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, 2007 THROUGH DECEMBER 31, 2007

Issued on August 6, 2008

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

TABLE OF CONTENTS

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

BACKGROUND

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

The Board has 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.

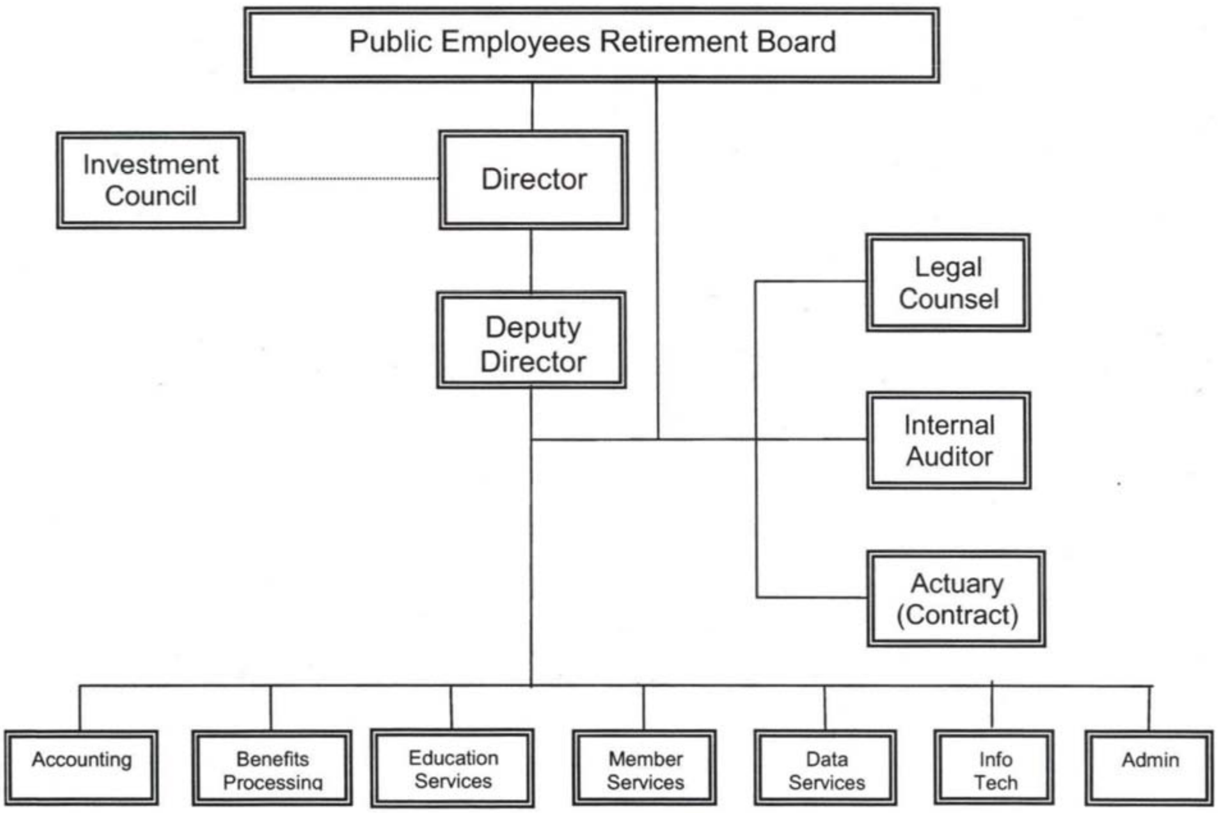
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

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.

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held June 20, 2008, 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
Joe Schaefer	Legal Counsel
Teresa Zulauf	Internal Auditor
Randy Gerke	Deputy Director
Christine Ford	Auditor
Missy Maguire	Internal Auditor
Miden Ebert	Benefits
Jerry Brown	IT Manager NPERS/OCIO
Glenn Elwell	PERB Board Member (Patrol)

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. ***Accounting Issues:*** There were several errors noted in the financial information prepared by NPERS accounting staff. Additionally, a variance still exists between the record keeper and the custodial bank of $228,624 at December 31, 2007.

2. ***Member Reconciliation Procedures:*** NPERS is currently performing a review of member accounts with transfers, allocation changes, and distributions during the period July 1, 2006, through September 30, 2006, to ensure account reconstruction was proper. We noted errors in the process employed to review the accounts and NPERS is working to address the problems.

3. ***County Plan Payroll Procedures:*** We tested payroll records for 24 entities and noted two entities did not adequately monitor non-participating, part-time employees' hours worked to ensure mandatory contributions began on time. One entity did not have adequate procedures to ensure contributions were remitted timely to the record keeper. One member's reported salary did not agree to the county's payroll records. Four members had contributions remitted on ineligible compensation. One member was required to join the Plan; however, the member did not meet mandatory requirements and should have been given the option to participate. Seven 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.

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

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

6. ***State Contribution Procedures:*** NPERS did not have adequate procedures to ensure State employees enrolled in the Plan timely and missed contributions were correctly calculated and remitted. Two members did not make up the proper amount of missed contributions. One member remitted contributions; however, no make-up agreement was on file. From the Mandatory Retirement Listing, 13 employees met mandatory requirements for enrollment in the Plan but were not contributing, and 2 individuals were to begin make up contributions, per NPERS; however, no make up agreement was received and it does not appear any make up contributions were remitted.

SUMMARY OF COMMENTS
(Continued)

7. ***Information Security Controls:*** We noted concerns related to information security controls at NPERS. Two accounts with domain administrator access had a shared password and there is no comprehensive, written PIONEER policy and procedures manual related to the processing of transactions in the system.

8. ***Outstanding Account Balances:*** NPERS did not have procedures to properly notify members of additional postings after termination. Five State members and five County members tested were paid out their account balance upon termination. Additional postings were made to their account after the member had terminated employment and the members were not properly notified.

9. ***Inadequate Resolution of Prior Year Findings:*** NPERS did not adequately resolve findings noted in prior audits from 2006 back to 2001 for the State and County Plans.

10. ***Incomplete Information in OMNI and PIONEER:*** NPERS did not have adequate procedures to ensure records were accurate and complete. During testing, we noted 63 State Plan members and 63 County Plan members had inaccurate or missing information recorded in the OMNI and/or PIONEER systems.

11. ***Required Rules and Regulations:*** We noted four 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.

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. Accounting Issues

Good internal control and accounting practice require financial information and disclosures to be complete and accurate. Also, the accounting department should have an understanding of applicable accounting standards required for the preparation of the financial information.

There were several errors in the financial information prepared by NPERS accounting staff. These errors ranged from an understatement of $924,950 to an overstatement of $1,184,424 and included incorrect calculations of several entries used in the preparation of the financial statements. There were also errors noted in the preparation of the report disclosures. The errors were due to the accumulation of amounts for the financial statements and disclosures and not due to errors in the accounting system or member accounts. NPERS agreed and adjusted all errors noted. In the past, the APA has met with NPERS accounting staff and has provided examples of accurate financial statement presentation; however, the errors in financial reporting still existed.

During the agreed-upon procedures engagement, performed for the period July 1, 2006, through October 31, 2006, we noted unknown variances between the record keeper and the custodial bank after the Plans were reconstructed. As of December 31, 2007, a variance of $228,624, the bank being higher, still existed. The variance was maintained in a reconciliation account in the record keeping system. NPERS continues to work with the record keeper to reconcile the difference.

Additionally, during the agreed-upon procedures engagement the auditors identified an area of concern regarding transfers made from the State Equal Retirement Benefit Fund to the State Cash Balance Benefit fund. NPERS had not determined the funds were properly transferred at the bank. The total amount of funds questioned was $21,024. This could cause variances between the record keeping system and the bank records if the funds were not properly transferred.

A similar finding was noted in the previous two audit reports.

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

> We recommend NPERS implement procedures to ensure financial information is complete, accurate, and in accordance with accounting standards. Additionally, we recommend NPERS work with the record keeper and custodial bank to ensure variances noted are properly resolved.

NPERS' Response: It is important to note that the variances do not represent errors in member accounts. We agree with the APA's recommendations and have made the appropriate changes to our financial statements. We will work with the record keeper and custodial bank to resolve variances related to the reconciliation.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Member Reconciliation Procedures

The Board utilizes a contract to provide record keeping and administrative services for the State Employees Retirement Plan, County Employees Retirement Plan, and the State of Nebraska Deferred Compensation Plan. For the period July 1, 2006, through September 30, 2006, the Board contracted with Union Bank and Trust Company to provide the record keeping and administrative services. After Union Bank withdrew from the contractual agreement Ameritas Life Insurance Corporation (Ameritas) agreed to rebuild all member accounts. In order to determine whether member accounts had been properly rebuilt for the period, we performed procedures as agreed-upon by the Board. Due to various errors noted with the reconstruction of the accounts, we recommended NPERS review all transfers, allocation changes, and distributions for the period.

NPERS performed an initial review of all member accounts with transfers, allocation changes, and distributions during the period to ensure account reconstruction was proper. Member accounts were calculated through September 30, 2006; those with a variance between the calculated account balance and the account balance per the record keeper, that were understated less than $25 or overstated less than $50, were deemed proper and no further procedures were performed. Understatements greater than $25 or overstatements greater than $50 were further calculated through October 31, 2006. The variance at October 31, 2006, and interest calculated using the United States Department of Labor Voluntary Fiduciary Correction Program Online Calculator (DOL Calculator), was totaled to obtain the adjustment necessary to make the members account proper.

We performed a review of NPERS member account calculations to determine proper procedures were performed and member accounts were properly calculated. During our review, we noted the following:

Distributions:

NPERS reviewed 629 member accounts with distributions made during the period and identified 9 member accounts that required an adjustment. We reviewed all 9 member accounts identified as needing an adjustment and 11 member accounts where no adjustment was deemed necessary by NPERS. We noted no errors in the unadjusted accounts tested. There were 4 of 9 errors noted in the member accounts identified as needing an adjustment. The errors ranged from an under adjustment of $166 to an over adjustment of $61.

Transfers and/or Allocation Changes:

NPERS reviewed 251 member accounts with transfers and 224 member accounts with allocation changes made during the period and identified 32 member accounts that required an adjustment. We reviewed all 32 member accounts identified as needing an adjustment and 10 additional member accounts where no adjustment was identified by NPERS.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Member Reconciliation Procedures (Concluded)

- We noted NPERS did not properly calculate adjustments for 10 member accounts identified as needing an adjustment. The errors ranged from an under adjustment of $1,431 to an over adjustment of $537.

- We noted NPERS did not properly calculate 2 of 10 member accounts identified as not needing an adjustment. The errors noted were under adjustments of $454 and $211.

- One member had a variance noted in our prior report of $4,972. NPERS was in the process of determining how to handle this account. NPERS subsequently agreed with the error of $4,972 and determined the member account would be adjusted.

Additionally, NPERS performed further recalculations for members of Hall County. During the period July 1, 2006, through September 30, 2006, there were concerns regarding the timing of contributions posted by the record keeper for Hall County. We noted all five member accounts tested from Hall County were not properly adjusted by NPERS. After we reviewed the member's accounts, we determined no adjustments were necessary. However, NPERS adjusted the accounts ranging from $51 to $129.

With improper adjustments made to the member accounts there is an increased risk the member accounts will be overstated or understated in the record keeping system.

> We recommend NPERS continue to review the variances noted to ensure the member accounts are accurate.

NPERS' Response: NPERS recalculated 1,440 accounts between July 2007 and May 2008. NPERS will continue to review the variances noted to ensure that member accounts are correct and accurate.

3. County Plan Payroll Procedures

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., 2006 states, "The following employees of member counties are authorized to participate in the retirement system: (a) All permanent full-time employees shall begin participation in the retirement system upon employment and full-time elected officials shall begin participation in the retirement system upon taking office, (b) all permanent part-time employees who have attained the age of twenty years 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

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>County Plan Payroll Procedures</u> (Continued)

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(15) R.S.Supp., 2006 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(23) R.S.Supp., 2006 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."

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."

Neb. Rev. Stat. Section 23-2301(5)(a) R.S.Supp., 2006 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., 2006 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, census information is accurate, and contributions are posted to the record keeping system in a timely manner.

We sampled 22 counties and 2 health districts 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 the 24 entities tested, 2 did not have procedures in place to monitor non-participating, part-time employees to ensure they properly entered the plan in accordance with State statute. The two entities were Keya Paha County and Rock County. Keya Paha, Rock,

3. <u>County Plan Payroll Procedures</u> (Continued)

and Brown Counties have a shared extension agent. The three counties share the payroll expenses for the extension agent. The individual was properly contributing to the Brown County retirement plan; however, Keya Paha County and Rock County did not properly set up retirement deductions for the individual's pay. The individual should have contributed to the retirement plan for all three entities starting in January 2007.

- 1 of 24 entities tested did not have adequate procedures to ensure contributions were remitted timely to the record keeper. The entity was West Central Health District. The health district did not remit February 2007 retirement contributions until May 2007.

- 1 of 120 members tested had reported salary information that did not agree to the payroll claims of the county. The individual was employed with Hooker County. The employee and employer over contributed approximately $4 for the pay period tested.

- 4 of 120 members tested had compensation which included payment in lieu of insurance premiums or expense reimbursement. Insurance premiums converted to cash payments and expense reimbursements should not be included in compensation used to calculate the retirement contribution per statute. Three of the employees were from West Central Health District. The additional member was from Hooker County. Total amount over contributed for the pay period tested was $78. A similar finding was noted in the prior audit report.

- 1 of 120 members tested was a part-time employee and therefore not mandatorily required to join the plan. Per discussion with the County they required the individual to begin contributing. The employee was from Grant County.

- 7 of 80 employees tested were not properly contributing to the Plan as required by State statute. The employees were from Arthur County, Hooker County, Garden County, Frontier County (3 employees), and Red Willow County. The employees missed from one pay period to approximately one year of contributions. A similar finding was noted in the prior audit report.

- NPERS did not have procedures in place to ensure make-up agreements for county members were accurate. NPERS did not verify the period of missed contributions or the total salary amount of the missed contributions that were used to calculate the make-up contribution amounts. One member did not begin contributing to the Plan timely. The member missed approximately eight months of contributions. The member completed a make up contribution form; however, the amount calculated was not proper. The member still owed $184 in employee contributions and $276 in employer contributions as of March 2008.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>County Plan Payroll Procedures</u> (Concluded)

NPERS has not implemented adequate testing and monitoring procedures in order to verify the accuracy of such information in accordance with State statute. NPERS did not have written procedures for their testing and there was no documented supervisor review of work performed. The NPERS staff member that performed testing procedures did not appear to have an understanding of their responsibilities. A similar finding was noted in the prior audit report.

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 required 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 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 has created a new staff position to work with county employers and to resolve the county payroll issues. NPERS will continue to revise our procedures and ensure 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.

4. <u>Required Minimum Distributions</u>

Internal Revenue Code (IRC) 401(a) and Neb. Rev. Stat. Sections 23-2315 and 84-1317 R.S.Supp., 2006 require members to take a minimum distribution every year beginning when the member is 70 ½ and terminated. The first minimum distribution is to be made by April 1 of the calendar year following the later of: i) the calendar year in which the employee attains age 70 ½ or, ii) the calendar year in which the employee retires.

Neb. Rev. Stat. Sections 23-2317(4) and 84-1319(1) R.S.Supp., 2007 state, "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)

4. Required Minimum Distributions (Concluded)

Good internal control requires procedures to ensure required minimum distributions are timely and in accordance with Federal and State regulations.

During testing we noted the following:

- Three County members and one State member tested were not paid timely in accordance with Federal and State requirements. The individuals were paid over six months late.
- One County member was required, by NPERS, to take an additional distribution of $78 because NPERS did not properly calculate the amount of distributions already received by the member for the year.
- For Cash Balance members, State statute 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. We noted one County member and one State member did not have their minimum distributions properly paid in accordance with Neb. Rev. Stat. Sections 23-2317 and 84-1319. The members received two to three minimum distributions prior to rolling over their accounts to another qualified plan.

A similar finding was noted in the previous audit report.

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 ensure required minimum distributions are calculated and paid timely in accordance with Federal and State regulations.

NPERS' Response: NPERS has distributed over 150 required minimum distributions by April 1, 2008. NPERS management has been working with staff and updating our procedures to ensure required minimum distributions are properly paid in accordance with federal regulations and state statutes.

5. Alternate Vesting Dates and Employer Forfeitures

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."

Neb. Rev. Stat. Section 23-2306 R.S.Supp., 2006 states, "…All full-time elected officials shall begin participation in the retirement system upon taking office."

COMMENTS AND RECOMMENDATIONS
(Continued)

5. <u>Alternate Vesting Dates and Employer Forfeitures</u> (Continued)

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

NPERS did not have adequate polices and procedures to ensure vesting dates were properly recorded in the record keeping system.

- 2 of 30 County members tested had incorrect vesting dates in the record keeping system. One individual remitted missed contributions; however, the vesting date was not adjusted to reflect the make-up contributions. The second individual had contributions remitted under an incorrect social security number. When the correction was made the individual had two accounts that had to be merged into one. When the accounts were merged, the vesting date was not adjusted to reflect the original entry into the plan. Both members' vesting dates should be adjusted to January 2007.

- 1 of 30 State members tested began contributing to the plan under an incorrect social security number. When the social security number was corrected by the employer the member began contributing under the correct number, however, the individual was set up under a new account in the record keeping system. The correct member account had a vesting date as of the correction, February 2008; the vesting date should be September 2007 when the member began contributing. Additionally, the member's accounts had not been merged into one, as of March 2008 the member had a total account balance of $2,125.

- 1 of 3 County members tested was an elected official and therefore required to join the plan immediately upon hire on January 1, 2005. To be vested, the member had to contribute to the Plan for three years. However, the member terminated employment on January 4, 2007, and only contributed for approximately two years. Per review of the member's file, NPERS noted the individual was vested and eligible to receive the member's employer contributions. Upon the member's request of distribution the member's employer funds should have been forfeited as the member was not properly vested.

- NPERS did not have a clear and consistent policy for adjusting vesting dates of members hired during calendar year 2006 and required to join the plan January 1, 2007. One State member tested entered the plan January 2007 and had their vesting date adjusted to their date of hire, in 2006, giving the member credit for the period of eligibility. However, we noted nine additional members tested that were hired during 2006 and required to join the plan January 2007, that did not have their vesting dates adjusted to their date of hire.

- Additionally, NPERS did not have a Board approved policy regarding the rounding up or down of vesting credit to the nearest month.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Alternate Vesting Dates and Employer Forfeitures (Concluded)

A similar finding was noted in the previous audit report.

Without adequate procedures to ensure vesting dates 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. We also recommend NPERS ensure member accounts are properly merged and vesting dates are properly adjusted for actual service. Furthermore, we recommend NPERS have a Board approved policy regarding the rounding of vesting credit and ensure policies regarding the adjustment of vesting dates are consistent for all members.

NPERS' Response: NPERS will review the procedures for vesting credit and work with staff to ensure that vesting dates are correct in OMNI. NPERS management will advise the Board regarding the rounding of vesting credit.

6. State Contribution Procedures

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 in accordance with NPERS Rules and Regulations.

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

The Nebraska State Retirement System Manual for State Agencies, Chapter 2, Make-Up Contributions, states, "if retirement contributions under mandatory membership are started late, the member and the employer must "make-up" those contributions." The manual also states a Make-Up Contribution Agreement form must be completed stating the deduction amount and terms of the contributions to be repaid and submitted to NPERS.

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

- 1 of 30 members selected for eligibility testing did not begin contributing to the Plan timely. The member subsequently began remitting make-up contributions. However, the period calculated on the make-up agreement was not complete. The calculated

COMMENTS AND RECOMMENDATIONS
(Continued)

6. State Contribution Procedures (Continued)

contributions were only for 8 months; however, the member missed 12 months of contributions. Furthermore, the member did not complete the make-ups as agreed upon. The member still owes $401 and the employer owes $625 for a total of $1,026.

- 1 of 5 members selected for termination testing did not begin contributing to the Plan timely. The member completed make-up contributions for the employee portion; however, the employer portion was not made up in total. The employer still owed $41 in missed contributions. The employee terminated in August 2007 and requested distribution in November 2007. The member did not receive all contributions due from the employer upon termination.

- NPERS obtained a report of State employees who were not contributing to the Plan, called the Mandatory Retirement listing, from the Nebraska Information System (NIS) for calendar year 2007. As part of their procedures to ensure all members properly contributed to the Plan, NPERS reviewed the report and requested agency responses to members noted. NPERS did not adequately follow up on responses from the State agencies regarding the status of the members who were not contributing.

    - 1 of 5 individuals tested did not begin contributing to the Plan timely. The member subsequently began remitting make-up contributions. However, there was no make-up agreement on file to determine the amount remitted was proper.

    - There were 13 individuals on the report that met mandatory requirements for enrollment in the Plan but were not contributing.

    - 2 individuals on the report had an agency response indicating they would be making up missed contributions; however, there was no make-up agreement on file and per review of NIS and the record keeping system there had been no make-up contributions remitted. The individuals first appeared on the report in March 2007 and October 2007.

A similar finding was noted in the previous audit report.

Without adequate procedures to ensure required contributions are properly and timely remitted, the plans are not in compliance with State statutes and NPERS Rules and Regulations.

> We recommend NPERS review their procedures to ensure required contributions are remitted and remitted timely. We also recommend NPERS ensure make-up agreements are received and properly calculated in accordance with NPERS Rules and

6. <u>State Contribution Procedures</u> (Concluded)

> Regulations. Furthermore, we recommend NPERS substantiate the responses received from agencies regarding the Mandatory Retirement listing from NIS.

NPERS' Response: NPERS will follow up on the individuals listed. NPERS will also follow up on outside agency responses and review for accuracy. Alternate vesting dates are being adjusted to reflect the remittance of missed contributions. The "Participants with No Contributions" report is being reviewed quarterly by staff. Individuals listed as having problems with missed contributions by the APA are being investigated further and will be rectified as soon as possible.

7. <u>Information Security Controls</u>

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:

- Two 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 and the database.

- 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 NPERS ensure information technology systems allow for unique administrative account passwords to ensure adequate accountability of individual access. We also recommend NPERS ensure written policies and procedures relating to processing of transactions are established for systems used.

NPERS' Response: The two shared administrator accounts are necessary for proper administration staff backup of the production environment and will need to remain active. There is currently not an approach to resolve this issue in the PIONEER system. Plus we are not

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Information Security Controls (Concluded)

NPERS' Response, Concluded:
making changes to the PIONEER system. We are looking for ways to remove the shared administrator accounts in NPRIS. However, in the meantime, we have implemented a quarterly review of access accounts on all of the production servers as well as quarterly password changes for the shared accounts.

NPERS will not be making any more changes to the PIONEER system, but will ensure that the NPRIS system does include the documentation as requested.

8. Outstanding Account Balances

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

There were 166 terminated State members and 61 terminated County members with outstanding balances ranging from $0.33 to $67,106. The total balance outstanding at May 2008 for State members was $552,102 and County members totaled $121,934.

Five State members and five County members tested were properly paid out their account balance upon termination. However, the members subsequently received cash balance dividends in their accounts. There was no documentation that NPERS had contacted the members regarding the account balances. Therefore, the members are still owed additional monies.

A similar finding was noted in the previous audit report.

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 record keeper to inform them of their account balances.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Outstanding Account Balances (Concluded)

NPERS' Response, Concluded:
NPERS will continue to locate and notify inactive members of their account balances, in order for the member to claim any additional retirement funds owed to them.

In 2007, NPERS paid out over 800 inactive member accounts with residual balances. NPERS has continued to work on paying out accounts with residual balances.

9. 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 as a strong indicator of material weakness in internal control.

- 76 findings from the 2006 audit of the County Plan and 28 findings from the State Plan were not adequately resolved. Findings included missing information in OMNI; counties who did not have adequate procedures to monitor part-time employees to ensure enrollment requirements were met; incorrect contributions; employees who should have entered the plan and still have not; employees who should be making up contributions; and incorrect dates in OMNI.

- 6 findings from the 2005 audit of the County Plan and 8 findings from the State Plan were not adequately resolved. Findings included employees who should have entered the plan and still have not; counties who did not have adequate procedures to monitor part time employees to ensure enrollment requirements were met; contributions that should be refunded; outstanding balances; incomplete information in OMNI; incorrect dates in OMNI; employees who should be making up contributions; dividend and dividend interest not properly credited to the member's account; and improper payment of employer funds.

- 5 findings from the 2004 audit of the County Plan and 1 finding from the State Plan were not adequately resolved.

- 3 findings from the calendar year 2003 audit of the County Plan and 2 findings from the State Plan were not adequately resolved.

- 1 finding from the 2002 audit of the County Plan was not adequately resolved.

- 2 findings from the 2001 audit of the County Plan were not adequately resolved.

COMMENTS AND RECOMMENDATIONS
(Continued)

9. <u>Inadequate Resolution of Prior Year Findings</u> (Concluded)

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 created a new staff position to assist with prior audit findings and to work with county employers. NPERS has resolved over 50 prior year's audit findings to date and continues to work with employers to resolve them.

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

10. <u>Incomplete Information in OMNI and PIONEER</u>

Neb. Rev. Stat. Sections 84-1305.01(1) and 23-2312(1) R.S.Supp., 2006 states, "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), 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. Additionally, good internal control requires procedures to ensure that data is accurately reported to the actuary for use in the actuarial valuation.

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.

<u>State Plan Members</u>

- 55 members tested did not have hire dates recorded or the hire date was recorded incorrectly in OMNI;
- 4 members tested did not have a termination date in OMNI;
- 1 member tested had the incorrect gender recorded in PIONEER;
- 1 member tested did not have salary information in OMNI;

10. <u>Incomplete Information in OMNI and PIONEER</u> (Concluded)

- 2 members tested did not have an account balance recorded on the actuary file. The actuary file was generated from the PIONEER System.

<u>County Plan Members</u>

- 39 members tested did not have hire dates recorded in OMNI;
- 21 members tested did not have genders recorded or the genders were recorded incorrectly in OMNI and/or PIONEER;
- 2 members tested did not have an accurate account balance recorded on the actuary files. The actuary files were generated from OMNI and PIONEER;
- 1 member tested had a different gender recorded on the actuary file than what was recorded in OMNI.

A similar finding was noted in the previous audit report.

Without accurate information in the systems there is an increased risk the actuarial 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. We also recommend NPERS ensure the data recorded in the systems agrees to the information sent to the actuary.

NPERS' Response: NPERS has been working with our record keeper and the County organization concerning the information in OMNI. A users group has been organized and is meeting monthly to address programming and date issues. NPERS' goal is to have accurate information in OMNI and PIONEER.

11. <u>Required Rules and Regulations</u>

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

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

COMMENTS AND RECOMMENDATIONS
(Continued)

11. <u>Required Rules and Regulations</u> (Concluded)

- 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."

Lack of rules and regulations where required by statutes can cause inconsistency in handling of issues. A similar finding was noted in previous audit reports.

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

NPERS' Response: NPERS currently is identifying changes to rules and regulations which relate to these plans including enrollment of members, remittance of required contributions, and assessment of late charges. Proposed rules will be reviewed by the Public Employees Retirement Board after which hearing dates will be set and the process continued.

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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, 2007, 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, 2007, 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, 2007, and the results of each Plan's operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2008, 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, and contracts 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.

NPERS has not presented Management Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The "Schedules of Funding Progress," "Schedules of Contributions From Employers," and "Notes to Required Supplementary Information" are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. The "Schedules of Contributions From Employers" has been subjected to the auditing procedures applied in the audit of the Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets and, in our opinion, are fairly stated in all material respects in relation to the financial statements referred to above, taken as a whole. We have applied certain limited procedures to the "Schedules of Funding Progress" and the "Notes to Required Supplementary Information," 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 2007 Expenses and Fees," "Average Administrative Expense Per Member for Calendar Year 2007," and "Total Benefits and Refunds 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.

Signed Original On File

July 25, 2008 — Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2007

ASSETS	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
Cash in State Treasury	$ 53,419	$ 550,068
Receivables:		
Contributions	5,567	1,755
Interest	854,897	139,657
Other Receivables (Note 11)	12,132,734	-
Receivable from Defined Contribution Plan (Note 15)	153,551,157	-
Total Receivables	166,544,355	141,412
Investments, at fair value (Note 3):		
U.S. Treasury Bills	634,916	-
U.S. Treasury Notes and Bonds	(1,448,247)	-
Government Agency Securities	3,259,133	-
Corporate Bonds	27,305,473	-
International Bonds	2,795,418	-
Asset Backed Securities	5,193,457	-
Guaranteed Investment Contracts	-	102,538,041
Short Term Investments	5,459,639	32,092,751
Commingled Funds	295,038,105	690,180,254
Mortgages	54,480,916	-
Municipal Bonds	395,604	-
Private Equity Funds	3,640,941	-
Equity Securities	63,267,107	-
Options	(49,428)	-
Private Real Estate Funds	17,540,586	-
Total Investments	477,513,620	824,811,046
Invested Securities Lending Collateral (Note 3)	19,673,457	6,253,869
Capital Assets (Note 9):		
Equipment	2,104,129	1,099,992
Less: Accumulated Depreciation	(1,529,738)	(752,204)
Total Capital Assets	574,391	347,788
Total Assets	664,359,242	832,104,183
LIABILITIES		
Compensated Absences (Note 6)	13,012	24,074
Other Payables (Note 11)	18,960,171	532,189
Benefits Payable	775,753	-
Payable to Cash Balance Plan (Note 15)	-	153,551,157
Obligations Under Securities Lending (Note 3)	19,673,457	6,253,869
Capital Lease Obligations (Note 5)	728,329	334,046
Total Liabilities	40,150,722	160,695,335
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 47.)	$ 624,208,520	$ 671,408,848

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, 2007

ASSETS	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
Cash in State Treasury	$ 38,530	$ 28,651
Receivables:		
Contributions	405,047	234,564
Interest	256,287	20,941
Other Receivables (Note 11)	3,579,741	-
Receivable from Defined Contribution Plan (Note 15)	28,526,933	-
Total Receivables	32,768,008	255,505
Pooled Investments, at fair value (Note 3):		
U.S. Treasury Bills	187,331	-
U.S. Treasury Notes and Bonds	(427,303)	-
Government Agency Securities	961,601	-
Corporate Bonds	8,056,431	-
International Bonds	824,783	-
Asset Backed Securities	1,532,320	-
Guaranteed Investment Contracts	-	21,659,627
Short Term Investments	2,228,606	5,106,714
Commingled Funds	87,050,469	164,940,502
Mortgages	16,074,498	-
Municipal Bonds	116,722	-
Private Equity Funds	1,074,253	-
Equity Securities	18,666,848	-
Options	(14,584)	-
Private Real Estate Funds	5,175,319	-
Total Investments	141,507,294	191,706,843
Invested Securities Lending Collateral (Note 3)	5,849,213	1,321,002
Capital Assets (Note 9):		
Equipment	1,107,437	502,373
Less: Accumulated Depreciation	(837,229)	(348,789)
Total Capital Assets	270,208	153,584
Total Assets	180,433,253	193,465,585
LIABILITIES		
Compensated Absences (Note 6)	7,069	11,184
Other Payables (Note 11)	5,595,541	122,676
Benefits Payable	277,392	-
Payable to Cash Balance Plan (Note 15)	-	28,526,933
Obligations Under Securities Lending (Note 3)	5,849,213	1,321,002
Capital Lease Obligations (Note 5)	383,331	136,904
Total Liabilities	12,112,546	30,118,699
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 47.)	$ 168,320,707	$ 163,346,886

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, 2007

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Employee	$ 14,696,920	$ 14,799,229
Employer (Note 4)	22,920,710	23,097,117
Total Contributions	37,617,630	37,896,346
Investment income:		
Net income (loss) from investing activities	34,398,821	47,302,745
Securities lending income	988,745	377,515
Securities lending expense	(924,583)	(350,162)
Net investment income (loss)	34,462,983	47,330,098
Other Additions (Note 15)	153,553,230	7,659
Total Additions	225,633,843	85,234,103
DEDUCTIONS:		
Benefits and Refunds	25,763,588	39,498,621
Administrative expenses	1,215,889	754,980
Other Deductions (Notes 14 & 15)	-	153,944,623
Total Deductions	26,979,477	194,198,224
TRANSFERS (Note 10)	3,126,122	(3,126,122)
Net Increase (Decrease)	201,780,488	(112,090,243)
Net assets held in trust for pension benefits:		
Beginning of year	422,428,032	783,499,091
End of year	$ 624,208,520	$ 671,408,848

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, 2007

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Employee	$ 5,528,510	$ 4,218,012
Employer (Note 4)	8,194,608	6,216,099
Total Contributions	13,723,118	10,434,111
Investment income:		
Net income (loss) from investing activities	9,946,586	11,091,366
Securities lending income	293,969	79,742
Securities lending expense	(274,892)	(73,964)
Net investment income (loss)	9,965,663	11,097,144
Other Additions (Note 15)	28,528,279	2,735
Total Additions	52,217,060	21,533,990
DEDUCTIONS:		
Benefits and Refunds	9,094,828	12,851,408
Administrative expenses	654,078	239,576
Other Deductions (Note 15)	-	28,526,933
Total Deductions	9,748,906	41,617,917
TRANSFERS (Note 10)	981,504	(981,504)
Net Increase (Decrease)	43,449,658	(21,065,431)
Net assets held in trust for pension benefits:		
Beginning of year	124,871,049	184,412,317
End of year	$ 168,320,707	$ 163,346,886

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2007

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, 2007, 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. <u>Summary of Significant Accounting Policies</u> (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 2007.

E. Investments

Investments as reported in the financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments are stated at fair value based on quoted market prices. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals. The State Treasurer is the custodian of all funds; 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

1. <u>Summary of Significant Accounting Policies</u> (Concluded)

financed with long-term debt or capitalized lease financing is also capitalized. The amount capitalized includes the cost of the software and related expenses necessary to put the software into place. The useful life is determined based on the system and will be depreciated over 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.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal-year-end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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.

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 are required to begin participation in the retirement system upon employment. All permanent part-time employees who have attained the age of 20, may exercise the option to begin participation in the retirement system.

Contributions. Per statute, each member contributes 4.8 percent of his or her monthly compensation. 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 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.

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, 2007:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	329
Terminated Plan Members Entitled to but not yet Receiving Benefits	1,844	1,429
Active Plan Members	7,276	9,798
Total	9,120	11,556

The 329 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 $81,812. NPERS, as part of the State of Nebraska, contributed $127,627.

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.

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

2. Plan Descriptions (Continued)

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 employment and of all full-time elected officials upon taking office. Part-time employees may elect voluntary participation upon reaching age 20. 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 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.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions (Concluded)

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, 2007:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	160
Terminated Plan Members Entitled to but not yet Receiving Benefits	940	608
Active Plan Members	2,725	4,785
Total	3,665	5,553

The 160 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 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, 2007, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

State and County Employees Retirement Plan Investments at December 31, 2007

	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	$ (1,875,550)	(2.64)	$ -	-
U.S. Treasury Bills	822,247	0.19	-	-
Government Agency Securities	4,220,734	3.48	-	-
Corporate Bonds	35,361,904	5.36	-	-
International Bonds	3,620,201	7.20	-	-
Asset Backed Securities	6,725,777	2.54	-	-
Guaranteed Investment	-	-	124,197,668	2.51
Short Term Investments	7,688,245	0.03	37,199,465	0.04
Commingled Funds	61,400,184	4.40	302,068,884	4.49
Mortgages	70,555,414	4.07	-	-
Municipal Bonds	512,326	3.90	-	-
	189,031,482		463,466,017	
Other Investments				
Private Equity Funds	4,715,194		-	
Equity Securities	81,933,955			
Commingled Funds	320,688,390		553,051,872	
Options	(64,012)		-	
Private Real Estate Funds Trust	22,715,905		-	
Total Investments	619,020,914		1,016,517,889	
Invested Securities Lending Collateral	25,522,670		7,574,871	
Total	$ 644,543,584		$ 1,024,092,760	

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Investments (Continued)

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, 2007, 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, 2007
Quality Ratings

	Cash Balance Benefit										Defined Contribution	
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**C**	**Unrated**	**Fair Value**	**Unrated**
Asset Back Securities	$ 6,725,777	$ 5,924,914	$ 96,798	$ 6,438	$ 11,575	$ -	$ -	$ -	$ -	$ 686,052	$ -	$ -
Mortgages	$ 70,555,414	$ 56,507,306	$ 77,239	$ -	$ -	$ -	$ 41,782	$ -	$ -	$ 13,929,087	$ -	$ -
International Bonds	$ 3,620,201	$ 87,787	$ -	$ 437,172	$ 588,410	$ 2,358,114	$ 115,357	$ -	$ -	$ 33,361	$ -	$ -
Corporate Bonds	$ 35,361,904	$ 4,355,197	$ 9,187,871	$ 4,999,559	$ 5,210,388	$ 4,414,104	$ 4,569,386	$ 1,040,084	$ 28,176	$ 1,557,139	$ -	$ -
Government Agency Securities	$ 4,220,734	$ 3,866,458	$ -	$ -	$ 280,934	$ 57,467	$ 15,875	$ -	$ -	$ -	$ -	$ -
Municipal Bonds	$ 512,326	$ 106,523	$ 358,022	$ -	$ 47,781	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Short Term Investments	$ 7,688,245	$ -	$ -	$ (187,120)	$ -	$ -	$ -	$ -	$ -	$ 7,875,365	$ 37,199,465	$ 37,199,465
Commingled Funds	$ 61,400,184	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 61,400,184	$ 302,068,884	$ 302,068,884

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.

3. Investments (Continued)

At December 31, 2007, the State and County Defined Contribution Plan had no debt security investments with more than 5 percent of total investments. The State and County Cash Balance Plan had debt securities investments with more than 5 percent of total investments in the Federal National Mortgage Corporation (7 percent).

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, 2007, 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, 2007

	Short Term Investments	Equity Securities	Corporate Bonds	International Bonds
Argentine Peso	$ 1,079	$ -	$ -	$ -
Australian Dollar	489	497,601	-	-
Brazilian Real	(256,939)	48,926	-	101,525
Canadian Dollar	12,224	11,343	36,814	-
Danish Krone	43	47,180	-	-
Euro Currency	5,859	8,814,984	43,698	110,957
Hong Kong Dollar	1,574	444,280	-	-
Hungarian Forint	265	-	-	-
Iceland Krona	-	-	142,985	-
Indonesian Rupiah	-	67,313	-	-
Israeli Shekel	2,517	69,028	-	-
Japanese Yen	622,642	3,063,737	407,948	-
Malaysian Ringgit	-	-	149,040	-
Mexican Peso	(1,442)	596,712	38,716	170,826
New Zealand Dollar	3,907	-	41,738	-
Norwegian Krone	71	23,920	-	-
Philippine Peso	180	25,021	-	-
Polish Zloty	7,406	-	-	-
Pound Sterling	47,238	2,571,215	-	-
Singapore Dollar	17	255,753	152,766	-
South Korean Won	4	884,270	71,408	-
Swedish Krona	3,807	495,605	-	-
Swiss Franc	749	2,246,368	-	-
Thailand Baht	-	188,414	-	-
Total	$ 451,690	$ 20,351,670	$ 1,085,113	$ 383,308

NOTES TO FINANCIAL STATEMENTS
(Continued)

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 43 and 68 days as of June 30, 2007. 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., 2007 and 84-1321.01(1) R.S.Supp., 2007 forfeitures are first used to pay administrative expenses of the Board. The remaining balance, if any, shall then be used

4. Employer Contributions (Concluded)

to reduce State and County employer contributions respectively. During 2007, there were no forfeitures used to offset the State and County employer contributions. The balance of the Defined Contribution forfeiture accounts at December 31, 2007, was $131,179 for the State Plan and $31,442 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $805,092 for the State Plan and $74,737 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 $31 million for each loss, and a $25,000 self-insured retention per incident.

D. Real and personal property on a blanket basis for losses up to $250,000,000, with a self-insured retention of $200,000 per loss occurrence. Newly acquired properties are covered up to $5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, 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.

5. Contingencies and Capital Lease Commitments (Continued)

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 11, 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, 2007, are as follows:

(Continued on Next Page)

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Contingencies and Capital Lease Commitments (Concluded)

Calendar Year	State Cash Balance Benefit	State Defined Contribution	County Cash Balance Benefit	County Defined Contribution
2008	$ 330,018	$ 151,362	$ 173,693	$ 62,034
2009	288,407	132,277	151,793	54,212
2010	106,700	48,938	56,158	20,057
2011	26,390	12,103	13,890	4,960
Total Minimum Payments	751,515	344,680	395,534	141,263
Less: Interest and Executory Costs	23,186	10,634	12,203	4,359
Present Value of Net Minimum Payments	$ 728,329	$ 334,046	$ 383,331	$ 136,904

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, 2007, is as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	$ 6,135	$ 11,351	$ 3,333	$ 5,273
Sick Leave	6,877	12,723	3,736	5,911
	$ 13,012	$ 24,074	$ 7,069	$ 11,184

NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2007, 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	$ 26,991	$ -	$ 2,917	$ 24,074	$ 1,685
Capital Lease Obligations	479,328	-	145,282	334,046	142,216
Totals	$ 506,319	$ -	$ 148,199	$ 358,120	$ 143,901
State Cash Balance Benefit					
Compensated Absences	$ 14,187	$ -	$ 1,175	$ 13,012	$ 911
Capital Lease Obligations	1,045,092	-	316,763	728,329	310,077
Totals	$ 1,059,279	$ -	$ 317,938	$ 741,341	$ 310,988
County Defined Contribution					
Compensated Absences	$ 10,643	$ 541	$ -	$ 11,184	$ 783
Capital Lease Obligations	196,446	-	59,542	136,904	58,285
Totals	$ 207,089	$ 541	$ 59,542	$ 148,088	$ 59,068
County Cash Balance Benefit					
Compensated Absences	$ 6,555	$ 514	$ -	$ 7,069	$ 495
Capital Lease Obligations	550,049	-	166,718	383,331	163,198
Totals	$ 556,604	$ 514	$ 166,718	$ 390,400	$ 163,693

9. Capital Assets

Capital asset activity for the year ended December 31, 2007, 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				752,204
Capital Assets, Net				$ 347,788

NOTES TO FINANCIAL STATEMENTS
(Continued)

9. Capital Assets (Concluded)

	Beginning Balance	Increases	Decreases	Ending Balance
State Cash Balance Benefit				
Equipment	$ 2,104,130	$ -	$ -	$ 2,104,129
Less: Accumulated Depreciation				1,529,738
Capital Assets, Net				$ 574,391
County Defined Contribution				
Equipment	$ 502,373	$ -	$ -	$ 502,373
Less: Accumulated Depreciation				348,789
Capital Assets, Net				$ 153,584
County Cash Balance Benefit				
Equipment	$ 1,107,437	$ -	$ -	$ 1,107,437
Less: Accumulated Depreciation				837,229
Capital Assets, Net				$ 270,208

10. Transfers

Transfer activity for the year ended December 31, 2007, was as follows:

	State Cash Balance Benefit	State Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 2,088,566	$ (2,088,566)
Miscellaneous Transfers	1,037,556	(1,037,556)
Total Transfers	$ 3,126,122	$ (3,126,122)

	County Cash Balance Benefit	County Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 601,363	$ (601,363)
Miscellaneous Transfers	380,141	(380,141)
Total Transfers	$ 981,504	$ (981,504)

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 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 14.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2007, 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, 2007:

External Manager Fees	State & County Cash Balance Benefit	State & County Defined Contribution
Abbott Capital	$ 28,817	$ -
Acadian Asset Management, Inc.	84,927	-
Alliance Bernstein Institutional Investment Management	86,999	3,294
Ariel Capital Management, LLC.	27,320	-
Baillie Gifford	68,869	-
Barclays Global Investors	68,543	190,122
Beacon Capital	13,978	-
BlackRock Financial Management	81,894	2,757
Citigroup	14,970	-
CMEA Ventures	15,806	-
Dimensional Fund Advisors, Inc	92,140	269,129
Goldman Sachs Asset Management	15,960	3,433
Grantham, Mayo, Van Otterloo & Co., LLC	239,217	-
Heitman	14,435	-
Loomis Sayles	35,934	-
MFS Institutional Advisors	79,163	3,821
New Mountain Capital	15,507	-

NOTES TO FINANCIAL STATEMENTS
(Continued)

12. Fees on Investments (Concluded)

External Manager Fees, (Concluded)	State & County Cash Balance Benefit	State & County Defined Contribution
Pathway	67,030	-
PIMCO	128,333	2,772
Prudential	79,762	-
Rockpoint	12,765	-
State Street Global Advisors	-	82,987
Sun Capital Partners	25,106	-
Synthetic GIC Holdings/WRAP Fee	-	82,854
T. Rowe Price Associates, Inc.	-	175,558
Turner Investments	36,538	-
UBS Global Asset Management (Americas), Inc.	106,394	-
Wayzata Investments Partners	5,127	-
Total External Manager Fees	$ 1,445,534	$ 816,727

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

13. Equal Retirement Benefit Fund

On January 1, 1984, the Equal Retirement Benefit Fund was created for the State and County Retirement Plans. Each State agency and county participating in the retirement system makes contributions to the fund at least annually, in addition to regular retirement contributions. Upon retirement, any member with an accumulated account balance based on contributions which were made prior to January 1, 1984, has the option to convert to an annuity at which time they are eligible to receive a benefit from the fund.

As of December 31, 2007, there was a balance of $519,096 in the State Equal Retirement Benefit Fund and a balance of $291,048 in the County Equal Retirement Benefit Fund.

14. Reconciliation of Record Keeper to the Custodial Bank

Included in other deductions on the State Defined Contribution Statement of Changes in Plan Net Assets is a decrease of $393,466. The decrease was a transfer to the State Cash Balance Benefit Plan for adjustments made to participant records due to the reconstruction of the record keeping system for the period July 1, 2006, through September 30, 2006.

At December 31, 2007, a variance of $228,624 still existed between the record keeper and the custodial bank. It is unknown whether the remaining variance belongs to individual members of the plans. NPERS is still in the process of working with the record keeper to reconcile the variance.

NOTES TO FINANCIAL STATEMENTS
(Continued)

15. Defined Contribution Member Transfer to Cash Balance Plan

Neb. Rev. Stat. Section 84-1309.02 and 23-2308.01 R.S.Supp. 2007 allowed for State and County employees participating in the Defined Contribution Plan to elect participating in the Cash Balance Benefit Plan, effective January 1, 2008.

Included in other deductions and other additions on the Statement of Changes in Plan Net Assets are member accounts transferred, at January 1, 2008, totaling $153,551,157 from the State Defined Contribution Plan into the State Cash Balance Benefit Plan and $28,526,933 transferred from the County Defined Contribution Plan into the County Cash Balance Benefit Plan. There were 1,155 State members and 418 County members that elected to transfer.

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, 2007
UNAUDITED

SCHEDULE 1

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
STATE EMPLOYEES						
12/31/2007	$ 606,552,428	$ 586,829,526	$ (19,722,902)	103.4%	$ 384,708,712	(5.1%)
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						
12/31/2007	$ 163,782,748	$ 151,557,186	$ (12,225,562)	108.1%	$ 141,110,390	(8.7%)
12/31/2006	$ 116,379,465	$ 110,630,278	$ (5,749,187)	105.2%	$ 113,468,303	(5.1%)
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, 2007

SCHEDULE 2

STATE EMPLOYEES

Year Ended December 31	Annual Required Contribution State	Percentage Contributed
2007	$ 22,920,710	100%
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
2007	$ 8,194,608	100%
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, 2007	December 31, 2007
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, Projected to 2010 (65% of male rates for males, 50% of female rates for females	1994 Group Annuity Table, Projected to 2010 (65% of male rates for males, 50% of female rates for females
Asset Valuation Method	5 year smoothing	5 year smoothing
Actuarial Assumptions:		
Investment Rate of Return (1)	7.75%	7.75%
Projected Salary Increases (1)	4.5% - 5.9%	5.5% - 15.0%
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

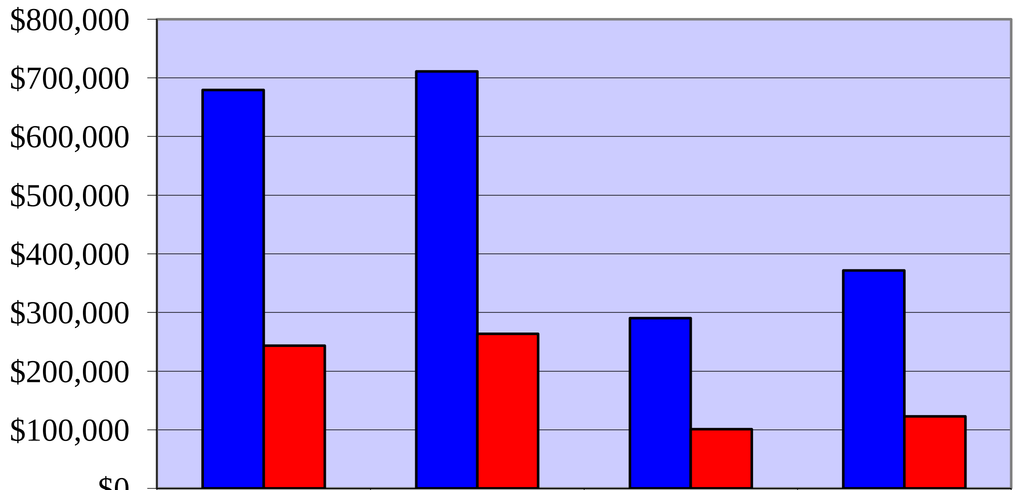
	2003	2004	2005	2006	2007
STATE DEFINED CONTRIBUTION					
Members:					
Active	9,713	8,974	8,433	7,896	7,276
Inactive	1,887	1,969	1,819	1,788	1,844
Total Members	11,600	10,943	10,252	9,684	9,120
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$597,478	$478,583	$539,692	$575,800	$679,463
Recordkeeper fees (3)	$302,851	$279,458	$263,371	$234,431	$243,378
Total Cash Basis Fees and Expenses	$900,329	$758,041	$803,063	$810,231	$922,841
Administrative Expenses per GAAP financial statements	$943,619	$815,170	$795,641	$832,299	$754,980
Average Administrative Expense per member (1)	$81	$74	$78	$86	$83
STATE CASH BALANCE					
Members:					
Active	5,206	6,051	6,918	7,599	9,798
Inactive	56	197	314	1,189	1,429
Total Members	5,262	6,248	7,232	8,788	11,227
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$421,509	$625,623	$646,210	$677,669	$711,220
Recordkeeper fees (3)	$112,189	$138,685	$161,704	$181,804	$263,314
Total Cash Basis Fees and Expenses	$533,698	$764,308	$807,914	$859,473	$974,534
Administrative Expenses per GAAP financial statements	$483,812	$781,256	$781,130	$853,942	$1,215,889
Average Administrative Expense per member (1)	$92	$125	$108	$97	$108
COUNTY DEFINED CONTRIBUTION					
Members:					
Active	3,738	3,588	3,363	3,112	2,725
Inactive	1,056	956	899	873	940
Total Members	4,794	4,544	4,262	3,985	3,665
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$320,531	$231,034	$241,928	$225,521	$290,410
Recordkeeper fees (3)	$127,993	$116,941	$109,869	$96,933	$100,867
Total Cash Basis Fees and Expenses	$448,524	$347,975	$351,797	$322,454	$391,277
Administrative Expenses per GAAP financial statements	$663,502	$583,002	$353,953	$336,664	$239,576
Average Administrative Expense per member (1)	$138	$128	$83	$84	$65
COUNTY CASH BALANCE					
Members:					
Active	2,516	2,995	3,364	3,622	4,785
Inactive	72	58	107	488	608
Total Members	2,588	3,053	3,471	4,110	5,393
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$247,856	$333,433	$346,867	$346,923	$371,890
Recordkeeper fees (3)	$56,988	$98,863	$79,946	$87,822	$122,807
Total Cash Basis Fees and Expenses	$304,844	$432,296	$426,813	$434,745	$494,697
Administrative Expenses per GAAP financial statements	$290,139	$443,326	$411,642	$430,015	$654,078
Average Administrative Expense per member (1)	$112	$145	$119	$105	$121

(1) Calculated: Total Administrative Expenses per Audited Financial Statements/Total Members=Average Administrative Expense
(2) NPERS Expenses are expenses incurred by NPERS and allocated to these plans.
(3) Recordkeeper fees are amounts charged by the recordkeeper to members for recordkeeping services. This is the amount members see as fees on their quarterly statements.

NOTE: During 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. These fees were not charged in subsequent years.

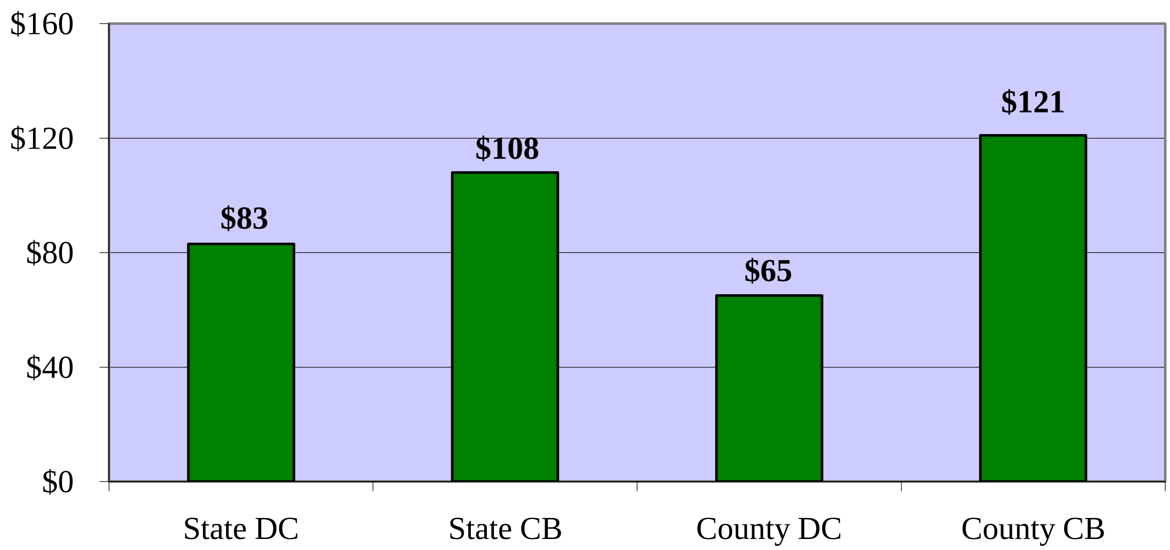
NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

Calendar Year 2007 Expenses and Fees



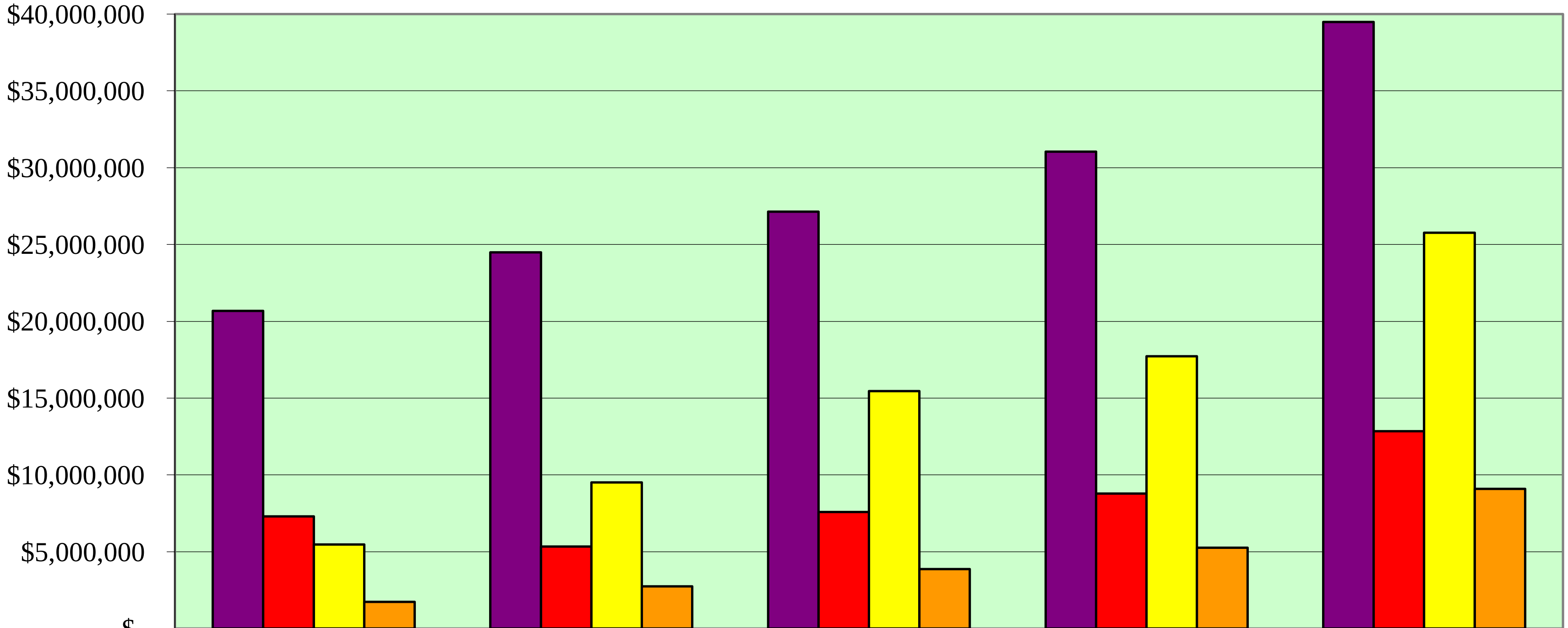
	State DC	State CB	County DC	County CB
NPERS Expenses	$679,463	$711,220	$290,410	$371,890
Record Keeper Fees	$243,378	$263,314	$100,867	$122,807

Average Administrative Expense Per Member for Calendar Year 2007



CB - Cash Balance
DC - Defined Contribution

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



	2003	2004	2005	2006	2007
State DC	$20,679,738	$24,493,621	$27,148,547	$31,057,867	$39,498,621
County DC	$7,295,622	$5,338,455	$7,597,458	$8,787,116	$12,851,408
State CB	$5,476,107	$9,523,423	$15,463,446	$17,733,980	$25,763,588
County CB	$1,731,868	$2,741,771	$3,866,692	$5,269,706	$9,094,828

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

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2007, and have issued our report thereon dated July 25, 2008. The report was modified to disclose that the "Schedules of Funding Progress" and the "Notes to Required Supplementary Information" in 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 (Accounting Issues) and Comment Number 9 (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, we believe that none of the significant deficiencies described above is a material weakness.

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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 2 (Member Reconciliation Procedures), Comment Number 3 (County Plan Payroll Procedures), Comment Number 4 (Required Minimum Distributions), Comment Number 5 (Alternate Vesting Dates and Employer Forfeitures), Comment Number 6 (State Contribution Procedures), Comment Number 7 (Information Security Controls), Comment Number 8 (Outstanding Account Balances), Comment Number 10 (Incomplete Information in OMNI and PIONEER), and Comment Number 11 (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 examine the 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 solely 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.

Signed Original On File

July 25, 2008 | Assistant Deputy Auditor