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, 2008 THROUGH DECEMBER 31, 2008

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Issued on October 7, 2009

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE AND COUNTY EMPLOYEES RETIREMENT PLANS

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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 Nebraska School Employees 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.

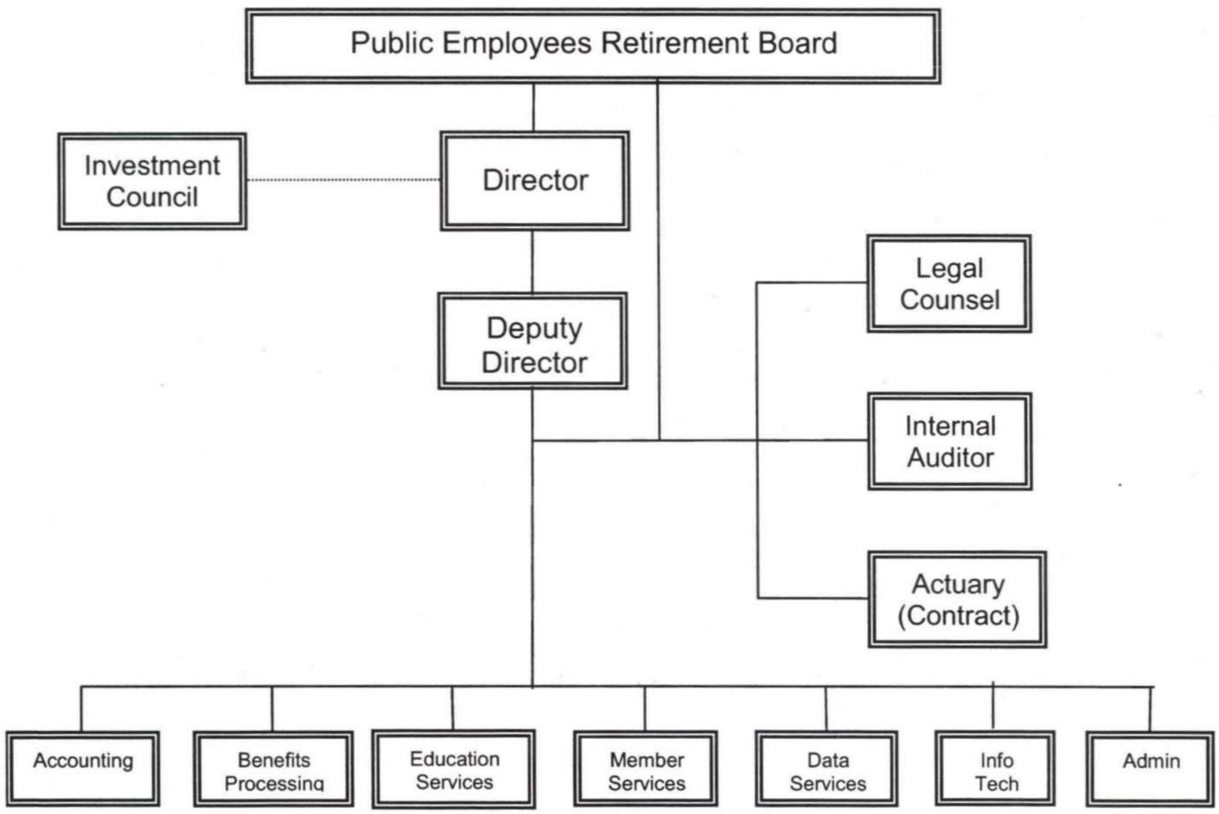
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

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 September 22, 2009, 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
Glenn Elwell	Board Member
Denis Blank	Board Chair
Teresa Zulauf	Internal Auditor
Melissa Maguire	Internal Auditor
Christine Ford	Internal Auditor
Sheryl Hesseltine	Accountant III
Clint Holmes	Accountant II
Miden Ebert	Benefits
Teresa Miller	Retirement Specialist II
Paul Carlson	State Accounting Administrator

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 in the financial information prepared by NPERS accounting staff ranging from an understatement of $1,943,505 to an overstatement of $153,551,158 in certain line items on the financial statements. Additionally, an unknown variance of $262,702 still existed between the record keeper and custodial bank at December 31, 2008.

2. ***County Plan Payroll Procedures:*** We tested 17 entities payroll records and noted issues related to the following: 1) Nine entities lacked procedures to monitor non-participating, part-time employees, to ensure they properly entered the plan, 2) Two entities lacked procedures to ensure contributions were remitted timely to the record keeper, 3) Three member's compensation, used to calculate retirement, included health insurance stipends, 4) One member's salary did not agree to the payroll claims of the county, 5) Five members had contributions post to their account prior to the members being paid, 6) Nineteen employees were not contributing to the Plan in accordance with State statute, and 7) NPERS had not implemented adequate testing and monitoring procedures in order to verify the accuracy of information in accordance with State statute.

3. ***Make-Up Contribution Procedures:*** NPERS did not have adequate procedures to ensure State and County employees enrolled timely in the Plans and to ensure missed contributions were correctly calculated and remitted.

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

5. ***Lack of Procedural Reviews:*** NPERS did not have adequate procedures to ensure contributions recorded by the record keeper agreed to the contributions reported by the employers of the County Plan. NPERS did not perform a review of member benefit payments processed and paid by the record keeper to ensure payments were proper. Additionally, NPERS did not perform a monthly reconciliation to the custodial bank for contributions and withdrawals of the Cash Balance Benefit Plans from June 2008 through December 2008. NPERS also did not perform procedures to ensure their database of contributions or the daily distributions agreed to the monthly summary prepared by the record keeper.

6. ***Inconsistent Plan Documents:*** NPERS had several plan documents (State statutes, Rules and Regulations, Plan handbooks, and member forms) that were not consistent with each other.

SUMMARY OF COMMENTS
(Continued)

7. ***Determination of Vesting Status:*** NPERS did not have adequate policies and procedures to ensure vesting dates were properly recorded in the record keeping system. There were four County Plan members and two State Plan members tested with incorrect vesting dates in the record keeping system. Additionally, NPERS did not consistently apply vesting dates to members of the State and County Plans.

8. ***Inadequate Resolution of Prior Year Findings:*** NPERS did not appropriately resolve prior audit findings from calendar year 2007 back to calendar year 2001 for the State and County Plans.

9. ***Expense Allocations:*** NPERS did not have supporting documentation for the calculated payroll allocations used during the calendar year. The payroll allocations were used to allocate expenses to the Plans.

10. ***Actuarial Assumptions:*** NPERS obtained the services of an actuary to determine the amount needed to fund the State and County Equal Retirement Benefit Funds (ERBF). The cost assumption for the County ERBF appeared to be overstated and the assumption for the State ERBF appeared to be understated, based upon the last five year trend. NPERS did not have a documented understanding of the assumptions used to determine the valuation.

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

Sound accounting practice and a good internal control plan require financial information and report disclosures to be complete and accurate. The accounting department should have an understanding of applicable accounting standards required for the preparation of financial information. Sound accounting practice further requires correct calculations of data included in the financial information.

There were several errors in the financial information prepared by NPERS accounting staff. Errors noted were due to the accumulation of amounts for the financial statements and report disclosures and not due to errors in the accounting system or member accounts. The accounting staff prepared and reviewed the statements prior to submission to the auditors. It is unknown why the errors were not corrected prior to submission to the auditors. Some of the errors noted were as follows:

- NPERS recorded the December 31, 2008, daily trade of monies as an accounts receivable in the State Cash Balance Benefit financial statements, that should have been recorded as investments of the Plan. The daily trade totaled $1,943,505 for the State Plan.

- NPERS did not properly record transfers out on the State and County Defined Contribution Plans financial statements. Transfers out was overstated by $153,551,157 for the State Plan and $28,526,933 for the County Plan. These transactions had already been recorded in the prior year's financial statements. Additionally, the beginning balances on the financial statements were also misstated by $153,551,158 for the State Plan and $28,502,614 for the County Plan.

- NPERS did not record interest receivables related to the long-term investments of the State and County Defined Contribution Plans. Interest receivables totaled $20,849 for the State Plan and $4,620 for the County Plan.

- NPERS recorded fees receivables totaling $145,203 for the Plans. Per auditor review, the $145,203 fees receivables were not valid receivables.

NPERS agreed with the findings and adjusted all errors noted. Several of the errors noted have been brought to NPERS' attention in past audits and still existed. A similar finding was noted in the previous three audit reports.

Furthermore, as of December 31, 2008, an unknown variance of $262,702, the bank being higher, existed between the record keeper and the custodial bank. We first reported on the unknown variances during the agreed-upon procedures engagement, performed for the period of July 1, 2006, through October 31, 2006. The variance was maintained in a reconciliation account in the record keeping system as NPERS worked to reconcile the difference. The reconciliation project was completed during 2009; however, NPERS has not made a final determination of where the funds should be placed.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Accounting Issues (Concluded)

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

> We recommend NPERS develop procedures to ensure financial information presented is accurate, complete, and in accordance with accounting standards. We also recommend the Board make a determination regarding the disposition of the $262,702 variance between the record keeper and the custodial bank.

NPERS' Response: NPERS agreed with the APA and adjusted the financial statements. The variances were related to base accrual entries of final daily trade and fees receivable. NPERS submitted a draft version of the financial statements to the APA which had not been finalized. NPERS was using the asset balances at the custodial bank only on which to base accrual entries. After discussion with the APA, NPERS will use the asset balances at the custodial bank and the record keeper to base accrual entries.

APA Response: NPERS did not identify the version submitted to the APA as a draft copy of the financial statements. The APA requested the completed financial statements from NPERS and received them the same day. There was no discussion regarding the statements being draft copies that were not finalized. Not until the APA questioned certain items on the financial statements were the financials resubmitted to the APA.

NPERS' Response: The Public Employees Retirement Board has been waiting for the reconciliation project to be finalized by the APA. The project is now complete; therefore, the PERB will make a decision regarding the variance.

APA Response: It is our understanding that NPERS did not want to move forward with the reconciliation project's dollar variance until the calendar year 2008 audit was completed. The APA was not involved in the completion of the reconciliation project.

2. County Plan Payroll Procedures

Neb. Rev. Stat. § 84-1503(2)(b) (Reissue 2008) 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. § 23-2306(2) (Cum. Supp. 2008) 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

COMMENTS AND RECOMMENDATIONS
(Continued)

2. County Plan Payroll Procedures (Continued)

option to begin participation in the retirement system, and (c) all part-time elected officials may exercise the option to begin participation in the retirement system. An employee who exercises the option to begin participation in the retirement system shall remain in the system until termination or retirement, regardless of any change of status as a permanent or temporary employee."

Neb. Rev. Stat. § 23-2301(15) (Reissue 2007) 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. § 23-2301(23) (Reissue 2007) 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. § 23-2301(5)(a) (Reissue 2007) states, "Compensation does not include insurance premiums converted into cash payments, reimbursement for expenses incurred, fringe benefits, or bonuses for services not actually rendered."

Neb. Rev. Stat. § 23-2305.01(1) (Reissue 2007) 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. § 84-1503(1)(g) (Reissue 2008) 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."

Neb. Rev. Stat. § 23-2312 (Reissue 2007) states, "The director shall from time to time, carry out testing procedures pursuant to section 84-1512 to verify the accuracy of such information."

A good internal control plan requires NPERS to review county payroll information to ensure all eligible employees are enrolled in the Plan and contributions are correctly withheld, employee and salary information is accurate, and contributions are posted to the record keeping system in a timely manner.

We sampled 14 counties, 2 health districts, and 1 museum to determine compliance with Plan eligibility requirements, including determining whether all eligible employees were contributing to the Plan and whether the salary reported to NPERS agreed to the payroll records. We noted the following:

COMMENTS AND RECOMMENDATIONS
(Continued)

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

- Of the 17 entities tested, 9 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 9 entities were Adams County, Cass County, Fillmore County, York County, Hitchcock County, Johnson County, Pawnee County, Sarpy County, and Sheridan County.

- One entity tested did not have adequate procedures to ensure contributions were remitted timely to the record keeper. The Stuhr Museum remitted retirement contributions monthly; however, the employees of the museum were paid biweekly. Additionally, during other testing performed throughout the audit we noted another county did not remit contributions to the record keeper in a timely manner. Dawes County submitted contributions 23 business days after the employees were paid.

- 3 of 85 members tested had compensation which included health insurance stipends. Cash payments for insurance should not be included in the compensation used to calculate retirement contributions per State statute. The individuals were employed with South Heartland Health Department. Contributions remitted in error totaled $1,348 annually.

- 1 of 85 members reported salary did not agree to the payroll claims of the county. The individual was employed with Harlan County. It was also noted during testing, counties using the Nebraska Association of County Officials payroll system (MIPS) could transmit payroll information to NPERS and then subsequently change the payroll actually paid to the employees, causing inaccurate contributions to be remitted to NPERS.

- 5 of 85 members tested had contributions post to their accounts seven days before the employees were actually paid. The members were employed with Cass County.

- 19 of 61 employees tested were not properly contributing to the Plan as required by State statute. The employees were from Adams County, Cass County, York County, Fillmore County, Hall County, Hitchcock County, Johnson County, Pawnee County, Sarpy County, and Sheridan County. The employees missed from one pay period to over one year of contributions.

- NPERS had not implemented adequate testing and monitoring procedures in order to verify the accuracy of information in accordance with State statute. NPERS only performed 1 entity review of 109 entities that contributed to the Plan during the calendar year.

Without adequate and timely updates to plan policies and procedures (as described in Comment Number 6), there is an increased risk all eligible and only eligible employees will not properly participate in the Plan as required by State statute. Additionally, there is an increased risk incorrect contribution rates and census data are used without procedures to sample payroll data at the counties. A similar finding was noted in at least the last eight audit reports.

COMMENTS AND RECOMMENDATIONS
(Continued)

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

> We recommend NPERS implement procedures to ensure employees are properly contributing to the retirement plan as required by State statute. In addition, we recommend NPERS obtain information from the participating entities and review the information for accuracy and ensure contributions are correctly withheld and submitted timely. Finally, we recommend NPERS resolve the issues noted above with the entities.

NPERS' Response: NPERS has been working with the county employers on our procedures and the reporting process has improved. NPERS recently updated the county employer manual. NPERS plans to audit all county employers over the next four years to ensure that employees are properly contributing to the plans and their information is correct. We will continue to work with the county employers to resolve the issues brought forward by the APA.

3. <u>Make-Up Contribution Procedures</u>

Sound accounting practice and a good internal control plan require procedures be in place to ensure required contributions are properly remitted in accordance with NPERS Rules and Regulations, amounts are accurate, and any discrepancies are resolved.

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

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

- For the County Plan, procedures were not in place to know when an employee needed to make up contributions if the County did not notify NPERS. Additionally, NPERS did not have procedures to verify make-up contributions calculated by the counties were correct, or procedures to follow up when recalculated make-up amounts did not match the amounts submitted by the County.
    - NPERS recalculated make-up contributions using wage information listed by the counties on the make-up agreements. NPERS did not verify the information to payroll registers or other payroll documentation to ensure the calculations were proper.
    - Additionally, we noted one individual's make-up agreement stated a total of $2,848 was to be made up by the employee and employer. However, NPERS calculated $3,119 needed to be made up. There was no documentation that

3. <u>Make-Up Contribution Procedures</u> (Continued)

NPERS followed up with the employer to determine the reason for the variance. Subsequently, make-ups commenced using the county make-up agreement of $2,848.

- For the State Plan, procedures were not in place to ensure make-up contributions were correctly set up in the State's accounting system (NIS). Additionally, NPERS obtained a report of State employees who were not contributing to the Plan, called the Mandatory Retirement Listing (MRL), from NIS for calendar year 2008. 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.

    - For one individual, NPERS calculated $3,080 needed to be made up for employer missed contributions, over 40 pay periods. However, when the contributions were set up in NIS the incorrect amount was withheld and remitted for retirement contributions. According to the calculation, payments of $78 were to be made; however, only $36 was withheld in NIS. NPERS did not have procedures to ensure the amounts in NIS were properly withheld.

    - During our review of the MRL we noted 15 employees from the Supreme Court with an agency response of "Temporary" and therefore did not need to contribute to the Plan. Of the 15 employees, 6 had a status of full-time regular and 9 had a status of full-time temporary in NIS. Upon further review of the employees, it appeared they were not actually temporary and therefore should have been contributing to the retirement plan. Three of the 6 full-time regular employees started contributing late and needed make-up contributions; the remaining 12 employees had not yet entered the Plan. NPERS did not perform procedures to determine whether the employees should have contributed to the plan or that make-up contributions were properly remitted.

    - It was also noted that NPERS does not include temporary employee statuses in the MRL report query. As noted above, some employees in the State listed as temporary may not actually be temporary and therefore, should be contributing to the Plan. There were 1,922 employees in NIS with a status of temporary that NPERS should monitor to ensure they are properly not contributing to the Plan.

- Additionally, as part of NPERS' procedures to ensure employees are properly contributing, they receive a quarterly report from the record keeper of State and County participants with contributions that had stopped, either due to an error or change in employment status, etc. NPERS was to follow up on the members listed and determine if the members had properly stopped contributing or if make-up contributions were needed.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Make-Up Contribution Procedures (Concluded)

However, NPERS did not review the report for the third quarter and did not receive the report for the fourth quarter of 2008 for both Plans. It was unknown why the report was not received for the fourth quarter and it did not appear anyone from NPERS contacted the record keeper to request the report. Additionally, for the County Plan there was no documentation NPERS had performed a review of the first and second quarters of 2008.

Without adequate procedures to ensure required contributions are properly remitted and make-up contributions properly calculated, 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 properly calculated and variances investigated. Furthermore, we recommend NPERS substantiate responses received from agencies regarding the MRL from NIS and establish procedures for the periodic review and follow-up of participants with no contributions reported.

NPERS' Response: NPERS will continue to improve procedures regarding makeup agreements. NPERS is now requesting member payroll information for the periods in which make up contributions are needed. NPERS will investigate the feasibility of requesting and maintaining a database of all payroll information for the counties. NPERS will follow-up with State agencies regarding status of members. NPERS will continue to revise our procedures to ensure all makeup contributions are remitted properly.

As stated by the APA there were 1,922 employees listed as temporary. This is a large number of employees to monitor on a monthly basis due to our limited staffing resources. NPERS will consider the feasibility of randomly checking this group for possible status changes. NPERS will continue to work with the record keeper to improve the deferral process.

4. Required Minimum Distributions

Internal Revenue Code (IRC) 401(a) and Neb. Rev. Stat. §§ 23-2315 (Reissue 2007) and 84-1317 (Reissue 2008) require members to take a minimum distribution every year beginning when the member is 70½ 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 70½ or ii) the calendar year in which the employee retires.

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

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Required Minimum Distributions (Concluded)

In the past, we noted NPERS had obtained a report from the record keeper of members that are age 70½ or older. NPERS' procedures were to review the report to ensure all members that met Federal requirements received a distribution. However, NPERS did not receive the report for December 31, 2008. It was unknown why the report was not received and it did not appear anyone from NPERS had contacted the record keeper to request it. Instead, NPERS used an internal report, which we determined did not include all individuals that would meet the requirements for a distribution.

During the audit we requested the age 70½ report from the record keeper and noted the following:

- All 5 State members tested and 3 of 5 County members tested on the record keeper's report were over age 70½ and had an account balance at December 31, 2008. These individuals were not included on NPERS' internal system report.
- Of the 5 State members tested, 1 did not have the 2008 required minimum distribution (RMD) paid prior to rolling over their account. The individual should have received a minimum distribution of $1,313 prior to rolling over 100% of their account.
- Of 5 County members, 1 was paid the RMD in the amount of $299; however, the payment was not required to be made as the member had received annuity payments that met the Federal requirements. Furthermore, the calculation of the RMD was not proper. NPERS used an incorrect account balance and IRC factors when calculating the RMD.

A similar finding was noted in the prior three audit reports.

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 RMDs are calculated and paid timely in accordance with Federal and State regulations. Additionally, we recommend NPERS ensure their review of eligible members is proper by either requesting the age 70½ report from the record keeper or developing an accurate report from their internal system to meet the requirements.

NPERS' Response: NPERS will work to ensure that RMD's are calculated and paid timely in compliance with Federal regulations and State statutes. NPERS will periodically request reports for members age 70 ½ from its record keeper, and compare them to the NPRIS report for individuals over age 65 with account balances.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Lack of Procedural Reviews

Sound accounting practice and a good internal control plan require periodic reconciliations of contributions and distributions, to employers' reports, the record keeper, and the custodial bank; discrepancies should then be investigated and resolved. Furthermore, a good internal control plan requires a review of benefits paid and processed by the record keeper to ensure payments to members are proper.

During the audit we noted the following:

- NPERS did not have adequate procedures to ensure contributions recorded by the record keeper agreed to the contributions reported by the employers of the County Plan. NPERS maintained a database of all contributions recorded by the record keeper and stated they compared these contributions to the retirement listings of contributions submitted by the employers. We tested all of the retirement listings submitted during one month for five separate entities and noted one receipt of contributions, totaling $14,233, could not be traced to the county retirement listing. The retirement listing was not on file and had to be requested from the county during the audit, the amount subsequently agreed. Furthermore, during other testing performed throughout the audit we noted two additional entity retirement listings were not on file at NPERS and had to be requested from the entities.

- Additionally, NPERS performs procedures to ensure their database of contributions recorded throughout the month agrees to the monthly summary provided by the record keeper. For the month of June 2008, the database and monthly summary did not agree by $1,072. There was no documentation on file that the variance had been investigated and resolved. Further documentation was obtained during the audit to explain the variance.

- NPERS did not perform a review of member benefit payments processed and paid by the record keeper to ensure payments were proper. NPERS' process was to approve the members' requests for distribution and send the paperwork to the record keeper to be paid. NPERS then received a daily report from the record keeper of benefits actually paid. However, NPERS did not review the report to ensure all benefits approved agreed to what was actually paid by the record keeper. Payments to members totaled $65,157,326 for the State Plans and $15,733,171 for the County Plans. According to NPERS there was an average of 18 distributions processed daily during calendar year 2008.

- Additionally, NPERS recorded the daily distributions, from the report noted above, in a spreadsheet and at the end of the month the totals were compared to a monthly summary of distributions reported by the record keeper. For the month of October 2008, the totals from the daily reports did not agree to the monthly summary by $405,595. There was no documentation that NPERS investigated and resolved the variance. Variances can be due to back-dated transactions, reversing of transactions, etc.; however, NPERS should determine the cause for these differences to ensure distributions are properly recorded.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Lack of Procedural Reviews (Continued)

- We also noted NPERS did not perform a monthly reconciliation to the custodial bank for contributions and withdrawals of the State and County Cash Balance Benefit from June 2008 through December 2008. NPERS subsequently performed the reconciliation after we inquired during the audit.

Without adequate records and proper reconciliations there is an increased risk funds could be misappropriated or that activity of the Plans will be improperly recorded by the record keeper and/or custodial bank. Also, without an adequate review of reports there is an increased risk financial statements will be misstated and member benefits will be paid incorrectly.

> We recommend NPERS implement procedures to ensure reconciliations are performed periodically and that variances are investigated and resolved. We also recommend NPERS implement procedures to ensure benefits are properly processed by the record keeper daily.

NPERS' Response: NPERS will continue to strengthen our controls and procedures for monitoring the record keeper and the custodial bank. In the future, better documentation will be kept regarding the cause of any variances found.

NPERS wants to make certain all distribution payments to members are paid correctly. NPERS believes that the current process in place does ensure that payments are processed correctly. No payment errors were found by the auditors.

The electronic file that NPERS sends to the record keeper is read through an edit. Nothing is entered manually by the record keeper. NPERS follows up with sending paperwork to the record keeper which is used as a visual check to verify member vesting or tax withholding, etc. There is an override option by the record keeper if vesting status needs to be changed. The record keeper creates a daily report, the gray bar report, from the electronic file by NPERS. The record keeper then audits the gray bar report against the paperwork NPERS has provided and sends a copy to NPERS. If there is an electronic refund payment request that does not process, the rejected payment would be reported to NPERS on the Control Report SD 46. This NPRIS report shows the count of records that transmitted successfully as well as detailed information for records that failed to load into NPRIS. NPERS Information Technology staff also runs a daily balance check that compares total balances on NPRIS to total balances on OMNI.

NPERS has limited staffing resources and considers the APA's recommendation to check the gray bar report a duplication of effort. NPERS will consider randomly checking the gray bar report.

APA Response: We recommend NPERS complete a thorough review of the distributions processed by the record keeper to ensure benefit payments are in accordance with the member's election. As stated in the record keeper's control examination (SAS 70 report),

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Lack of Procedural Reviews (Concluded)

"It is not feasible for the control objectives relating to transaction processing to be solely achieved by Retirement Plan Services (the record keeper). Rather, each customer organization's (NPERS) internal controls must be evaluated in conjunction with the Retirement Plan Services controls and testing." The report highlights certain internal control responsibilities for each customer organization, one of which is the "timely review of reports by the customer organization provided by the Retirement Plan Services of account balances and related activity to the customer organization's records." Comparing daily balances between the systems will not ensure individuals payments processed accurately as NPRIS is uploaded with all of the information from the record keeping system, OMNI.

6. Inconsistent Plan Documents

A good internal control plan requires procedures to ensure plan documents are consistent and accurate.

We noted several plan documents (State statutes, Rules and Regulations, Plan handbooks, and member forms) that were not consistent as follows:

- One annuity option for members was listed on the request for distribution form and in the State and County Plan handbooks; however, it was not an option included in NPERS Rules and Regulations approved by the Secretary of State. NPERS draft rules and regulations, approved by the Board in October 2002, included the option. However, NPERS had not submitted these draft rules and regulations to the Secretary of State as required by law.

- NPERS established a policy requiring a $10,000 minimum account balance in order to annuitize. The requirement was included on the member request for distribution form; however, it was not documented in the State and County Plan handbooks or in a policy approved by the Board. Furthermore, the policy would conflict with Neb. Rev. Stat. §§ 23-2317 (Reissue 2007) and 84-1319 (Reissue 2008) requiring members of the Cash Balance Benefit to annuitize their remaining account balance after a partial distribution.

- NPERS current policy, revised in September 2008, regarding fees charged for member distributions did not agree to the fees noted in the State and County Plan handbooks. The handbooks were last revised in January of 2007.

- NPERS Rules and Regulations, the State and County Plan handbooks, and the member investment election form all state that members of the defined contribution benefit may allocate their employee and employer contributions and transfer any portion of their employee and employer account funds to the various investment options available in increments of five percent. However, the system allows members to make investment changes in one percent increments.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Inconsistent Plan Documents (Concluded)

- The Board had not developed rules and regulations in accordance with Neb. Rev. Stat. §§ 23-2306.02 (Reissue 2007) and 23-2306.03 (Reissue 2007). A similar finding was noted in the prior four audit reports.

- The County Plan employer manual had not been updated since February 2005 and therefore did not reflect several major statute and plan changes that have been made in recent years.

Without consistent policies and information provided to members and employers there is an increased risk members will misunderstand the benefits available and that plan changes will not be properly complied with.

> We recommend NPERS ensure Rules and Regulations, Plan handbooks, State statutes, and member forms are consistent for the Plans. Revisions to plan documents should be provided to the employers in a timely manner. We further recommend NPERS ensure draft rules and regulations approved by the Board are properly submitted and approved by the Secretary of State in a timely manner.

NPERS' Response: NPERS continuously updates the plan documents on our website. Printed plan booklets are updated periodically on a rotating basis to save printing costs. Members and employers are provided with updated inserts for plan booklets so that information is current. New changes are also communicated in the member newsletters. Employer manuals are updated periodically. NPERS agrees with the APA that our Rules and Regulations need to be updated.

7. Determination of Vesting Status

Neb. Rev. Stat. §§ 23-2319 (Reissue 2007) and 84-1321 (Reissue 2008) states 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.

A good internal control plan requires procedures to ensure vesting dates recorded in the system are accurate.

During testing we noted the following:

- For 1 of 2 County members tested vesting was not properly calculated causing the member's employer account to be improperly forfeited. Employer contributions forfeited totaled $6,664.

COMMENTS AND RECOMMENDATIONS
(Continued)

7. <u>Determination of Vesting Status</u> (Continued)

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

  - For three County members tested, the vesting date was not properly recorded in the record keeping system. One individual should have received additional vesting credit for service at another county, the vesting date was incorrect by two years and nine months. One individual had a break in service that was not appropriately adjusted for in the calculation of the vesting date causing the vesting date to be incorrect by three months. Another individual had service at multiple counties and the vesting dates were not appropriately adjusted to account for the service, the vesting dates for two of the counties were incorrect by four years and ten months and four years and eleven months.

  - For two State members tested, the vesting date was not proper in the record keeping system. One individual remitted make-up contributions, however, the member's vesting date was not adjusted causing the vesting date to be incorrect by three months. Another member's vesting date was not properly calculated causing the vesting date to be incorrect by one month.

- NPERS did not consistently apply vesting dates to members of the State and County Plans. For new members of the Plans, the vesting date was automatically recorded as the first of the month in which the members' first contribution posted in the record keeping system. Frequently, the first contribution would post in the month following the month in which the member was hired. However, for members that submitted vesting applications for prior service, the vesting date was calculated from the member's hire date along with any additional vesting credit. Therefore, members that submitted vesting credit would have a vesting date recorded at an earlier date than those members that entered the Plans normally.

- In the past, NPERS received a report from the record keeper of participants in multiple county plans. The report was used to ensure members vesting dates were properly adjusted for service in multiple county plans, and member accounts were properly merged in the system. However, from December 2008 through March 2009 NPERS did not receive the report from the record keeper and it did not appear anyone from NPERS inquired as to why; therefore, no review was performed. The report was received in April 2009; however, NPERS had not yet completed their review. It appeared the above noted finding, related to service in multiple counties, would have been caught if the report had been reviewed.

- Additionally, it was noted vesting applications were not processed timely. As of July 2009, NPERS staff had not started working on member applications received in December 2008. Furthermore, during testing we noted one member's application, received in September 2008, had not yet been processed.

7. <u>Determination of Vesting Status</u> (Concluded)

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

Without adequate procedures to ensure vesting dates are accurate, there is an increased risk members' employer accounts will not be properly paid out upon termination.

> We recommend NPERS implement procedures to ensure vesting dates are calculated and recorded in the record keeping system consistently and accurately. Furthermore, we recommend NPERS ensure vesting applications are reviewed timely.

NPERS' Response: NPERS will continue to improve our vesting credit procedures. There have been numerous vesting credit rules in place over the years making it difficult to calculate vesting credit. Employers do not always submit accurate dates of hires for employees. We will work with the record keeper to ensure vesting credit data is accurately recorded.

8. <u>Inadequate Resolution of Prior Year Findings</u>

A good internal control plan 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.

- 17 findings from the 2007 audit of the County Plan and 5 findings from the State Plan were not adequately resolved. Findings included missing and incorrect information in OMNI; inadequate procedures to ensure enrollment requirements were met; incorrect salary information submitted; incorrect compensation amounts used to calculate contributions; employees who should have been making up contributions; incorrect annuity calculations; and incorrect contributions for members working in multiple counties.

- 13 findings from the 2006 audit of the County Plan were not adequately resolved. Findings included inadequate procedures to ensure enrollment requirements were met; employees who should have entered the plan and did not; employees who should have been making up contributions; and incorrect compensation amounts used to calculate contributions.

- 9 findings from the 2005 audit of the County Plan and 2 findings from the State Plan were not adequately resolved.

- Additionally, 3 findings from the 2004 audit, 2 findings from the 2003 audit, 3 findings from the 2002 audit, and 2 findings from the 2001 audit of the County Plan were not adequately resolved.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Inadequate Resolution of Prior Year Findings (Concluded)

This finding has been reported to NPERS in at least the last eight audit reports; the number of unresolved findings for the State Plan has been greatly reduced from previous years.

Without adequate procedures for the timely follow-up of previously identified problems, errors detected in testing remain unresolved. When employee errors are not properly addressed to ensure the proper resolution, employees continue to miss contributions, contribute improperly, receive incorrect benefit payments, etc.

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

NPERS' Response: NPERS has significantly reduced the number of prior audit points. Since the previous audit, we have resolved 76 county points and 42 state audit points.

NPERS has implemented procedures to ensure all audit exceptions are reviewed. We will continue to work with county employers and state agency contacts to resolve the issues brought forward by the auditors.

9. Expense Allocations

Neb. Rev. Stat. § 84-1503(1)(c) (Reissue 2008) states "It shall be the duty of the Public Employees Retirement Board: To provide for an equitable allocation of expenses among the retirement systems administered by the board…"

Sound business practice and a good internal control plan require adequate documentation to support allocations used to record expenses of the Plans.

NPERS allocates the majority of the expenses of the Plans based upon employees' payroll allocations, unless the expense can be directly related to a specific plan. NPERS did not have supporting documentation for the calculated payroll allocations used during the calendar year. Some allocations used were based upon estimates that could not be supported.

For calendar year 2008, expenses of the Plans totaled $9,087,507 and were recorded to the individual Plans as follows:

State Defined Contribution Plan	$	829,446
State Cash Balance Benefit	$	801,405
County Defined Contribution Plan	$	362,265
County Cash Balance Benefit	$	433,117
School, Judges, and State Patrol Retirement Plans	$	6,548,815
Deferred Compensation Retirement Plan	$	112,459

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Expense Allocations (Concluded)

Without proper documentation of expense allocations, there is an increased risk costs will not be allocated properly to the Plans, which subsequently effects the fees charged to members.

> We recommend NPERS ensure expense allocations are properly supported with adequate documentation.

NPERS' Response: The allocations of expenses are reviewed by NPERS managers on a quarterly basis for each employee. NPERS believes that the managers are responsible for their staff's duties and allocate the related expenses accordingly. NPERS will consider providing additional documentation that supports the expense allocations.

APA Response: The APA strongly recommends NPERS ensure the allocations used to record expenditures to the Plans are supported, as these expenses directly affect the fees charged to the members.

10. Actuarial Assumptions

Sound business practice and a good internal control plan require a thorough understanding of the assumptions used by an actuary, to ensure the assumptions are reasonable and accurate for the Plans.

During our review of the State and County Equal Retirement Benefit Funds (ERBF) actuarial valuation results as of January 1, 2009, it was noted the cost assumption for the County Plan appeared to be overstated and the State Plan appeared to be understated, based upon the last five year trend. The actuary assumption is used to determine the amount needed to fund the benefit obligation. The balance of the State ERBF was $355,470 and the balance of the County ERBF was $219,260 at December 31, 2008.

- The County Summary of Actuarial Methods and Assumptions in the County ERBF Actuary Report assumed 25% of retiring members would elect an annuity payment; however, during testing it was calculated that only 2.94% of members during calendar year 2008 elected an annuity with ERBF. Furthermore, we noted the average annuity payments with ERBF, for the last five years, was only 9.46%.

Year	Actuary Assumption	Calculated Annuities
2008	25%	2.94%
2007	25%	9.52%
2006	25%	6.90%
2005	25%	5.71%
2004	25%	22.22%
Average	25%	9.46%

COMMENTS AND RECOMMENDATIONS
(Continued)

10. <u>Actuarial Assumptions</u> (Concluded)

- The State Summary of Actuarial Methods and Assumptions in the State ERBF Actuary Report assumed 20% of retiring members would elect an annuity payment; however, during testing it was calculated that 41.57% of members during calendar year 2008 elected an annuity with ERBF. Furthermore, we noted the average annuity, for the last five years, was 34.86%.

Year	Actuary Assumption	Calculated Annuities
2008	20%	41.57%
2007	20%	27.14%
2006	20%	24.64%
2005	20%	36.84%
2004	20%	44.12%
Average	20%	34.86%

Without an adequate understanding of the assumptions used to determine the cost assumptions used by the actuary, there is an increased risk of over/underfunding the State and County ERBF.

> We recommend the Board review the assumptions used by the actuary for the State and County ERBF to ensure the assumptions are reasonable. We also recommend NPERS obtain supporting documentation from the actuary to support the assumptions used.

NPERS' Response: NPERS has discussed the ERBF assumptions with the actuary and believes that the actuary is following the correct method of determining the assumptions. In the future, NPERS will review the ERBF data submitted to the actuary and auditors.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

Nebraska Public Employees Retirement Board
Lincoln, Nebraska

We have audited the accompanying Statements of Plan Net Assets and the related Statements of Changes in Plan Net Assets of the Nebraska Public Employees Retirement Systems (NPERS) - State and County Employees Retirement Plans as of and for the calendar year ended December 31, 2008, which collectively comprise NPERS' basic financial statements 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, 2008, 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 respective financial position of the Nebraska Public Employees Retirement Systems - State and County Employees Retirement Plans as of December 31, 2008, and the respective changes in financial position thereof 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 October 1, 2009, 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" and "Schedules of Contributions From Employers" are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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" 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 the Nebraska Public Employees Retirement Systems – State and County Employees Retirement Plans' basic financial statements. The accompanying supplementary schedules of "Average Administrative Expense Per Member," "Calendar Year 2008 Expenses and Fees," "Average Administrative Expense Per Member for Calendar Year 2008," and "Total Benefits and Refunds Paid" are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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

October 1, 2009

Pat Reding, CPA, CFE
Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
STATE EMPLOYEES RETIREMENT PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2008

ASSETS	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
Cash in State Treasury	$ 59,792	$ 6,429
Receivables:		
Contributions	1,211,710	757,382
Interest	1,124,963	21,026
Other Receivables (Note 11)	50,335,502	-
Total Receivables	52,672,175	778,408
Investments, at fair value (Note 4):		
U.S. Treasury Bills	258,871	-
U.S. Treasury Notes and Bonds	1,304,769	-
Government Agency Securities	3,971,933	-
Corporate Bonds	31,873,152	-
International Bonds	2,688,876	-
Asset Backed Securities	6,210,696	-
Guaranteed Investment Contracts	-	89,031,910
Short Term Investments	30,198,130	19,213,066
Commingled Funds	235,059,560	420,845,612
Mortgages	79,885,887	-
Municipal Bonds	1,133,142	-
Private Equity Funds	8,941,264	-
Equity Securities	61,158,389	-
Options	(199,584)	-
Private Real Estate Funds	21,976,524	-
Total Investments	484,461,609	529,090,588
Invested Securities Lending Collateral (Note 4)	21,846,788	12,555,883
Capital Assets (Note 9):		
Equipment	2,104,129	1,099,992
Less: Accumulated Depreciation	(1,749,759)	(909,346)
Total Capital Assets	354,370	190,646
Total Assets	559,394,734	542,621,954
LIABILITIES		
Compensated Absences (Note 7)	19,779	25,251
Other Payables (Note 11)	66,768,867	542,466
Benefits Payable	492,237	-
Obligations Under Securities Lending (Note 4)	21,846,788	12,555,883
Capital Lease Obligations (Note 6)	432,213	198,233
Total Liabilities	89,559,884	13,321,833
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 47.)	$ 469,834,850	$ 529,300,121

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, 2008

ASSETS	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
Cash in State Treasury	$ 74,797	$ 178,692
Receivables:		
Contributions	598,437	295,617
Interest	312,163	5,457
Other Receivables (Note 11)	13,837,753	-
Total Receivables	14,748,353	301,074
Investments, at fair value (Note 4):		
U.S. Treasury Bills	71,166	-
U.S. Treasury Notes and Bonds	358,695	-
Government Agency Securities	1,091,926	-
Corporate Bonds	8,762,261	-
International Bonds	739,200	-
Asset Backed Securities	1,707,385	-
Guaranteed Investment Contracts	-	20,763,399
Short Term Investments	8,496,075	4,428,938
Commingled Funds	64,620,317	106,139,842
Mortgages	21,961,461	-
Municipal Bonds	311,512	-
Private Equity Funds	2,458,046	-
Equity Securities	16,813,077	-
Options	(54,868)	-
Private Real Estate Funds	6,041,575	-
Total Investments	133,377,828	131,332,179
Invested Securities Lending Collateral (Note 4)	6,005,909	2,928,574
Capital Assets (Note 9):		
Equipment	1,107,437	502,373
Less: Accumulated Depreciation	(931,632)	(420,557)
Total Capital Assets	175,805	81,816
Total Assets	154,382,692	134,822,335
LIABILITIES		
Compensated Absences (Note 7)	10,434	10,833
Other Payables (Note 11)	18,389,284	127,770
Benefits Payable	13,998	-
Obligations Under Securities Lending (Note 4)	6,005,909	2,928,574
Capital Lease Obligations (Note 6)	227,481	81,243
Total Liabilities	24,647,106	3,148,420
Net assets held in trust for pension benefits (A schedule of funding progress for each cash balance benefit plan is presented on page 47.)	$ 129,735,586	$ 131,673,915

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, 2008

	STATE CASH BALANCE BENEFIT	STATE DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Member	$ 18,717,183	$ 12,866,549
Employer (Note 5)	29,204,456	19,918,986
Total Contributions	47,921,639	32,785,535
Investment income:		
Net income (loss) from investing activities	(173,492,992)	(136,966,330)
Securities lending income	987,186	325,497
Securities lending expense	(680,555)	(207,027)
Net investment income (loss)	(173,186,361)	(136,847,860)
Other Additions	5,205	3,075
Total Additions	(125,259,517)	(104,059,250)
DEDUCTIONS:		
Benefits and Refunds	31,892,723	33,264,603
Administrative expenses	989,480	1,016,824
Total Deductions	32,882,203	34,281,427
TRANSFERS (Note 10)	3,768,050	(3,768,050)
Net Increase (Decrease)	(154,373,670)	(142,108,727)
Net assets held in trust for pension benefits:		
Beginning of year	624,208,520	671,408,848
End of year	$ 469,834,850	$ 529,300,121

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, 2008

	COUNTY CASH BALANCE BENEFIT	COUNTY DEFINED CONTRIBUTION
ADDITIONS:		
Contributions:		
Member	$ 6,649,590	$ 3,618,557
Employer (Note 5)	9,840,004	5,332,075
Total Contributions	16,489,594	8,950,632
Investment income:		
Net income (loss) from investing activities	(47,109,903)	(32,032,358)
Securities lending income	271,388	75,920
Securities lending expense	(187,092)	(48,288)
Net investment income (loss)	(47,025,607)	(32,004,726)
Other Additions	1,715	945
Total Additions	(30,534,298)	(23,053,149)
DEDUCTIONS:		
Benefits and Refunds	8,020,611	7,712,560
Administrative expenses	491,687	445,787
Total Deductions	8,512,298	8,158,347
TRANSFERS (Note 10)	461,475	(461,475)
Net Increase (Decrease)	(38,585,121)	(31,672,971)
Net assets held in trust for pension benefits:		
Beginning of year	168,320,707	163,346,886
End of year	$ 129,735,586	$ 131,673,915

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

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2008

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, 2008, and the Deferred Compensation Plan for the fiscal year ended December 31, 2005.

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

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. Pension funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statements of Plan Net Assets.

1. Summary of Significant Accounting Policies (Continued)

The State and County Employees Retirement Plans' financial statements were prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when a liability is 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 in the State's General Ledger. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on the investments of the Plans is allocated to funds based on their percentage of the investment pool.

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, investment of funds is under the responsibility of the Nebraska Investment Council.

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

F. Capital Assets

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

Generally, equipment that has a cost in excess of $5,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Purchased software that is financed with long-term debt or capitalized lease financing is also capitalized. The amount capitalized includes the cost of the software and related expenses necessary to put

1. Summary of Significant Accounting Policies (Concluded)

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

G. Compensated Absences

All permanent employees working for NPERS earn sick and vacation leave. 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 vacation leave at a variable rate based on years of service. Generally, accrued vacation 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.

The Plans 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. §§ 84-1301 through 84-1333 for the State Employees Retirement Plan and Neb. Rev. Stat. §§ 23-2301 through 23-2335 for the County Employees Retirement Plan for more complete information.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. **Plan Descriptions** (Continued)

A. Nebraska State Employees Retirement Plan

The single employer plan became effective by statute on January 1, 1964. The plan consists of a defined contribution option and a cash balance benefit. 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 Nebraska 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. 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 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions (Continued)

Membership of the Plan consisted of the following at December 31, 2008:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	420
Terminated Plan Members Entitled to but not yet Receiving Benefits	1,682	2,440
Active Plan Members	5,810	11,390
Total	7,492	14,250

The 420 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 $83,338. NPERS, as part of the State of Nebraska, contributed $130,008.

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. § 23-1118 (Reissue 2007).

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

Participation in the County Employees Retirement Plan is required of all full-time employees upon 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.

2. Plan Descriptions (Continued)

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 Nebraska 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 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions (Concluded)

Membership of the Plan consisted of the following at December 31, 2008:

	Defined Contribution	Cash Balance
Retirees and Beneficiaries Receiving Benefits	-	190
Terminated Plan Members Entitled to but not yet Receiving Benefits	813	890
Active Plan Members	2,243	5,468
Total	3,056	6,548

The 190 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. Funded Status and Funding Progress

The funded status of each cash balance benefit as of December 31, 2008, the most recent actuarial valuation date, is as follows:

	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) - Entry Age	(b-a) Unfunded Accrued Liabilities (UAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAL as a Percentage of Covered Payroll
State	$ 637,539,094	$ 658,249,398	$ 20,710,304	96.9%	$ 433,397,447	4.8%
County	175,765,930	175,293,953	(471,977)	100.3%	165,275,589	(0.3%)

The schedules of funding progress, presented as required supplementary information immediately following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Funded Status and Funding Progress (Concluded)

Additional information regarding the cash balance benefit actuarial methods and significant assumptions, as of the latest actuarial valuation date, is as follows:

	State	County
Valuation date	December 31, 2008	December 31, 2008
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	25 Years	25 Years
Asset valuation method	5 year smoothing	5 year smoothing
Actuarial assumptions:		
Investment rate of return*	7.75%	7.75%
Projected salary increases*	4.5% to 5.9%	5.5% to 15.0%
Cost-Of-Living Adjustments (COLA)	None	None

* Includes assumed inflation of 3.5% per year.

4. Investments

Investments. Listed below is a summary of the investment portfolio that comprises the Investments on the Statement of Plan 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. § 72-1239.01 (Reissue 2003) 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, 2008, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

4. Investments (Continued)

State and County Employees Retirement Plan Investments at December 31, 2008

	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	$ 1,663,464	12.99	$ -	-
U.S. Treasury Bills	330,037	0.13	-	-
Government Agency Securities	5,063,859	7.86	-	-
Corporate Bonds	40,635,413	4.81	-	-
International Bonds	3,428,076	6.35	-	-
Asset Backed Securities	7,918,081	5.54	-	-
Guaranteed Investment	-	-	109,795,309	2.87
Short Term Investments	38,694,205	0.08	23,642,004	0.09
Commingled Funds	63,496,392	4.11	191,542,546	4.10
Mortgages	101,847,348	2.31	-	-
Municipal Bonds	1,444,654	22.07	-	-
	264,521,529		324,979,859	
Other Investments				
Private Equity Funds	11,399,310		-	
Equity Securities	77,971,466		-	
Commingled Funds	236,183,485		335,442,908	
Options	(254,452)		-	
Private Real Estate Funds	28,018,099		-	
Total Investments	617,839,437		660,422,767	
Invested Securities Lending Collateral	27,852,697		15,484,457	
Total	$ 645,692,134		$ 675,907,224	

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 investment's 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.

4. 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, 2008, 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, 2008
Quality Ratings

	Cash Balance Benefit								Defined Contribution	
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Unrated**	**Fair Value**	**Unrated**
Asset Back Securities	$ 7,918,081	$ 6,933,270	$ -	$ 183,964	$ 96,571	$ -	$ 73,909	$ 630,367	$ -	$ -
Mortgages	101,847,348	69,329,906	186,672	1,006,335	685,003	392,042	111,875	30,135,515	-	-
International Bonds	3,428,076	435,398	-	1,079,295	1,233,728	644,184	28,071	7,400	-	-
Corporate Bonds	40,635,413	3,298,615	3,572,608	18,993,820	6,661,479	3,016,049	2,731,164	2,361,678	-	-
Government Agency Securities	5,063,859	3,477,297	-	-	-	13,822	11,906	1,560,834	-	-
Municipal Bonds	1,444,654	885,630	380,990	133,010	45,024	-	-	-	-	-
Short Term Investments	38,694,205	-	-	-	-	-	-	38,694,205	23,642,004	23,642,004
Commingled Funds	63,496,392	-	-	-	-	-	-	63,496,392	191,542,546	191,542,546

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Investments (Continued)

At December 31, 2008, 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 Benefit had debt securities investments with more than 5 percent of total investments in the Federal National Mortgage Corporation (8 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, 2008, 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, 2008

	Short Term Investments	Equity Securities	Corporate Bonds	International Bonds
Argentine Peso	$ 1,312	$ -	$ -	$ -
Australian Dollar	39,720	768,190	-	94,598
Brazilian Real	(37,427)	279,691	-	97,116
Canadian Dollar	14,604	436,779	35,768	-
Danish Krone	222	198,447	-	-
Euro Currency	176,250	13,381,041	366,214	196,810
Hong Kong Dollar	8,218	2,006,135	-	-
Hungarian Forint	1	-	-	-
Iceland Krona	-	-	-	99,539
Indonesian Rupiah	139	-	27,354	-
Israeli Shekel	220	-	-	-
Japanese Yen	12,596	8,258,422	249,134	-
Mexican Peso	35,576	186,978	30,966	845,101
New Zealand Dollar	2	-	28,343	-
Norwegian Krone	58	48,162	-	-
Philippine Peso	209	-	-	-
Polish Zloty	25	191,242	-	-
Pound Sterling	188,057	6,095,433	65,655	167,776
Singapore Dollar	4,678	408,507	209,099	-
South African Rand	13,343	149,795	-	-
South Korean Won	42	834,611	71,367	-
Swedish Krona	12,672	46,400	-	-
Swiss Franc	2,337	5,942,464	-	-
Thailand Baht	764	69,813	-	-
Total	$ 473,618	$ 39,302,110	$ 1,083,900	$ 1,500,940

4. 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 on 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 resulting 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 41 and 42 days as of June 30, 2008. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The custodian indemnifies the State against default by the borrower of securities, but does not indemnify against the default by an issuer of a security held in the short term investment funds where cash collateral is invested.

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.

5. 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. §§ 23-2319.01(1) (Reissue 2007) and 84-1321.01(1) (Reissue 2008) forfeitures are first used to pay administrative expenses of the Board. The remaining balance, if any, shall then be used to reduce State

5. **Employer Contributions** (Concluded)

and County employer contributions respectively. During 2008, there were no forfeitures used to offset the State and County employer contributions. The balance of the Defined Contribution forfeiture accounts at December 31, 2008, was $9,757 for the State Plan and $28,975 for the County Plan. The balance of the Cash Balance Benefit forfeiture accounts was $1,645,915 for the State Plan and $116,464 for the County Plan.

6. **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. Administrative Services (AS) is responsible for maintaining the insurance and self-insurance programs for the State, including the health and life insurance programs. The State generally self-insures for general liability, employee healthcare, 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 for 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. 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 subject to specific conditions, limits, and exclusions.

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.

Details of the various coverage is available from Risk Management, a division of Administrative Services.

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

6. Contingencies and Capital Lease Commitments (Concluded)

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 Employees Retirement Systems' financial statements.

Capital Lease Commitment. The State of Nebraska, through State Accounting (a division of Administrative Services) has various leases under three Master Lease Indentures. Under such indentures, the State is required to make semiannual payments to trustees for principal and interest under such leases. To acquire funds for these semiannual payments to the trustees, State Accounting bills agencies in advance to ensure there are funds available to make the required payments. As of December 31, 2008, NPERS had agreed to participate in and make payments to State Accounting on three such capital leases. The agreements to pay for the leases are with NPERS, not any of the individual plans. The payments are allocated according to the expense allocation policy of NPERS. The minimum payments to State Accounting and the present value of future minimum payments for all capital leases as of December 31, 2008, are as follows:

Calendar Year	State Cash Balance Benefit	State Defined Contribution	County Cash Balance Benefit	County Defined Contribution
2009	$ 275,372	$ 126,298	$ 144,933	$ 51,762
2010	133,347	61,159	70,183	25,065
2011	38,841	17,814	20,443	7,301
Total Minimum Payments	447,560	205,271	235,559	84,128
Less: Interest and Executory Costs	15,347	7,038	8,078	2,885
Present Value of Net Minimum Payments	$ 432,213	$ 198,233	$ 227,481	$ 81,243

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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Compensated Absences

The liability for the vested portion of compensated absences for each plan at December 31, 2008, is as follows:

	State Cash Balance Benefit Employees	State Defined Contribution Employees	County Cash Balance Benefit Employees	County Defined Contribution Employees
Annual Leave	$ 11,062	$ 14,122	$ 5,836	$ 6,059
Sick Leave	8,717	11,129	4,598	4,774
	$ 19,779	$ 25,251	$ 10,434	$ 10,833

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended December 31, 2008, are summarized as follows.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
State Defined Contribution					
Compensated Absences	$ 24,074	$ 1,177	$ -	$ 25,251	$ 1,768
Capital Lease Obligations	334,046	-	135,813	198,233	126,298
Totals	$ 358,120	$ 1,177	$ 135,813	$ 223,484	$ 128,066
State Cash Balance Benefit					
Compensated Absences	$ 13,012	$ 6,767	$ -	$ 19,779	$ 1,385
Capital Lease Obligations	728,329	-	296,116	432,213	275,372
Totals	$ 741,341	$ 6,767	$ 296,116	$ 451,992	$ 276,757
County Defined Contribution					
Compensated Absences	$ 11,184	$ -	$ 351	$ 10,833	$ 758
Capital Lease Obligations	136,904	-	55,661	81,243	51,762
Totals	$ 148,088	$ -	$ 56,012	$ 92,076	$ 52,520
County Cash Balance Benefit					
Compensated Absences	$ 7,069	$ 3,365	$ -	$ 10,434	$ 730
Capital Lease Obligations	383,331	-	155,850	227,481	144,933
Totals	$ 390,400	$ 3,365	$ 155,850	$ 237,915	$ 145,663

NOTES TO FINANCIAL STATEMENTS
(Continued)

9. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows.

	Beginning Balance	Increases	Decreases	Ending Balance
State Defined Contribution				
Equipment	$ 1,099,992	$ -	$ -	$ 1,099,992
Less: Accumulated Depreciation	752,204	157,142	-	909,346
Capital Assets, Net	$ 347,788	$ (157,142)	$ -	$ 190,646
State Cash Balance Benefit				
Equipment	$ 2,104,129	$ -	$ -	$ 2,104,129
Less: Accumulated Depreciation	1,529,738	220,021	-	1,749,759
Capital Assets, Net	$ 574,391	$ (220,021)	$ -	$ 354,370
County Defined Contribution				
Equipment	$ 502,373	$ -	$ -	$ 502,373
Less: Accumulated Depreciation	348,789	71,768	-	420,557
Capital Assets, Net	$ 153,584	$ (71,768)	$ -	$ 81,816
County Cash Balance Benefit				
Equipment	$ 1,107,437	$ -	$ -	$ 1,107,437
Less: Accumulated Depreciation	837,229	94,403	-	931,632
Capital Assets, Net	$ 270,208	$ (94,403)	$ -	$ 175,805

10. Transfers

Transfer activity for the year ended December 31, 2008, was as follows:

	State Cash Balance Benefit	State Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 2,334,205	$ (2,334,205)
Miscellaneous Transfers	1,433,845	(1,433,845)
Total Transfers	$ 3,768,050	$ (3,768,050)

	County Cash Balance Benefit	County Defined Contribution
Annuity Balances from Defined Contribution to Cash Balance Benefit	$ 377,062	$ (377,062)
Miscellaneous Transfers	84,413	(84,413)
Total Transfers	$ 461,475	$ (461,475)

NOTES TO FINANCIAL STATEMENTS
(Continued)

10. **Transfers** (Concluded)

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.

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, 2008, but the security had 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, 2008:

External Manager Fees	**State & County Cash Balance Benefit**	**State & County Defined Contribution**
Abbott Capital	$ 43,875	$ -
Acadian Asset Management, Inc.	108,133	-
Accel KKR Capital	23,894	-
Alliance Bernstein Institutional Investment Management	109,899	2,157
Baillie Gifford	62,685	-
Barclays Global Investors	108,243	207,625
Beacon Capital	37,244	-

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

External Manager Fees, (Concluded)	State & County Cash Balance Benefit	State & County Defined Contribution
BlackRock Financial Management	178,576	2,217
CB Richard Ellis Investors	7,790	-
Citigroup	37,393	-
CMEA Ventures	29,815	-
Dimensional Fund Advisors, Inc	89,689	176,014
Five Arrows (Rothchild Realty Management)	18,816	-
Goldman Sachs Asset Management	18,476	2,114
Grantham, Mayo, Van Otterloo & Co., LLC	233,541	-
Heitman	24,196	-
Loomis Sayles	51,167	-
McKinley Capital Management	16,165	-
MFS Institutional Advisors	105,922	3,368
New Mountain Capital	40,538	-
Pathway	89,299	-
PIMCO	264,313	2,502
Prudential	120,191	-
Rock Point	37,393	-
Sun Capital Partners	14,371	-
Synthetic GIC Holdings/WRAP Fee	-	68,127
T. Rowe Price Associates, Inc.	-	158,580
The Jordan Company	19,889	-
Turner Investments	143,163	-
UBS Global Asset Management (Americas), Inc.	139,504	-
Wayzata Investment Partners	26,175	-
Total External Manager Fees	$ 2,200,355	$ 622,704

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, 2008, there was a balance of $355,470 in the State Equal Retirement Benefit Fund and a balance of $219,260 in the County Equal Retirement Benefit Fund.

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, 2008

UNAUDITED

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						
12/31/2008	$ 637,539,094	$ 658,249,398	$ 20,710,304	96.9%	$ 433,397,447	4.8%
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						
12/31/2008	$ 175,765,930	$ 175,293,953	$ (471,977)	100.3%	$ 165,275,589	(0.3%)
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, 2008

STATE EMPLOYEES

Year Ended December 31	Annual Required Contribution State	Percentage Contributed
2008	$ 29,204,456	100%
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
2008	$ 9,840,004	100%
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.

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

	2004	2005	2006	2007	2008
STATE DEFINED CONTRIBUTION					
Members:					
Active	8,974	8,433	7,896	7,276	5,810
Inactive	1,969	1,819	1,788	1,844	1,682
Total Members	10,943	10,252	9,684	9,120	7,492
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$478,583	$539,692	$575,800	$679,463	$829,346
Recordkeeper fees (3)	$279,458	$263,371	$234,431	$243,378	$167,841
Total Cash Basis Fees and Expenses	$758,041	$803,063	$810,231	$922,841	$997,187
Administrative Expenses per GAAP financial statements	$815,170	$795,641	$832,299	$754,980	$1,016,824
Average Administrative Expense per member (1)	$74	$78	$86	$83	$136
STATE CASH BALANCE					
Members:					
Active	6,051	6,918	7,599	9,798	11,390
Inactive	197	314	1,189	1,429	2,440
Total Members	6,248	7,232	8,788	11,227	13,830
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$625,623	$646,210	$677,669	$711,220	$801,318
Recordkeeper fees (3)	$138,685	$161,704	$181,804	$263,314	$260,108
Total Cash Basis Fees and Expenses	$764,308	$807,914	$859,473	$974,534	$1,061,426
Administrative Expenses per GAAP financial statements	$781,256	$781,130	$853,942	$1,215,889	$989,480
Average Administrative Expense per member (1)	$125	$108	$97	$108	$72
COUNTY DEFINED CONTRIBUTION					
Members:					
Active	3,588	3,363	3,112	2,725	2,243
Inactive	956	899	873	940	813
Total Members	4,544	4,262	3,985	3,665	3,056
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$231,034	$241,928	$225,521	$290,410	$362,215
Recordkeeper fees (3)	$116,941	$109,869	$96,933	$100,867	$68,720
Total Cash Basis Fees and Expenses	$347,975	$351,797	$322,454	$391,277	$430,935
Administrative Expenses per GAAP financial statements	$583,002	$353,953	$336,664	$239,576	$445,787
Average Administrative Expense per member (1)	$128	$83	$84	$65	$146
COUNTY CASH BALANCE					
Members:					
Active	2,995	3,364	3,622	4,785	5,468
Inactive	58	107	488	608	890
Total Members	3,053	3,471	4,110	5,393	6,358
Cash Basis Administrative Expenses:					
NPERS Expenses (2)	$333,433	$346,867	$346,923	$371,890	$433,074
Recordkeeper fees (3)	$98,863	$79,946	$87,822	$122,807	$118,125
Total Cash Basis Fees and Expenses	$432,296	$426,813	$434,745	$494,697	$551,199
Administrative Expenses per GAAP financial statements	$443,326	$411,642	$430,015	$654,078	$491,687
Average Administrative Expense per member (1)	$145	$119	$105	$121	$77

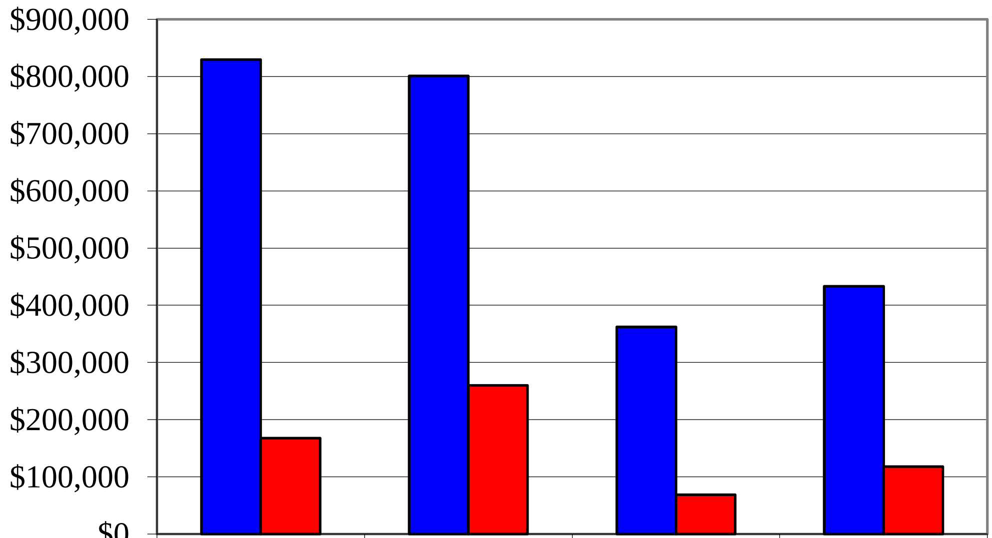
(1) Calculated: Total Administrative Expenses per Audited Financial Statements / Total Members = Average Administrative Expense

(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.

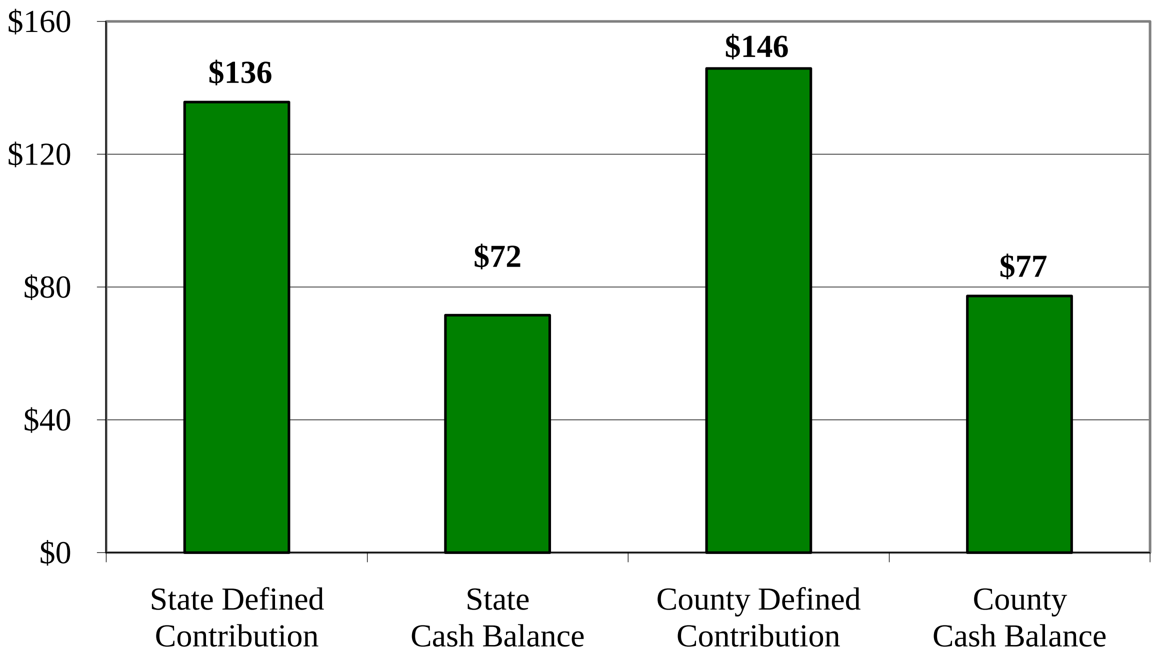
NOTE: During CY 2005 there were redemption fees of $6,703. These are fees charged to members for excessive trading of shares of a certain fund, the International Stock Fund. These fees were not reflected in the schedule. These fees were not charged in subsequent years.

Calendar Year 2008 Expenses and Fees

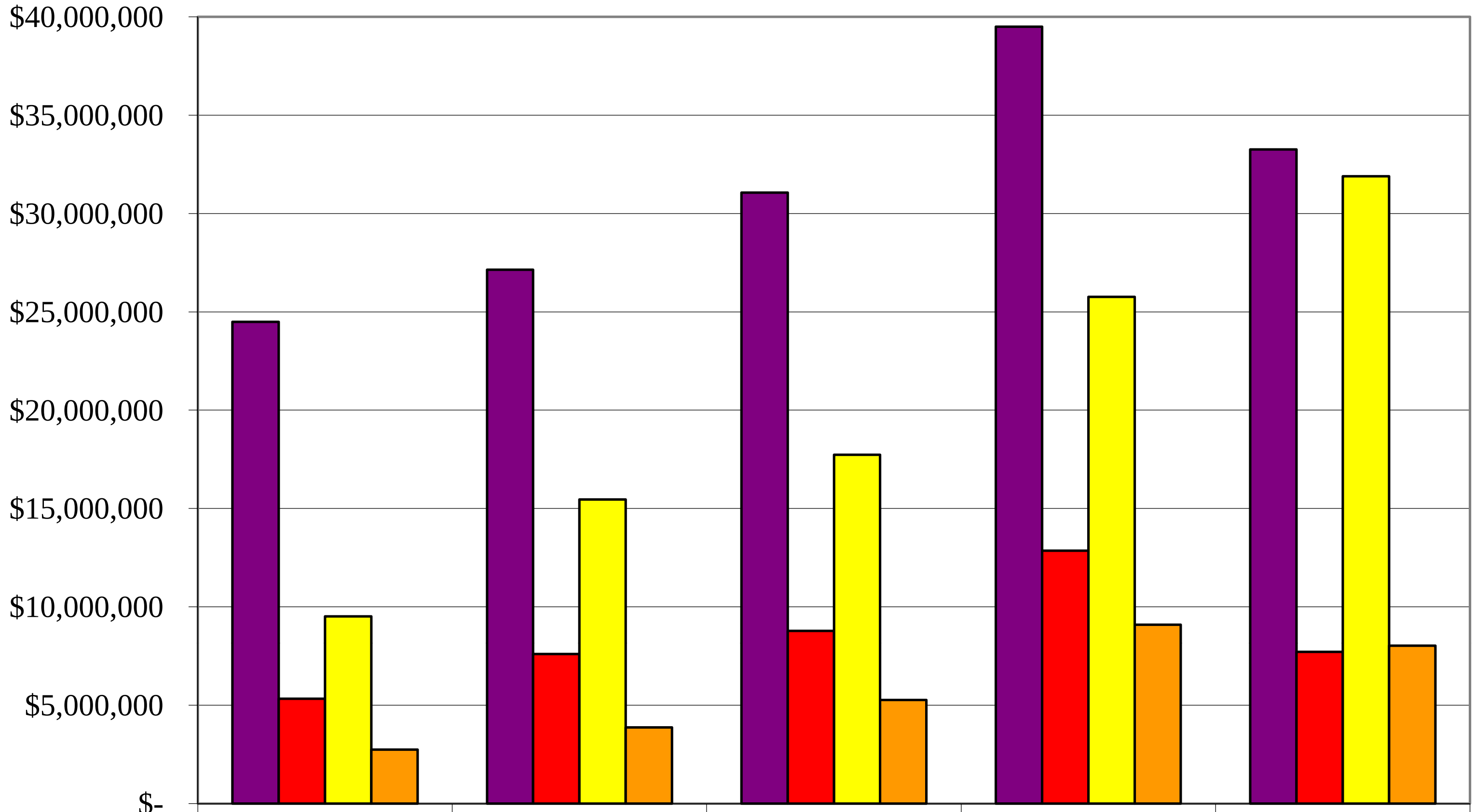


	State Defined Contribution	State Cash Balance	County Defined Contribution	County Cash Balance
NPERS Expenses	$829,346	$801,318	$362,215	$433,074
Record Keeper Fees	$167,841	$260,108	$68,720	$118,125

Average Administrative Expense per Member for Calendar Year 2008



TOTAL BENEFITS AND REFUNDS PAID



	2004	2005	2006	2007	2008
State Defined Contribution	$24,493,621	$27,148,547	$31,057,867	$39,498,621	$33,264,603
County Defined Contribution	$5,338,455	$7,597,458	$8,787,116	$12,851,408	$7,712,560
State Cash Balance	$9,523,423	$15,463,446	$17,733,980	$25,763,588	$31,892,723
County Cash Balance	$2,741,771	$3,866,692	$5,269,706	$9,094,828	$8,020,611

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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, 2008, and have issued our report thereon dated October 1, 2009. The report was modified to disclose that the "Schedules of Funding Progress" in the Required Supplementary Information was unaudited, the Management Discussion and Analysis was not presented, 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), Comment Number 2 (County Plan Payroll Procedures), and Comment Number 8 (Inadequate Resolution of Prior Year Findings).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Comment Number 1 (Accounting Issues) to be 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 3 (Make-Up Contribution Procedures), Comment Number 4 (Required Minimum Distributions), Comment Number 5 (Lack of Procedural Reviews), Comment Number 6 (Inconsistent Plan Documents), Comment Number 7 (Determination of Vesting Status), Comment Number 9 (Expense Allocations), and Comment Number 10 (Actuarial Assumptions).

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

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

October 1, 2009

Pat Reding, CPA, CFE
Assistant Deputy Auditor