	$ -	$ 53,671	$ -	$ -	$ 25,049,324	$ -	$ -
International Bonds	$ 7,728,733	$ 1,602,105	$ 869,321	$ 710,058	$ 1,034,780	$ 2,374,327	$ 560,241	$ 9,543	$ -	$ 568,358	$ -	$ -
Corporate Bonds	$ 24,811,646	$ 3,551,445	$ 5,460,438	$ 3,646,073	$ 2,390,257	$ 3,961,824	$ 4,151,992	$ 566,092	$ 25,566	$ 1,057,959	$ -	$ -
Government Agency Securities	$ 4,630,200	$ 4,630,200	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Municipal Bonds	$ 164,163	$ 94,835	$ 69,328	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Short Term Investments	$ 10,135,977	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,135,977	$ 14,260,120	$ 14,260,120
Commingled Funds	$ 48,082,898	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 48,082,898	$ 274,858,336	$ 274,858,336

3. Investments (Continued)

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The State has contracts with investment managers that limit the maximum amount for an issuer, excluding U.S. Treasury, U.S. Agency, mortgages, and non-U.S. sovereign issuers, to 5 percent of the total account.

At December 31, 2006, NPERS had no debt security investments with more than 5 percent of total investments.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State does not have a formal policy to limit foreign currency risk. At December 31, 2006, the defined contribution plan did not have exposure to foreign currency risk. The cash balance benefit exposure to foreign currency risk is presented on the following table.

Cash Balance Benefit Foreign Currency at December 31, 2006

	Short Term Investments	Equity Securities	International Bonds
Argentine Peso	$ 564	$ -	$ 20,960
Australian Dollar	16,044	751,285	-
Brazilian Real	711	30,312	-
Canadian Dollar	4,855	141,516	78,270
Danish Krone	-	19,468	-
Euro Currency	24,373	6,877,730	777,474
Hong Kong Dollar	37,588	559,684	-
Indonesian Rupiah	-	46,438	-
Japanese Yen	947,210	2,359,863	-
Mexican Peso	52,917	-	227,594
Norwegian Krone	99	17,817	-
Polish Zloty	-	157,955	-
Pound Sterling	73,561	2,672,147	-
Singapore Dollar	217	183,632	-
South Korean Won	686	1,221,734	-
Swedish Krona	3,261	365,383	-
Swiss Franc	501	1,601,892	-
Thailand Baht	-	239,275	-
Total	$ 1,162,587	$ 17,246,131	$ 1,104,298

3. Investments (Concluded)

Securities Lending Transactions. The State 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 primary custodial bank administers the securities lending program and receives cash, United States government or government agency obligations, sovereign debt rated A or better, 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. At year-end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot 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 from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 38 and 50 days (as of June 30, 2006). 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 the State by the contract with the custodian.

Derivative Financial Instruments. Derivative instruments are financial contracts whose 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/or reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. The State invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. The State invests in these contracts related to securities of the U.S. government or Government Agency obligations and based on reference notes, which are traded on organized exchanges, thereby minimizing the State's credit risk. The net change in the contract value is settled daily in cash with the exchanges. Swaps represent an exchange of streams of payments over time according to specified terms.

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., 2005 and 84-1321.01(1) R.S.Supp., 2005 forfeitures are first used to pay administrative

4. **Employer Contributions** (Concluded)

expenses of the Board. The remaining balance, if any, shall then be used to reduce State and County employer contributions respectively. During 2006, there were no forfeitures used to offset the State and County employer contributions. The balance of the Defined Contribution forfeiture accounts at December 31, 2006, was $91,437 for the State Plan and $10,361 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $332,423 for the State Plan and $55,661 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 Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State with the exception of the health and life insurance programs which are maintained by DAS Personnel Division. 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 with a self-insured retention of $300,000 per accident, except of accidents involving vehicular pursuit which have a $1,000,000 self-insured retention 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. Health care and life insurance for eligible employees.

C. Crime coverage, with a limit of $21 million for each loss, and a $25,000 self-insured retention per incident was in effect from July 1, 2006, through October 18, 2006. Starting October 19, 2006, the limit for each loss was increased to $31 million.

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 $5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake,

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Contingencies and Capital Lease Commitments (Continued)

and acts of terrorism have various coverages, sublimits, and self insurance. Details of these coverages are available from the DAS Risk Management Division. 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 Insurance Trust Funds 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 – State and County Employees Retirement Plans' financial statements.

Capital Lease Commitment. The State of Nebraska, through the 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, dated July 15, 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 26, 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, 2006, are as follows:

5. Contingencies and Capital Lease Commitments (Concluded)

Calendar Year	State Cash Balance Benefit	State Defined Contribution	County Cash Balance Benefit	County Defined Contribution
2007	$ 359,160	$ 164,727	$ 189,032	$ 67,512
2008	325,571	149,322	171,353	61,198
2009	283,960	130,237	149,453	53,376
2010	102,253	46,898	53,818	19,221
2011	21,943	10,065	11,548	4,123
Total Minimum Payments	1,092,887	501,249	575,204	205,430
Less: Interest and Executory Costs	47,795	21,921	25,155	8,984
Present Value of Net Minimum Payments	$ 1,045,092	$ 479,328	$ 550,049	$ 196,446

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

The liability for the vested portion of compensated absences for each plan at December 31, 2006, is as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	$ 7,950	$ 15,125	$ 3,673	$ 5,964
Sick Leave	6,237	11,866	2,882	4,679
	$ 14,187	$ 26,991	$ 6,555	$ 10,643

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, 2006, are summarized as follows. These are allocated according to the expense allocation policy of NPERS.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
State Defined Contribution					
Compensated Absences	$ 19,817	$ 7,174	$ -	$ 26,991	$ 1,889
Capital Lease Obligations	621,576	-	142,248	479,328	157,621
Totals	$ 641,393	$ 7,174	$ 142,248	$ 506,319	$ 159,510
State Cash Balance Benefit					
Compensated Absences	$ 10,162	$ 4,025	$ -	$ 14,187	$ 993
Capital Lease Obligations	1,355,239	-	310,147	1,045,092	343,666
Totals	$ 1,365,401	$ 4,025	$ 310,147	$ 1,059,279	$ 344,659
County Defined Contribution					
Compensated Absences	$ 9,903	$ 740	$ -	$ 10,643	$ 745
Capital Lease Obligations	254,744	-	58,298	196,446	64,599
Totals	$ 264,647	$ 740	$ 58,298	$ 207,089	$ 65,344
County Cash Balance Benefit					
Compensated Absences	$ 6,269	$ 286	$ -	$ 6,555	$ 459
Capital Lease Obligations	713,284	-	163,235	550,049	180,877
Totals	$ 719,553	$ 286	$ 163,235	$ 556,604	$ 181,336

9. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows. These are allocated according to the expense allocation policy of NPERS.

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contribution				
Equipment	$ 1,099,992	$ -	$ -	$ 1,099,992
Less: Accumulated Depreciation	625,610	157,141	-	782,751
Capital Assets, Net	$ 474,382	$ (157,141)	$ -	$ 317,241

NOTES TO FINANCIAL STATEMENTS
(Continued)

9. **Capital Assets** (Concluded)

	Beginning Balance	Increases	Decreases	Ending Balance
State Cash Balance Benefit				
Equipment	$ 2,104,130	$ -	$ -	$ 2,104,130
Less: Accumulated Depreciation	680,500	300,591	-	981,091
Capital Assets, Net	$ 1,423,630	$ (300,591)	$ -	$ 1,123,039
County Defined Contribution				
Equipment	$ 502,373	$ -	$ -	$ 502,373
Less: Accumulated Depreciation	376,177	71,768	-	447,945
Capital Assets, Net	$ 126,196	$ (71,768)	$ -	$ 54,428
County Cash Balance Benefit				
Equipment	$ 1,107,437	$ -	$ -	$ 1,107,437
Less: Accumulated Depreciation	358,158	158,205	-	516,363
Capital Assets, Net	$ 749,279	$ (158,205)	$ -	$ 591,074

10. **Transfers**

Transfer activity for the year ended December 31, 2006, was as follows:

	State Cash Balance Benefit	State Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 2,419,645	$ (2,419,645)
Miscellaneous Transfers	890,903	(890,903)
Total Transfers	$ 3,310,548	$ (3,310,548)

	County Cash Balance Benefit	County Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 841,599	$ (841,599)
Miscellaneous Transfers	247,630	(247,630)
Total Transfers	$ 1,089,229	$ (1,089,229)

The annuity balances represent the transfer of member balances who elected an annuity in the defined contribution option. Since NPERS pays the annuities, the balances are transferred to the cash balance benefit in order for the annuity to be processed. Miscellaneous transfers consist of members who had previous balances in the defined

NOTES TO FINANCIAL STATEMENTS
(Continued)

10. Transfers (Concluded)

contribution option, 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 benefit. Transfers for the State also include reconciliation activity as described in Note 13 below.

11. Other Receivables/Other Payables

Other receivables consisted of receivables for investments sold, receivables for foreign exchanges, tax reclaim receivables, unrealized appreciation/depreciation on income receivables, unrealized appreciation/depreciation on investment receivables, unrealized appreciation/depreciation on foreign exchange receivables, and other receivables as recorded by the custodial bank. Other payables consisted of payables for investments purchased, payable for foreign currency purchased, unrealized appreciation/depreciation on investments payable, unrealized appreciation/depreciation on foreign exchange payables, and other payables as recorded by the custodial bank.

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 investments sold and purchased represent securities in which the asset has been recorded as of December 31, 2006, but the security has not settled.

12. Fees on Investments

There are several fees that are charged against all investments. Investment income is recorded net of these fees on the financial statements. The following schedule shows the external fees charged against investments for the calendar year ended December 31, 2006:

External Manager Fees	**State & County Cash Balance Benefit**	**State & County Defined Contribution**
Abbott Capital	$ 19,862	$ -
Acadian Asset Management, Inc.	71,722	-
Alliance Bernstein Institutional Investment Management	98,528	-
Ariel Capital Management, LLC.	48,543	-
Baillie Gifford	62,900	-
Barclays Global Investors	55,243	84,278
BlackRock Financial Management	88,025	-

NOTES TO FINANCIAL STATEMENTS
(Continued)

12. **Fees on Investments** (Concluded)

External Manager Fees, (Concluded)	**State & County Cash Balance Benefit**	**State & County Defined Contribution**
Dimensional Fund Advisors, Inc	77,088	264,060
Goldman Sachs Asset Management	36,183	1,787
Grantham, Mayo, Van Otterloo & Co., LLC	200,888	-
Heitman	27,520	-
Loomis Sayles	5,060	-
MFS Institutional Advisors	67,058	-
Pathway	55,547	-
PIMCO	112,643	-
Prudential	37,221	-
State Street Global Advisors	-	208,725
Synthetic GIC Holdings/WRAP Fee	-	68,398
T. Rowe Price Associates, Inc.	-	171,804
UBS Global Asset Management (Americas), Inc.	8,782	-
Total External Manager Fees	$ 1,072,813	$ 799,052

See the Nebraska Investment Council attestation report for further information regarding other fees.

13. **Reconciliation of Record Keeper to the Custodial Bank**

Included in other additions on the Statement of Changes in Plan Net Assets for the State Defined Contribution Plan is an unknown variance of approximately $614,000. This amount represents the difference between the record keeper (Ameritas) and the custodial bank (State Street Bank) at December 31, 2006, the custodial bank being higher. It is unknown whether the difference between the record keeper and the custodial bank belong to individual members of the Plans. NPERS is still in the process of working with the record keeper to reconcile the variance.

14. **Subsequent Events**

Membership Requirements

Effective January 1, 2007, State and County retirement plan membership is mandatory for all full-time employees immediately upon date of hire. Retirement plan membership is voluntary for part-time employees who have attained the age of twenty. In addition, contributions to State retirement will be at the rate of 4.8%. The State contributes one hundred fifty-six percent (156%) of the employee contribution.

NOTES TO FINANCIAL STATEMENTS
(Continued)

14. Subsequent Events (Concluded)

Calendar Year 2006 Dividends
The Board granted the dividend for the calendar year 2006 State and County Cash Balance Plans on September 27, 2007. All eligible State and County Cash Balance Plan members received the dividend. The dividend totaled $10,337,040 for the State Plan and $3,194,835 for the County Plan.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2006

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						
12/31/2006	$ 392,442,206	$ 379,734,639	$ (12,707,567)	103.3%	$ 323,982,997	(3.9%)
12/31/2005	$ 342,729,602	$ 300,852,371	$ (41,877,231)	113.9%	$ 238,874,344	(17.5%)
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						
12/31/2006	$ 116,379,465	$ 110,630,278	$ 5,749,187	105.2%	$ 113,468,303	(5.10%)
12/31/2005	$ 99,464,149	$ 84,817,488	$ (14,646,661)	117.3%	$ 88,144,293	(16.6%)
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 CALENDAR YEAR ENDED DECEMBER 31, 2006
UNAUDITED

SCHEDULE 2

STATE EMPLOYEES

Year Ended December 31	Annual Required Contribution State	Percentage Contributed
2006	$ 16,672,478	100%
2005	$ 14,884,856	100%
2004	$ 13,170,792	100%
2003	$ 11,225,906	100%

COUNTY EMPLOYEES

Year Ended December 31	Annual Required Contribution Counties	Percentage Contributed
2006	$ 6,245,470	100%
2005	$ 5,521,165	100%
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, 2006	December 31, 2006
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% - 8.2%
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

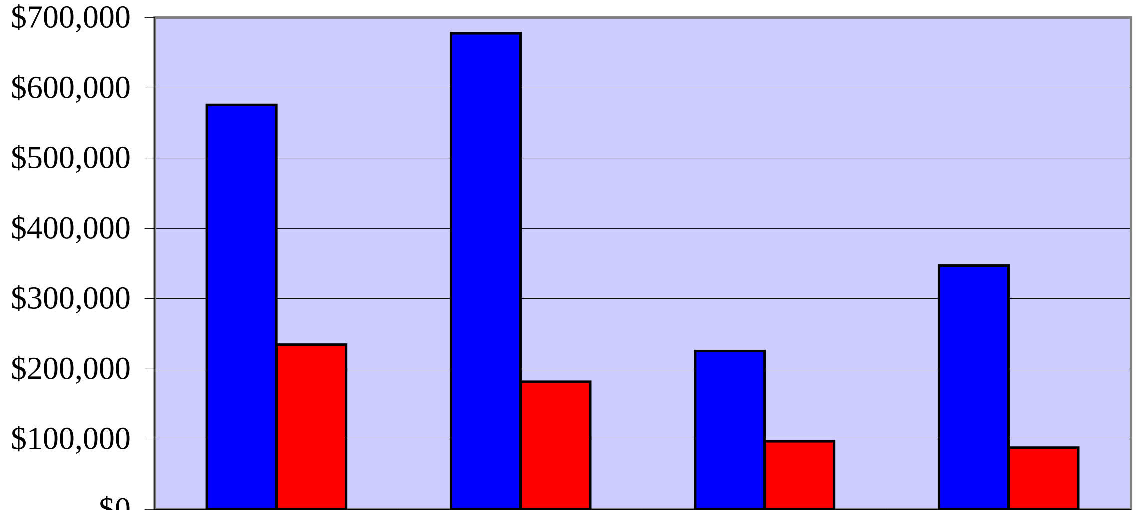
	2002	2003	2004	2005	2006
STATE DEFINED CONTRIBUTION					
Members:					
Active	14,349	9,713	8,974	8,433	7,896
Inactive	2,002	1,887	1,969	1,819	1,788
Total Members	16,351	11,600	10,943	10,252	9,684
Cash Basis Administrative Expenses:					
NPERS Expenses paid in NIS (2)	$ 688,714	$ 597,478	$ 478,583	$ 539,692	$ 575,800
Record keeper fees (3)	$ 404,662	$ 302,851	$ 279,458	$ 263,371	$ 234,431
Total Cash Basis Fees and Expenses	$ 1,093,376	$ 900,329	$ 758,041	$ 803,063	$ 810,231
Administrative Expenses per GAAP financial statements	$ 1,112,260	$ 943,619	$ 815,170	$ 795,641	$ 832,299
Average Administrative Expense per member (1)	$ 68	$ 81	$ 74	$ 78	$ 86
STATE CASH BALANCE (4)					
Members:					
Active		5,206	6,051	6,918	7,599
Inactive		56	197	314	1,189
Total Members		5,262	6,248	7,232	8,788
Cash Basis Administrative Expenses:					
NPERS Expenses paid in NIS (2)		$ 421,509	$ 625,623	$ 646,210	$ 677,669
Record keeper fees (3)		$ 112,189	$ 138,685	$ 161,704	$ 181,804
Total Cash Basis Fees and Expenses		$ 533,698	$ 764,308	$ 807,914	$ 859,473
Administrative Expenses per GAAP financial statements		$ 483,812	$ 781,256	$ 781,130	$ 853,942
Average Administrative Expense per member (1)		$ 92	$ 125	$ 108	$ 97
COUNTY DEFINED CONTRIBUTION					
Members:					
Active	6,162	3,738	3,588	3,363	3,112
Inactive	1,032	1,056	956	899	873
Total Members	7,194	4,794	4,544	4,262	3,985
Cash Basis Administrative Expenses:					
NPERS Expenses paid in NIS (2)	$ 482,349	$ 320,531	$ 231,034	$ 241,928	$ 225,521
Record keeper fees (3)	$ 194,220	$ 127,993	$ 116,941	$ 109,869	$ 96,933
Total Cash Basis Fees and Expenses	$ 676,569	$ 448,524	$ 347,975	$ 351,797	$ 322,454
Administrative Expenses per GAAP financial statements	$ 636,041	$ 663,502	$ 583,002	$ 353,953	$ 336,664
Average Administrative Expense per member (1)	$ 88	$ 138	$ 128	$ 83	$ 84
COUNTY CASH BALANCE (4)					
Members:					
Active		2,516	2,995	3,364	3,622
Inactive		72	58	107	488
Total Members		2,588	3,053	3,471	4,110
Cash Basis Administrative Expenses:					
NPERS Expenses paid in NIS (2)		$ 247,856	$ 333,433	$ 346,867	$ 346,923
Record keeper fees (3)		$ 56,988	$ 98,863	$ 79,946	$ 87,822
Total Cash Basis Fees and Expenses		$ 304,844	$ 432,296	$ 426,813	$ 434,745
Administrative Expenses per GAAP financial statements		$ 290,139	$ 443,326	$ 411,642	$ 430,015
Average Administrative Expense per member (1)		$ 112	$ 145	$ 119	$ 105

(1) Calculated: Total Administrative Expenses per Audited Financial Statements/Total Members=Avg. Administrative Expense
(2) NPERS expenses paid on NIS are expenses incurred by NPERS and allocated to these plans.
(3) Record keeper fees are amounts charged by the record keeper to members for record keeping services. This is the amount members see as fees on their quarterly statements.
(4) Cash Balance benefit became effective January 1, 2003.

NOTE: For CY 2005 there were redemption fees of $6,703. These are fees charged to members for excessive trading of shares of a certain fund, the International Stock Fund. These fees were not reflected in the schedule. There were no redemption fees for CY 2006.

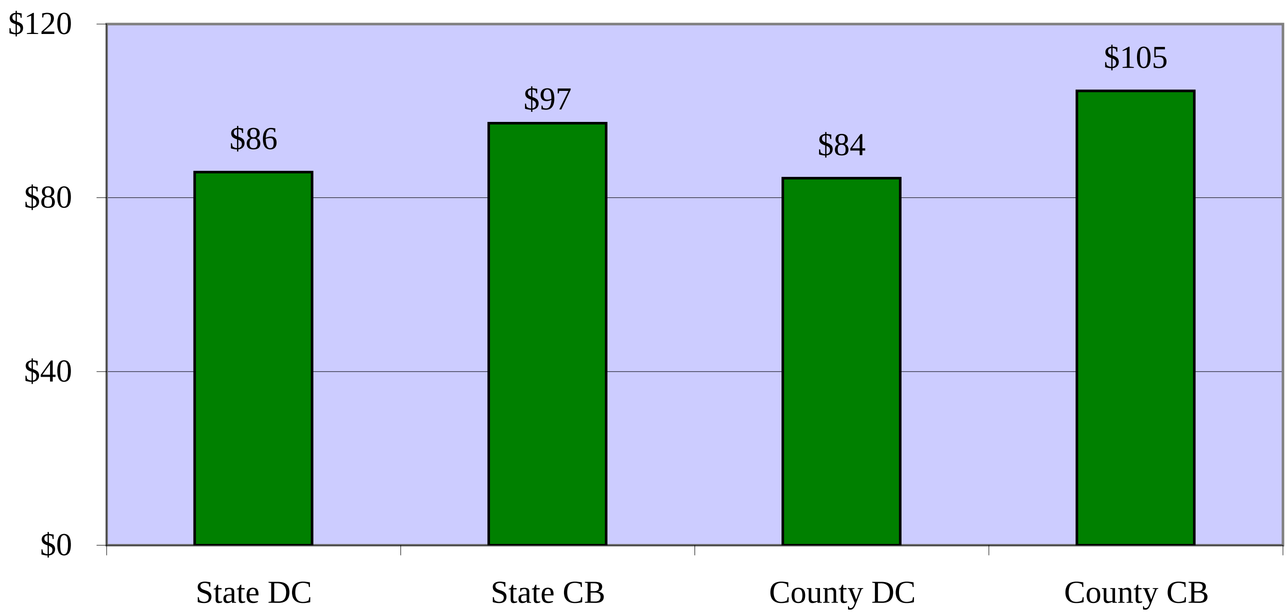
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

Calendar Year 2006 Expenses and Fees



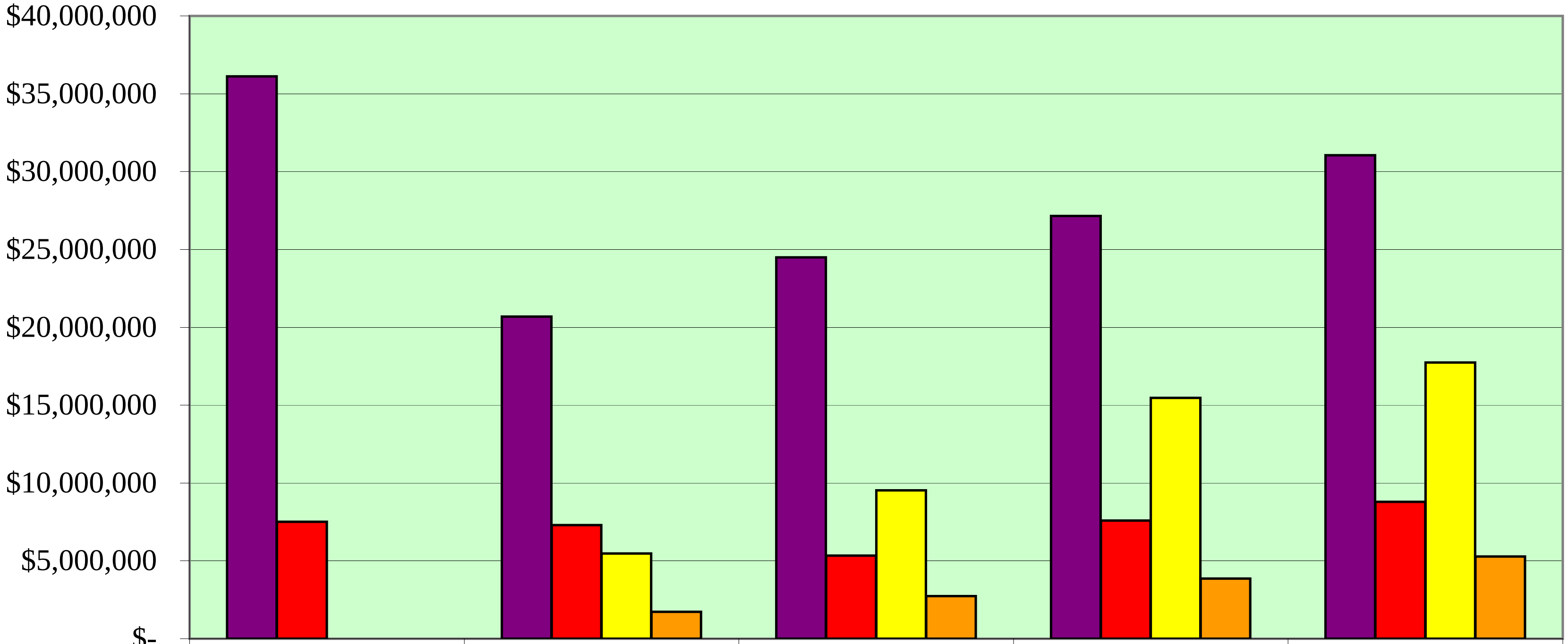
	State DC	State CB	County DC	County CB
NPERS Expenses	$575,800	$677,669	$225,521	$346,923
Ameritas Fees	$234,431	$181,804	$96,933	$87,822

Average Administrative Expense per Member
for Calendar Year 2006



CB - Cash Balance
DC - Defined Contribution

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS
TOTAL BENEFITS PAID



	2002	2003	2004	2005	2006
State DC	$36,121,096	$20,679,738	$24,493,621	$27,148,547	$31,057,867
County DC	$7,510,164	$7,295,622	$5,338,455	$7,597,458	$8,787,116
State CB	-	$5,476,107	$9,523,423	$15,463,446	$17,733,980
County CB	-	$1,731,868	$2,741,771	$3,866,692	$5,269,706

Note: Cash balance benefit became effective January 1, 2003.

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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, 2006, and have issued our report thereon dated November 19, 2007. The report was modified to disclose that the Required Supplementary Information was unaudited and to emphasize the financial statements present only the funds of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans. We conducted our audit in accordance with 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.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the Comments Section of the report to be significant deficiencies in internal control over financial reporting: Comment Number 1 (Internal Control Structure), Comment Number 2 (Accounting Issues), Comment Number 3 (Agreed-Upon Procedures Engagement Findings), and Comment Number 5 (Inadequate Resolution of Prior Year Findings).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Comment Number 1 (Internal Control Structure), Comment 2 (Accounting Issues), and Comment Number 3 (Agreed-Upon Procedures Engagement Findings) 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 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 4 (County Plan Payroll Testing), Comment Number 6 (Required Minimum Distributions), Comment Number 7 (Information Security Controls), Comment Number 8 (Outstanding Account Balances), Comment Number 9 (Authorization for Distributions), Comment Number 10 (Alternate Vesting Dates and Employer Forfeitures), Comment Number 11 (State Required Contribution Procedures), Comment Number 12 (Plan Membership Eligibility), Comment Number 13 (Incomplete Information in OMNI and PIONEER), and Comment Number 14 (Required Rules and Regulations).

The Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans' written response to the findings identified in our audit are described in the Comments Section of the report. We did not audit Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans' response and, accordingly, we express no opinion on it. Where no response is indicated, NPERS declined to respond.

This report is intended for the information and use of management, the Board, others within NPERS, 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

November 19, 2007 Assistant Deputy Auditor